



**Governor's Commission on Climate Change
*Electricity Generation/Other Stationary Sources
Workgroup***

**September 10, 2008
10:00 a.m. – 11:00 a.m.
Richmond, Virginia
*Draft Meeting Summary***

The Electricity Generation/Other Stationary Sources Workgroup of the Governor's Commission on Climate Change met on August 27, 2008. The Chairman called the meeting to order at approximately 9:10 a.m.

Attendance

The following Workgroup members were present: The Honorable L. Preston Bryant, Jr. (Chair), Mr. Dan Carson, Jr., Christine Chmura, Ph.D., The Honorable Paul Ferguson, Mr. Alleyn Harned (on behalf of The Honorable Patrick O. Gottschalk), Mr. David Heacock, Mr. Robert F. Hemphill, Jr., The Honorable Kenneth R. Plum, Mr. Mike Quillen, Jagadish Shukla, Ph.D., The Honorable Bruce Smart, Lydia W. Thomas, Ph.D.

Those Workgroup members not in attendance were: Christine Chmura, Ph.D., Mr. Mike Quillen, and Jagadish Shukla, Ph.D.

Although not members of this particular Workgroup, Dr. Gibson and Steve Walz attended this Workgroup meeting and contributed to the discussion.

Angie Jenkins (DEQ) attended the meeting and will help to staff this Workgroup.

Introduction

Chairman Bryant opened the meeting by directing the group to the document entitled "Draft Recommendations" and beginning the discussion of the draft recommendations the group would be preparing to present to the full Commission.

Interaction with Federal Action/Cap-And-Trade Program

Chairman Bryant recalled that, with respect to a recommendation for a federal cap-and-trade program, the Workgroup had appeared to come to consensus regarding the free allocation of emissions allowances. At least one Workgroup member stated his preference that allowances for a cap-and-trade program be distributed by auction rather than provided for free. Other Workgroup members noted that Kyoto provides free allocations and suggested that auctioning allowances may create problems with electric supply. Specifically, Workgroup members raised concern that non-regulated (wholesale) power providers with long-term contracts will be unable to pass through the costs of buying allowances onto their customers and may face financial crises if allowances are auctioned. It was noted that RGGI states have ignored this potential problem and may face litigation

as a result. It was noted that whether the allowances are provided for free or through auction, because of the required reduction in emissions provided by the “cap,” the price of carbon will still be reflected in electric rates as utilities and power providers must reduce emissions or buy allowances to operate within the confines of the overall emissions cap. The group appeared to come to consensus regarding support of a federal cap-and-trade program with free allowance allocation so long as the support language clearly reflected that the cap on emissions would not be altered by the method for allocating allowances.

Nuclear Energy

The Workgroup considered whether a recommendation should be added to the list of recommendations supporting nuclear energy that would recommend extension of the Federal loan guarantees for new nuclear power plants. The Department of Energy loan guarantee program was established by the U.S. Energy Policy Act of 2005 to assist companies pursuing the licensing of new nuclear units to finance the first wave of new commercial reactors in the United States. If a loan applicant's project is selected under this program, the federal government could guarantee all of the project's debt so long as it does not represent more than 80 percent of the project's qualified construction costs. Congress has appropriated \$18.5 billion to support the nuclear loan guarantee program. But it conditioned the loan guarantees on being awarded no later than 2009. The Workgroup appeared to reach consensus that its recommendations should include a recommendation that the Federal government extend the Federal loan guarantees for new nuclear power plants.

The Workgroup also discussed the need for similar Federal financial incentives for new renewable energy projects. Although there was debate among Workgroup members as to whether Federal loan guarantees or tax credits may provide better financial incentives for the development of new renewable energy projects, the Workgroup generally agreed that it should recommend Federal consideration of financial incentives for the development of new renewable energy sources. Specifically the group agreed to a recommendation along the following parameters: Congress should consider long term, reasonable, predictable and sustainable financial incentives like production tax credits and/or Federal loan guarantees to encourage development of carbon-free renewable energy projects.

At least one Workgroup member suggested that similar recommendations should be made for financial incentives to support advanced clean coal technology because of the available coal resources in the Commonwealth. Other members appeared to object to financial incentives for the development of advanced coal technology. No consensus was reached regarding support for clean coal technology beyond what may be recommended with respect to research and development for carbon capture and sequestration.

Renewable Portfolio Standard

The Workgroup next discussed Virginia's renewable portfolio standard. Workgroup members suggested that Virginia's RPS should be made mandatory. These Workgroup members believed that a mandatory RPS would encourage developers to look for sites within Virginia for renewable energy projects rather than going elsewhere. Workgroup

members also noted that Virginia's climate change action plan would be compared to other states which have mandatory RPS. Other Workgroup members reminded the group of the difficulty those working on the Virginia Energy Plan had in developing Virginia's RPS because of the lack of good sites for wind and solar facilities within the Commonwealth and the risk of mandating non-attainable goals. These Workgroup members also noted that caution should be taken with comparing Virginia's RPS to other states because definitions of what counts as "renewable" vary widely (and Virginia's definition may be more restrictive than that used in other states).

One Workgroup member suggested that a feed-in tariff, like that used in Europe may provide a better incentive for the development of renewable energy sources than an RPS. A feed-in tariff is an incentive structure to encourage the development of renewable energy sources by obligating utilities to buy renewable energy at above market rates. A feed-in tariff essentially offers a long-term guaranteed price contract (usually about 15-20 years) to any entity that contributes electricity to the grid via renewable sources.

Distributed Generation/Combined Heat and Power

The Workgroup briefly considered whether to make recommendations to facilitate development of renewable distributed generation and combined heat and power. Chairman Bryant noted that a study sponsored by DEQ in 2004 stated that based on technical considerations there was the equivalent of 3500 MW of existing CHP potential in Virginia and most of this potential was in small-to-medium sized facilities (including, small industrial facilities, hotels, hospitals, etc.). The group considered whether there were barriers to developing this potential. Workgroup members expressed concern that the barriers were largely economic and facility specific. At least one Workgroup member stated concern that DG is less efficient than centralized electrical generation and that CHP should be carefully defined because if CHP includes heat pump technology, it is not more efficient than non-CHP systems. Steve Walz noted that one recommendation the Workgroup could consider would be standardized interconnection rules to in order to simplify the process and reduce costs for renewable energy generators to connect to utility systems.

Process Going Forward

Chairman Bryant noted that at least one additional Workgroup meeting would be necessary to develop the Workgroup's draft recommendations to the full Commission. Chairman Bryant suggested that further discussion of recommendations regarding renewable energy sources and the renewable portfolio standard would be placed on the agenda for the next Workgroup meeting. Staff will revise the draft recommendations. Workgroup members were encouraged to review the draft recommendations and consider any additions, comments or edits that may be needed to finalize the draft.

Adjournment

To allow adequate time for Workgroup members to join the full Commission meeting at 11:00 a.m., Chairman Bryant adjourned the meeting at approximately 10:50 a.m.