

**Remarks of Harold Adams  
Director, Electric Market Policy, Dominion Energy Clearinghouse  
Before the Legislative Transition Task Force  
June 21, 2002**

Good morning, Mr. Chairman and members of the task force.

I am Harold Adams, director of electric market policy for Dominion Energy Clearinghouse. Thank you for the opportunity to brief the task force on Dominion's efforts to join a regional transmission organization.

I am appearing today on behalf of Jimmy Staton, Dominion's senior vice president for electric transmission and electric distribution. Unfortunately, he is unable to address the task force today, since he has been called out of town by pressing company business.

Dominion currently owns and operates about 6,000 miles of transmission lines in Virginia, West Virginia and northeastern North Carolina. We are preparing to make our final choice on RTO membership and will make an announcement in the near future. We recognize the need for a quick decision.

And we are committed to making a good choice – for our customers and for the Commonwealth.

We strongly believe that RTOs are some of the most effective means of promoting robust wholesale competition. Vigorous wholesale markets will provide a strong foundation for the development of the retail choice envisioned in Virginia's Restructuring Act.

A properly functioning RTO will provide many benefits, including access to non-discriminatory transmission, standardized procedures, and – perhaps most importantly for the development of competition – access to a broad, regional generation market.

A successful RTO, in our view, will meet three major goals.

- 1) It will provide improved price signals to consumers and suppliers.
- 2) It will encourage efficient solutions to transmission congestion management.
- 3) And it will exert competitive pressure on energy costs in Virginia.

Any way you look at it, Dominion membership in an RTO is critical to advancing competition in Virginia...and to meeting legislative and regulatory goals. It's inevitable and it needs to happen soon.

The Commonwealth's own Electric Utility Restructuring Act requires all utilities that own, operate or control transmission assets to join or establish such regional transmission entities, and transfer management and control of those assets to the regional organizations.

The Federal Energy Regulatory Commission has taken an intense interest in RTOs. In its landmark Order 2000, FERC said it “expect(s) jurisdictional utilities to form RTOs. If the industry fails to form RTOs...the Commission will reconsider what further regulatory steps are in the public interest.”

For Dominion to join an RTO, three regulatory outcomes are necessary:

- FERC authorization of Dominion’s membership;
- Authorization from the State Corporation Commission for Dominion to transfer operational control of the assets to the RTO; and
- Similar authorization from the North Carolina Utilities Commission.

We began the process more than three years ago, when Dominion and other eastern and midwestern utilities applied for FERC approval of the Alliance RTO. Had it become operational, the Alliance would have managed more than 50,000 miles of transmission lines, from Missouri to North Carolina. We also applied for regulatory approval in Virginia – well in advance of the January 1, 2001 deadline set in the Restructuring Act – and in North Carolina.

Unfortunately, our efforts suffered a significant delay in 2001 when FERC determined that the Alliance RTO did not have sufficient size and scope, despite several previous orders encouraging the Alliance effort. This ruling – on December 19 of last year – came after the company had devoted considerable time, effort and resources to the Alliance. In response to FERC’s December 2001 order, the Virginia and North Carolina proceedings to transfer operational control to the Alliance have either been suspended or withdrawn.

In May, we told FERC that we were committed to finding “an RTO solution that will be accepted by state and federal regulatory authorities and by (our) customers.” We also announced that we were holding an RTO summit meeting, to gain input from stakeholders on the characteristics and attributes of an appropriate regional transmission organization.

We held the summit on June 13 at the Omni Hotel in Richmond. It drew significant interest; nearly 80 people attended. The participants cited key factors Dominion need to take into account when making a decision.

The factors cited included:

- **Recognition of the public interest.**
- **A balance between generation and load-serving entities.**
- **Careful timing.** Many participants urged Dominion to move quickly but at the same time ensure the transition to the RTO be managed carefully. Others said Dominion should move quickly only if careful analysis supports the action.
- **The requirements of state and federal law,** as well as the expectations of regulators.
- **The RTO’s ability to promote effective competition.**
- **Dynamic standard market design.**

Among the stakeholders, no RTO stood out as the clear choice. Different parties urged Dominion to examine different alternatives.

We view the summit as a success and thank all those who participated in it.

As we enter the final stages of decision-making, Dominion is considering two options – PJM and the Midwest ISO (MISO). We had also considered Grid South, but that option was effectively taken off the table this week when its members suspended most aspects of its development.

Here is a sketch of each of the options.

## **PJM**

The PJM Interconnection is an established player in regional transmission management in the Mid-Atlantic states. Currently, 10 utilities serving most of New Jersey, Pennsylvania, Delaware and Maryland – as well as the Eastern Shore of Virginia – are members of PJM. Allegheny Power, which serves part of northwestern Virginia, has joined under slightly different operating rules and now forms PJM West.

Additionally, several of the Alliance companies – including AEP, Commonwealth Edison, Illinois Power and Dayton Power and Light – have either signed a memorandum of understanding with PJM or announced that they intend to join it.

PJM is also committed to forming with the Midwest ISO (MISO) a single energy market covering both of their operating territories. This market would provide service to producers and consumers in all or parts of 27 U.S. states, as well as the District of Columbia and the province of Manitoba. The target for operation is 2005.

## **MISO**

We're also considering MISO, another established regional transmission organization. MISO has been approved by FERC and began operations earlier this year.

MISO is expected to merge with another regional organization – the Southwest Power Pool – later this summer. When the merger is completed, the organization will manage transmission assets in 20 states and one Canadian province.

Several Alliance companies have indicated they will join MISO, including First Energy, Ameren, and Northern Indiana Public Service Co.

## **GridSouth**

The final option – frankly, it was always a distant third – was GridSouth. Some nearby utilities – Duke, Carolina Power and Light, and South Carolina Electric and Gas – formed the organization, and several summit participants urged us to “look south” in considering RTO membership.

However, earlier this week the partners announced they would delay filing their applications for approval and also suspend all implementation activities. Even before that, it was apparent that GridSouth may not have met FERC's standards for "scope and scale" for RTOs.

With the invaluable input from the summit meeting, Dominion will make a decision on membership in the near future. We believe that a strong, operational RTO is a crucial element in wholesale market development and a solid foundation for retail choice. We recognize our legislative and regulatory obligations to join an RTO. It needs to happen soon.

When we notify the appropriate federal and state regulators, we will concurrently notify the task force.

I would be happy to answer any questions you may have.