

**THE COMMISSION ON ELECTRIC UTILITY
RESTRUCTURING**

**STATUS REPORT: THE DEVELOPMENT OF
A COMPETITIVE RETAIL
MARKET FOR ELECTRIC GENERATION**

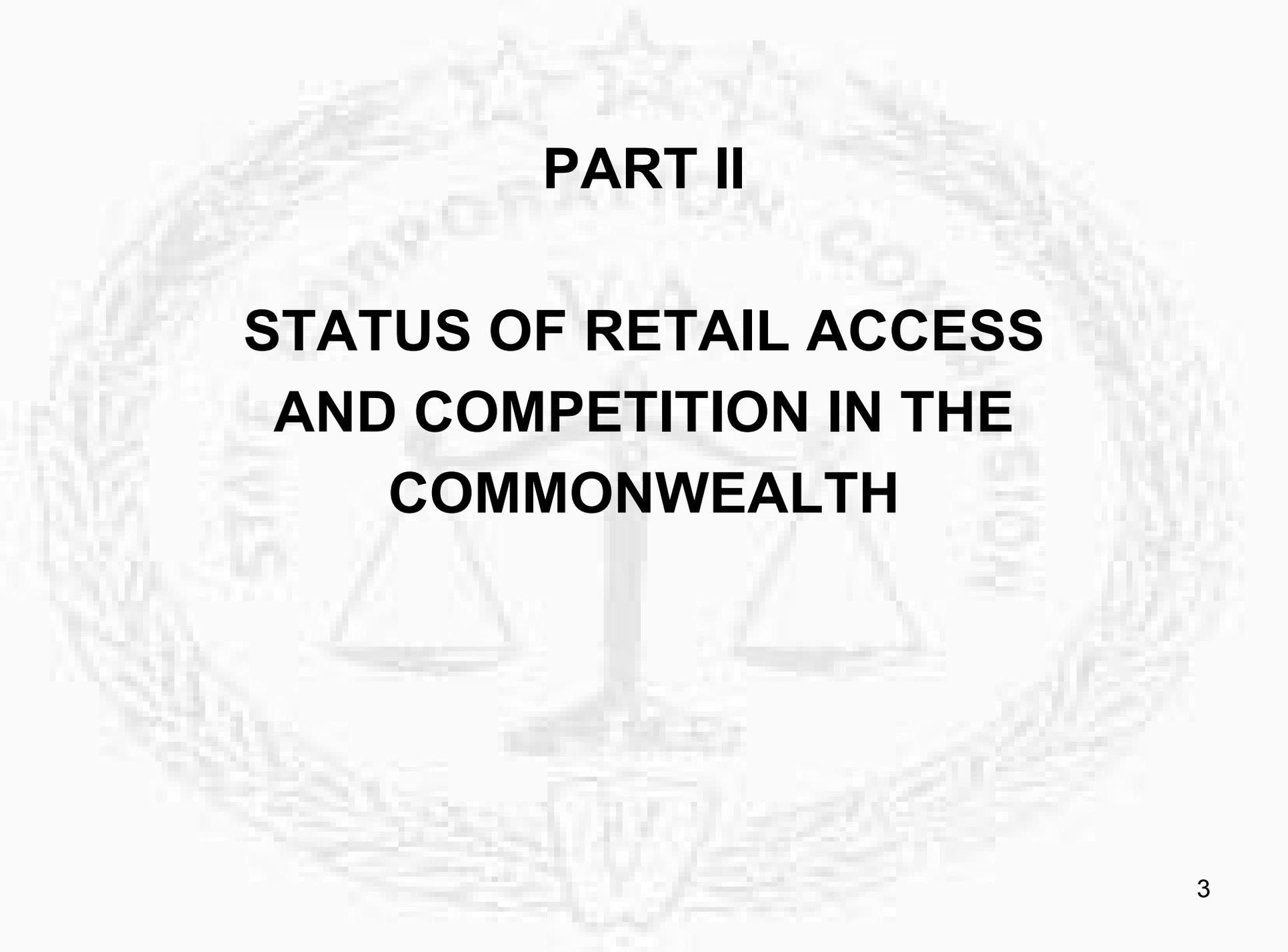
**Presentation of
Howard M. Spinner**

**Director, Division of Economic and Finance
Virginia State Corporation Commission**

**Tuesday, November 23, 2004
Senate Room B, General Assembly Building**

Introduction

- **September 1, 2004 - SCC released its report to the Commission on Electric Utility Restructuring and the Governor.**
- **The Report Consists of Three Parts:**
 - **Status of the Development of Regional Competitive Markets: Performance Review of Electric Power Markets**
 - **Status of Retail Access and Competition in the Commonwealth**
 - **Recommendation to Facilitate Effective Competition in the Commonwealth**



