

**Status Report: Dominion Retail Pilot Programs
Remarks of David Koogler to Commission on Electric Utility
Restructuring
November 24, 2003**

Good afternoon, Mr. Chairman and members of the Commission. My name is David Koogler and I am Director of Regulation and Competition at Dominion Virginia Power. Thank you for the opportunity to comment on the State Corporation Commission's Report on the Status of Competition in the Commonwealth. As you recall, both Mr. Spinner and Mr. Schrad last week referred to our retail access pilot programs, and I would like to provide you with an update on their implementation.

We're excited about them. The programs are designed to stimulate development of retail competitive markets in Virginia and give all customers – from homeowners to large commercial and industrial operations – the chance to gain firsthand experience with retail choice.

And we're very pleased by the enthusiastic reception we are receiving from our customers.

For example, our pilot for commercial and industrial customers already has more volunteers than it can accommodate. We'll need a lottery to select the participants. Among those that have volunteered are a significant number of big-name retailers – including Target, Wal-Mart, TJ Maxx-Marshall's, Arby's, Kohl's, Lowe's and Farm Fresh.

For another pilot that's focused on residential and small business customers, we've already had 11,900 volunteers, including about 2,900 commercial and 9,000 residential customers. Volunteers have already claimed more than two thirds of the available slots for residential customers in the eastern Virginia area. That figure is remarkable, since the first letters explaining the program to residential customers in that area – and seeking volunteers – were sent out just a week ago – Monday, November 17.

The interest shown in these programs by customers and competitive suppliers indicates that stakeholders are embracing Virginia's transition to retail choice in the supply of electricity. We believe the pilots will be a major step forward along the Commonwealth's path to restructuring.

And we believe much progress has already been made as we near the midpoint of the transition period. Let me offer three specific examples.

- First, the capped rate provisions of the Restructuring Act are providing substantial benefits for Virginia consumers. You may recall the study performed last year by the respected Richmond consulting firm of Chmura Economics and Analytics. It found the capped rate provisions of the restructuring program will save Dominion's residential customers up to \$871 million through the end of the transition period in mid-2007.
- Second, the Commonwealth's restructuring program is making progress on another front as incumbent utilities fulfill the requirements of the Act by pursuing membership in a regional transmission organization. This summer Dominion applied for permission to join PJM Interconnection LLC, one of the nation's oldest and most respected regional transmission organizations.
 - We are optimistic that our PJM membership will enhance the development of retail competition by giving both customers and competitive suppliers access to generation assets across a broad geographical area. In fact, it is widely understood, in the jurisdictions that have adopted restructuring, that a robust and properly functioning wholesale market – in the form of membership in an RTO – is the key to successful retail competition. And as the SCC Staff noted in the Commission's annual status report on competition, stakeholders view "the lack of a fully functional RTO" as "the major obstacle" to an active competitive market in Virginia.
 - Our PJM membership should also boost the reliability of the electric system in the Commonwealth and provide significant savings to Virginia consumers. In fact, a recent cost-benefit study found that Dominion membership in PJM would produce nearly \$500 million in projected customer savings.
- And third, Virginia has made great progress in developing the rules and procedures needed to support customer choice. In fact, the Center for the Advancement of Energy Markets – a leading pro-competition group – recently gave the Commonwealth some of the highest marks in the country for developing the regulatory framework for retail access. CAEM

ranked Virginia 13th among jurisdictions worldwide with respect to general infrastructure and environment for retail competition.

It is true that, so far, competitive suppliers have not been very active in making offers to customers in Virginia. But the situation shouldn't come as a surprise to anyone familiar with the restructuring process. The Act never envisioned full retail competition during the transition period. Retail markets don't emerge overnight; they develop at a measured and deliberate pace. That is the reason practically every jurisdiction in the United States that adopted restructuring also put in place an extended, multi-year transition period.

We believe our new pilot programs will begin to change the situation and promote development of the retail market. The General Assembly clearly had that expectation when it passed HB 2319 earlier this year, Del. Plum's bill that paved the way for the pilots. As the SCC said in approving these programs back in September, the pilots will "further the goal of advancing competition in the Commonwealth."

The pilots consist of three separate programs.

- A Competitive Bid Supply program that will use competitive bidding for the SCC to select the lowest cost supplier for blocks of residential and small business customers. This program will provide valuable information on the use of competitive bidding to select default providers in the future.
- A municipal aggregation program to help cities and counties form buying groups to obtain better deals for the supply of electricity to their citizens.
- And a third program to make it easier for large commercial and industrial customers to obtain power from competitive providers. Customers participating in this pilot will seek their own supplier and negotiate their own individual bilateral contract.

