

**COMMENTS OF O. RAY BOURLAND
ALLEGHENY ENERGY
LEGISLATIVE TRANSITION TASK FORCE
OCTOBER 15, 2001**

Thank you for allowing Allegheny Energy to address the Legislative Transition Task Force on the siting process for electricity generation facilities (SJR 467), and on ensuring adequate generation for Virginia.

Allegheny Energy supports the Legislative Transition Task Force's (LTTF or Task Force) examination of possible amendments to the Commonwealth's administrative and regulatory procedures pertaining to the construction of new electricity generation facilities. Unnecessary regulations increase the time needed to bring a project to fruition, and can hamper the development of necessary generation resources. Further, Allegheny Energy believes that the existing restructuring framework provides sufficient safeguards and incentives to ensure adequate electric generation for Virginia's consumers.

As noted in the State Corporation Commission's (SCC or Commission) recent decision in Case No. PUE010313, *In the Matter of Amending Filing Requirements for Applications to Construct and Operate Electric Generating Facilities*, the General Assembly has made a change to the framework for considering generating station applications. There, the SCC observes that the Restructuring Act overrides the previous requirement for an examination of potential rate impacts, if any, which may result from a new generating station. There is one overriding reason for this result. If a generation facility produces power at above-market prices, it will not be utilized as much as cheaper resources in providing power to consumers. In other words, the market will weed out high-cost, inefficient producers.

The SCC determined that other aspects of the application process remain unchanged. For example, it said that applicants must continue to show that proposed facilities have no adverse reliability impact on electric service provided by public utility companies. The SCC further found that applicants must show that their facilities are in the public interest, including an evaluation of the impact of the facilities on the environment. Additionally, the Department of Environmental Quality continues to examine air quality analyses in connection with proposed projects. Allegheny Energy is willing to work with the Commission in the development of the specific filing requirements to be used in future applications.

Two matters involving Allegheny Energy and its affiliates illustrate the soundness of the Commonwealth's electric industry restructuring decisions. First, Allegheny Energy and CONSOL Energy have announced plans for a joint venture to construct an 88-megawatt generating station in Buchanan County. The generating station will use coal-bed methane as its fuel, produced by CONSOL Energy's CNX Gas Operations. Allegheny Energy also is aware that others have proposed generating facilities for Virginia at this time. Accordingly, the market is registering its approval of the Virginia restructuring effort as presently constituted with one of the most meaningful measures available: significant investments in the Commonwealth.

Second, the SCC has approved significant portions of Allegheny Power's (Allegheny Energy's utility subsidiary) transition/restructuring plan. One important component of the plan approved by the SCC is that Allegheny Power can separate its generation facilities from its transmission and distribution facilities, and transfer them to an affiliate. That has been accomplished. The plan also contains Allegheny Power's

agreement to contract for generation sufficient to meet its default service obligations at rates set in accordance with the Restructuring Act. In other words, Allegheny Power will by contract secure the electricity needed by its default service customers. No "reservation" of generation output from plants located in Virginia was necessary to achieve this end.

Parenthetically, the rates at which Allegheny Power provides default service include a \$1,000,000 rate decrease effective July 1, 2000, additional bill credits of \$750,000 in the first year following adoption of the new rates, and bill credits of \$250,000 in the second year following adoption of the new rates, plus the rate cap period provided by statute. Additionally, Allegheny Power agrees to operate and maintain its distribution system in the Commonwealth at or above historic levels of service quality and reliability.

Accordingly, Allegheny Power and its affiliates currently are providing reliable service to their customers and each other in a restructured electricity environment. Customers also enjoy the opportunity to shop for electric generation services from others if they so choose. Virginia is attracting new generation resources under the terms of the existing Restructuring Act, and can, as has been achieved for Allegheny Power, secure the necessary generation resources for default service customers without the complications introduced by a "generation reservation" provision.

Thank you once again for the opportunity to address the Task Force on these important issues.