

Post-Capped Rate Subcommittee of the Commission on Electric Utility Restructuring
September 28, 2006
Richmond, Virginia

Currently the vast majority of Virginians receive electricity at capped rates, which reflect electricity rates established at the outset of Virginia's transition to retail competition, as increased to reflect higher fuel costs and other authorized adjustments. Capped rates are scheduled to expire on December 31, 2010. After that date, customers of Virginia's investor-owned electric utilities who have not switched to a competing generation service provider are scheduled to receive default service at rates based upon prices in competitive regional electricity markets.

Other states that have deregulated their retail electricity markets have seen sharp increases in rates when transition periods have ended and rates began to reflect the costs of acquiring power in wholesale markets. The current level of wholesale market prices for electricity has generated concerns that electricity rates paid by Virginians may rise sharply upon the expiration of the capped rate period.

In February 2006, the Commission on Electric Utility Restructuring adopted a resolution undertaking a two-year study of the provision of electric generation service following the expiration of the capped rate period. In conducting the study, the Restructuring Commission may examine, among such other issues as it deems relevant, (i) how the State Corporation Commission should implement and monitor default service and (ii) measures to mitigate price volatility that may be present at times in wholesale markets.

The Restructuring Commission appointed an eight-member Subcommittee to conduct the study. At its first meeting, the Subcommittee received a staff briefing that traced the evolution of the Virginia Electric Utility Restructuring Act's provisions relating to capped rates and default service pricing. Pursuant to amendments to the Restructuring Act adopted in 2001, rates of investor-owned utilities for default service will be established based on rates in competitive regional electricity markets.

Several persons were invited to provide the Subcommittee with suggestions for issues that it should address during the course of its study. Persons addressing the Subcommittee included representatives of:

- Virginia Citizens Consumer Council, who, after asserting that capped rates are higher than necessary, identified several concerns with a system that depends on using market prices in setting default service rates.
- The Virginia and Old Dominion Committees for Fair Utility Rates, who contended that consumers should not be forced to market-based rates when capped rates expire, that Dominion and AEP should not be allowed to transfer ownership of their generation assets, and that the task of setting just and reasonable electricity rates should be returned to the SCC.
- Alliance for Lower Electric Rates Today, who contended that post-capped rate period default rates should ensure that customers are not overcharged and that utilities are able to recover their cost and have an opportunity for a reasonable profit.

- The Division of Consumer Affairs of the Office of the Attorney General, who urged the Subcommittee to examine whether the Restructuring Act can accomplish the goals for which it was enacted in 1999 in light of current circumstances, and, if there is no effective competition at the end of the capped rate period, to ensure that the rate-setting procedures provide protection for consumers.
- PJM Interconnection, who suggested that the Subcommittee examine several aspects of the benefits of utility membership in its regional transmission organization.
- Dominion Resources Services, who asked that the role of default service be better defined, that certainty be added to the process of transforming wholesale market prices to default rates, and that the Act provide that default service rates are fair to customers and providers, while assuring that new base load generation is built in Virginia.
- Appalachian Power Company, who asked the Subcommittee to examine and develop new forms of cost-based default service opportunities as an alternative to market-based service, which could, for example, require customers to choose between market-based or default service.
- Allegheny Power, who asserted that capped rates have impaired the development of retail competition in Virginia.
- The Association of Electric Cooperatives, who asked the Subcommittee not to extend capped rates, but to review the default service process and determine how it should fit in to the restructuring process while being cognizant of the impact of the elimination of capped rates and changes to default service on economic development in Virginia.
- Direct Energy Services, who suggested that in order to avoid rate shock after capped rates end, Virginia should take steps to increase competition before 2010, by adopting market rate-based pricing.
- Old Mill Power Company, who contended that the solution should include making it economically rewarding for consumers to save money by reducing electricity consumption, by promoting diversification of fuel types through a renewable portfolio standard, and leveling the playing field to allow non-utility generators to compete effectively.

The Subcommittee will consider these and other suggestions for its future activities, and intends to convene a second meeting in October.

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