PART II

**STATUS OF RETAIL ACCESS
AND COMPETITION IN THE
COMMONWEALTH**

Transition to Full Retail Access

- **Virginia Utility Restructuring Act (“The Act”)**
- **As of January 1, 2004 - All electricity customers (approx. 3.1 million) of Virginia’s investor-owned utilities and electric cooperatives are eligible to switch to a Competitive Service Provider (“CSP”)**
- **About 29,400 customers in the southwestern part of the Commonwealth served by Kentucky Utilities d/b/a in Virginia as Old Dominion Power Company and approximately 7,600 customers served by Powell Valley Electric Cooperative are not participating in retail access**

Suppliers/Aggregators

- **The Commission is responsible for licensing suppliers and aggregators interested in participating in retail access programs in Virginia. A list of suppliers with licenses at the time of the Report is on page 6 of PART II.**
- **The Commission has approved dozens of applications for CSP licenses, but in order to participate in a local distribution company's ("LDC") retail choice program, the CSP must also complete a registration process with the LDC.**
- **The following five CSPs are now fully registered with Dominion Virginia Power ("DVP"):**
 - **Dominion Retail**
 - **PEPCO Energy Services ("PES")**
 - **Washington Gas Energy Services ("WGES")**
 - **ECONergy**
 - **electric America**

- **The following eight aggregators are currently fully registered with DVP:**
 - **Advantage Energy**
 - **Buckeye Energy Brokers, INC.**
 - **EnergyWindow, INC.**
 - **Independent Energy Consultants, INC.**
 - **New Era Energy, INC.**
 - **Vivex, INC.**
 - **ECONergy**
 - **electricAmerica**
- **Other CSPs and aggregators are in various stages of the registration process**

Marketing

- **The only marketing activity that has taken place in any retail access program is in DVP's service territory.**
- **PES continues to provide "Green Power" to residential customers in Northern Virginia. PES's offer is 51% renewable energy offered at a premium above DVP'S price-to-compare.**

Customer Participation

- **Approximately 3.1 million customers in Virginia currently have the right to choose an alternative CSP**
- **As of November 16, 2004, about 1780 residential and 20 commercial customers are enrolled with PES**

Wires Charge

- **DVP and all but one of the electric cooperatives have a wires charge. Central Virginia Electric Cooperative does not have a wires charge.**
- **Delmarva and Potomac Edison waived their right to a wires charge in previous settlements.**
- **AEP-VA has waived its right to a wires charge consecutively for calendar years 2002-2005.**
- **The methodology for determining market prices remains the same as last year. The process looks at the forward prices for electric power traded in the wholesale market.**

2004 Price-To-Compare

The methodology leads to calculations of the **Price-to-Compare** (the price the CSP has to beat)

	<u>Residential</u>	<u>Industrial</u>
DVP	4.3 ¢/kWh	3.5 ¢/kWh
AEP	3.2 ¢/kWh	2.8 ¢/kWh

2005 numbers are currently being developed

Plant Construction Activity (Update to Page 29, PART II)

- **Plants completed since 1998:**
 - 11 Totaling 4,151 MW
- **Plants currently under construction:**
 - None
- **Projects with certificates but not yet under construction:**
 - 5 Totaling 3,185 MW
- **Projects cancelled prior to receiving certificates:**
 - 7 Totaling 5,430 MW
- **Projects withdrawn after receiving certificates:**
 - 1 Totaling 680 MW

Since Our Report Last Year:

2 plants have been completed:

