

AEP-VA COMMENTS DELIVERED TO LEGISLATIVE TRANSITION TASK FORCE ON STATUS OF PILOT PROPOSAL

Mr. Chairman and members of the Transition Task Force, please allow me to provide a brief update on the status of AEP-Va.'s customer choice pilot program.

A brief historical review may be helpful. On March 20, 1998, the Va. SCC issued an order establishing an investigation and requiring certain reports and actions related to ISOs, RPXs and retail access pilot programs. As part of the support for its investigation, the Commission referred to an earlier case before the Commission, wherein the Commission staff, as part of its comments, recommended that the Commission help enable implementation of retail access pilot programs and studies. They also reviewed the then recent passage of two legislative measures, SJR 91 which requested the Commission to implement various restructuring pilot programs and House Bill 1172 which required parties to work together to establish ISOs by certain dates. Ordering paragraph V. of this March 20 order, required that both AEP and Va. Power develop and file with the Commission by August 1, 1998 a retail access pilot program for their respective service territories.

After much deliberation and reviewing information gained in a one-day stakeholders workshop at Hollins College in June, 1998, AEP developed and filed with the Commission on November 2, 1998, an application seeking to implement a pilot program whereby a portion of it's customers would have a choice as to who would provide their electric power supply. The purpose of that pilot filing was to gain valuable experience in the many aspect of implementing retail choice for Virginians, including customer education, systems requirements, and the many other new procedures and aspects of an open choice infrastructure.

In its filing, AEP sought to provide the opportunity for approximately 50MW, or 2 percent of its Va. Retail customer load, to have the opportunity of choosing an alternative energy supplier. This would have resulted in a total of approximately 3200-3500 customers from all

customer classes within the entire AEP-VA service territory having the opportunity of participating in this program. The Company proposed customer education and other aspects of the plan be collaboratively developed with the Commission staff and other parties, and that if the loads were to be oversubscribed, that a lottery process be undertaken to identify participants. The Company did not anticipate that its pilot would address the issue of a wires charge and we merely sought permission to defer for purposes of financial reporting and future recovery any lost revenue and implementation costs related to the pilot. The Company had already undertaken steps to begin a review and assessment of those systems, which would be needed to bring about customer choice. We concluded that, based upon these parameters, we would be able to implement a customer choice pilot of this magnitude within four months of having received a Commission order. Noting the then -existing procedural dates which included a June 22, 1999 hearing date, it was a general expectation that AEP may have been able to activate its pilot during the latter part of 1999 or in early 2000.

To complete the history a little further, in December, 1998 the SCC had also initiated a separate proceeding directing its staff to develop interim rules relating to Codes of Conduct applicable to various parties who would be participating in the pilot programs. The Va. Staff undertook the development of rules through a highly interactive and intense collaborative effort involving all stakeholders. Hearings were held on these rules on May 3, 1999, and we are awaiting a hearing examiner's ruling. The proposed rules recognized that there were reasonable differences between the two companies' pilot proposals, yet sought to establish an appropriate interim framework for carrying out the pilots in a manner which would provide information, experience and protection to customers.

Against this developing backdrop of individual pilot proposals and generic interim rules, SB 1269 was passed by the 1999 session of the General Assembly and signed into law. This legislation provided additional guidance and certainty in such areas as the dates for transition to choice, development and applicability of wires charges, and other aspects of implementing choice. The Company and the Commission staff met to discuss if and how the provisions of SB1269 should be factored into AEP's pilot proposal. Staff expressed its concern that the AEP proposal did not contain a wires charge as a

component of the unbundled rates to be applicable in the pilot and , given the transition dates, the staff expressed some concern about the size of the Company's proposal. After further discussions, the staff filed a motion with the Commission (to which the Company did not object) to have our pilot filing delayed. The hearing examiner has adopted a revised procedural schedule which now calls for AEP to re-submit its pilot proposal by Sept. 1, 1999 with hearing dates to occur during the second week of November. Depending upon the amount of time required for deliberations by the Hearing Examiner and the Commission, the outcome of the pending interim rules case and the nature of the approvals granted by the Commission, we would hope that a customer choice pilot could begin in AEP – Va.'s territory somewhere around mid 2000.