All three will be fully implemented in 2004 and will operate until the conclusion of the capped rate period in 2007. Under these programs, we expect approximately 65,000 customers of all sizes to switch to competitive service providers licensed by the SCC.

All three pilots involve substantial reductions in the wires charges that are paid by customers who buy power from competitive providers. This should encourage participation by both suppliers and customers and stimulate competition. The reduction should provide greater opportunities for customer savings and at the same time allow suppliers to recover their operating costs.

The current structure of the pilots reflects changes in their design that the Company agreed to make in response to the constructive input offered by the many stakeholders that participated in the SCC's regulatory review process.

After we submitted our application for the pilots to the SCC in March, we held a series of meetings with interested parties. Included were a number of competitive service providers and consumer representatives, and the Commission staff. The Company agreed to make several substantial changes to the design of the pilots in response to the feedback that the parties offered. The Staff commended this process in their July report that endorsed the programs and recommended the Commission approve them.

- For example, responding to stakeholders' suggestions, we extended the programs' time period. We had originally proposed that the pilots run for two years – 2004 and 2005. Now they will run until the end of the capped rate period – currently scheduled for July 1, 2007.
- We also agreed to conduct an initial “screening for savings” in the Competitive Bid Supply pilot. If our screening indicates a customer is not likely to save money by participating, the customer won't be included in the program.

As I said earlier, we're in the early stages of rolling out these programs, but we are very excited about the level of interest from customers.

We're explaining our Competitive Bid Supply pilot program and seeking volunteers through a letter mailed to all of our 2 million residential and small business customers in Virginia. We sent out the first letters on Monday, November 17, to customers in eastern Virginia. Starting today and continuing through December 15, these letters will go to all other eligible customers in our service area. I have provided you with a copy of the letter and fact sheet being mailed to customers.

And through the end of last week, 548 accounts have volunteered to participate in the Commercial and Industrial pilot. These accounts represent far more load than the pilot's approved limit of 200 megawatts – more than 50 percent above the approved limit, to be exact. Therefore, we will need to conduct a lottery to select the participants. Although there hasn't been a great deal of interest to date from industrial customers, we have seen a significant number of major retail chains – including department stores, restaurants, grocery stores and home improvement centers - volunteer for the program.

Just last Thursday, November 20, we conducted a Municipal Aggregation pilot forum for localities; those attending included the cities of Falls Church, Charlottesville, Hampton and Fairfax, and the counties of York, Chesterfield, Charles City and Fairfax. Earlier this year, we held two educational forums on municipal aggregation; both were well attended. At last week's meeting, the localities heard proposals from consultants interested in performing a feasibility study for them to evaluate the costs and benefits of municipal aggregation. Those in attendance selected a consultant to perform the evaluation, and Dominion has agreed to pay for the study.

We're also pleased that a number of suppliers have expressed strong interest in the pilots. Some have indicated they are awaiting the determination of the Price to Compare before deciding if the economics are right for their participation. The following Competitive Service Providers and Aggregators have been involved in various stages of the pilot development process, and we believe they are interested in participating in some capacity in the pilots:

- Constellation New Energy
- Pepco Energy Services
- Washington Gas Energy Services
- Old Mill Power Company
- Strategic Energy
- Dominion Retail
- New Era Energy
- Energy Window
- Compass Energy

Media outlets are also showing a great deal of interest in the pilots, with featured coverage on television and radio stations throughout the state. And the Company has recently experienced significant increases in customer calls and visits to our web site as the communications about the pilots roll out.

At this point, all we can do is publicize the pilots and seek volunteers. Competitive service providers will not be able to make offers to individual customers or bid on the Competitive Bid pilot until we are able to compute the discounted wires charge and the Price to Compare for pilot participants. We will be able to make those calculations after the SCC issues its final order in the Company's current fuel case. We expect the order in the near future.

We are currently mid-way through the transition period specified in the Restructuring Act. We've already seen many positive developments from the Commonwealth's decision to implement restructuring. We're very pleased by the interest that a diverse group of stakeholders are showing in these programs. And we're confident our pilots will be another big step forward in the development of robust retail competition in Virginia.

Thank you. I'd be happy to answer any questions you may have.