- **Tenaska Fluvanna 900 MW CC**
- **ODEC'S 469 MW Marsh Run CT**

DVP'S Retail Access Pilot Programs

- **March 19, 2003 - DVP filed an application requesting approval of 3 retail access pilot programs to begin in 2004.**
- **Combined, the 3 pilots make about 500 MW of load available to CSPs, with up to 65,000 customers from all rate classes eligible to participate**
- **To encourage participation by CSPs, the Company proposed to reduce the wires charge for the length of the pilots by 50% of the amount approved by the Commission for 2003.**
- **The three proposed pilot programs are:**
 - **Municipal Aggregation Pilot**
 - **Competitive Bid Supply Service (“CBS”)**
 - **Commercial and Industrial Pilot**

Municipal Aggregation Pilot

One or more localities may aggregate its residential and small commercial customers utilizing an opt-in method and one or more localities may aggregate its residential and small commercial customers utilizing an opt-out method for the purpose of soliciting bids from CSPs for electricity supply service.

The opt-in method requires that a consumer affirmatively choose to participate.

The opt-out method requires that a consumer affirmatively choose not to participate; absent such a decision, the consumer will be included.

Competitive Bid Supply Service Pilot

CSPs bid to serve blocks of residential and small commercial customers.

Commercial and Industrial Pilot

CSPs make offers to individual large commercial and industrial customers with demand equal to or greater than 500 MW.

A detailed procedural history regarding the CBS Pilot is set forth in the Report. Some highlights are:

- January 12, 2004 - DVP issued the request for bids to three pre-qualified CSPs. Bids were due by noon on February 3, 2004. No CSP submitted a bid.**
- January 30, 2004 – As a result of the failure of the pilots to attract CSP participation, DVP filed a request to delay the start date of the pilots for two months while it considered modifications.**
- The Company proposed numerous modifications with the key component of the modifications a 100% wires charge reductions for 2004. For years after 2004, the wires charge reduction would be an amount up to but not exceeding the reduction for 2004.**

- **June 22, 2004 - DVP issued a new request for qualifications in the CBS pilot with responses due by August 23, 2004. Five CSPs pre-qualified to submit bids.**
- **August 24, 2004, the Company issued a request for bids to those CSPs that responded, and bids were due by noon on September 14, 2004. No bids were submitted.**
- **The first automatic bid ended on October 18 – No bids were received.**
- **A second automatic bid took place in November – No bids were received.**
- **Another automatic bid will take place in December.**

With Respect to the Other Two Pilots:

- **No CSPs have enrolled any commercial and industrial customers.**
 - **Several municipalities have expressed interest in participating in the Municipal Aggregation Pilot but none have applied for a license at this time.**
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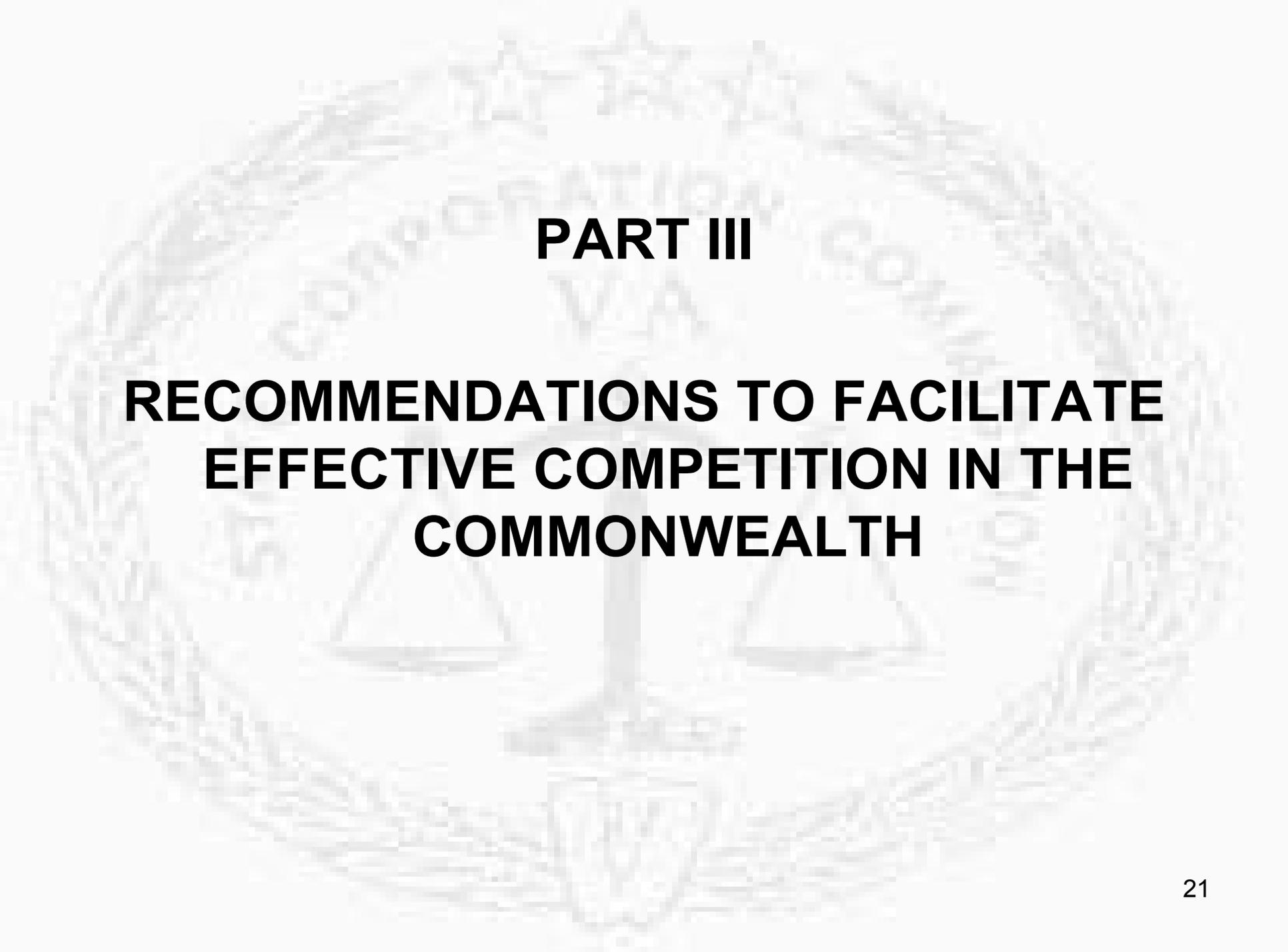
§ 56-577 C requires the SCC report on the status of pilots by November of each year through 2006. The Commission considers the September 1 Report as responsive to that requirement.

Proposed Rules Governing Exemptions to Minimum Stay Requirements and Wires Charges

- **June 16, 2004 – The Commission initiated a proceeding to establish rules and certain market-based pricing methodologies to implement two new provisions of the Restructuring Act. These new statutory provisions relate to the minimum stay requirements adopted by the Commission pursuant to § 56-577 E of the Restructuring Act, and wires charges imposed pursuant to § 56-583 of The Act.**
- **November 19, 2004 - Staff filed its report responding to the Commission directive in the order establishing Case PUE-2004-00068 to develop such regulations to implement the two provisions of The Act.**

- **The proposed rules will apply to utilities imposing either a minimum stay requirement or wires charge for the limited duration of the exemption programs.**
- **The minimum stay exemption program permits a large customer with load of 500 KW or greater, pursuant to the existing Retail Access Rule, 20 VAC 5-312-80 Q, returning to service of the local distribution company to elect to stay with the utility for 12 months at capped-rate service or to select market-based pricing for the freedom to shop as frequently as desired. The duration of this program lasts until the termination of capped rates for the respective utility.**

- **The wires charge exemption program permits a commercial or industrial customer, as well as aggregated customers in all rate classes, to elect to not pay a wires charge when selecting a CSP in exchange for market-based pricing upon return to utility service. The duration of this program is the earlier of July 1, 2007 or the termination of wires charges. Customer election of this option is an up-front decision to forever waive the right to return to the utility's capped-rate service.**
- **The rules will be in addition to the existing retail access rules and apply to the two exemption programs previously described.**



PART III

**RECOMMENDATIONS TO FACILITATE
EFFECTIVE COMPETITION IN THE
COMMONWEALTH**

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- **Little change in development of retail competition in the Commonwealth since last year**
 - **Perceived Barriers:**
 - **Lack of RTO participation**
 - **Low capped “default” rates**
 - **Wires charges and stranded cost determination**