Reasons for Amendment to Va. Code § 56-577

Kentucky Utilities Company (KU), doing business in Virginia as Old Dominion Power Company, serves approximately 29,500 customers in Wise, Lee, Russell, Scott and Dickinson Counties in southwest Virginia. This service is provided through electric lines from Kentucky without connection with any other electric utility in Virginia, except Powell Valley Electric Cooperative which is not connected with any other Virginia electric utility. Nearly 86% of KU's Virginia customers are small residential customers whose rates are much lower than comparable rates of the other electric utility companies in Virginia.

Only about 5% of KU's electric revenue is attributable to its Virginia customers. The remaining revenue is received from customers in Kentucky. The Kentucky Public Service Commission has made clear that it has no present intention of authorizing choice of electric energy suppliers by retail customers. Therefore, if KU were to be required to comply with "customer choice" provisions of the Virginia Electric Utility Restructuring Act, 95% of its customers would derive no benefit from the millions of dollars KU would have to spend to comply with the Act.

Furthermore, customer choice would provide no benefits to the 5% of KU customers in Virginia. KU's residential electric rates are, by far, the lowest of any electric utility regulated by the State Corporation Commission. The current "price-to-compare" for 1000 kilowatthours per month used by residential customers of Virginia Electric Power Company, Appalachian Power Company, and Potomac Edison Company is approximately 3.7¢, 3.3¢ and 3.9¢, respectively, compared to 2.9¢ for KU customers. It would be virtually impossible for a competitive service provider to offer rates lower than KU's rates. Indeed, competitive suppliers have recently withdrawn from service areas of other utilities in Virginia whose electric rates are much higher than KU's. Therefore, no KU customer would benefit from expenditures by KU to prepare for non-existent "customer choice." The only result would be a substantial unnecessary increase in customers' electric bills.

The estimated initial cost for KU to comply with the consolidated billing provisions of the Act is $1,500,000. The recurring annual cost is estimated to be $1,200,000. These costs would raise residential customers' bills by 8-15%. For example, a KU residential customer using 500 kilowatt hours per month now pays $26.84 per month. Compliance with the customer choice requirements would increase that bill to about $31.08 per month, or by more than 15%.

Two other electric utilities have only a small percentage of their customers in Virginia. Most of the customers of Delmarva Power & Light Company, which serves the Eastern Shore of Virginia, and Potomac Edison Company, which serves the northern end of the Shenandoah Valley, are located in Pennsylvania, Maryland or Delaware. Unlike KU, those two utilities and their affiliates initiated customer choice in their other, majority jurisdictions before doing so in Virginia pursuant to the Restructuring Act. They already had in place the extensive systems and procedures necessary to accommodate the sale of power by non-utilities. In contrast, the Kentucky Public Service Commission has shown no inclination to embrace customer choice.

The proposed amendment would not apply to Delmarva and Potomac Edison because their residential customer energy sales have been subject to customer choice in their other jurisdictions for several years. Therefore, KU would be the only utility that would meet the criteria of the proposed amendment to Va. Code § 56-577.

<u>How the Amendment would work</u>

KU has in place "capped rates" in accordance with § 56-582. The amendment specifically provides that those capped rates would remain in effect until July 1, 2007, in accordance with the provisions of § 56-582.

After capped rates terminate for all Virginia utilities on July 1, 2007, KU's capped rates would continue until changed upon application by KU or upon a proceeding initiated by the State Corporation Commission in accordance with the traditional Chapter 10 rate case procedures and methodologies that have been in effect for many years. That situation would continue until such time as the Kentucky Public Service Commission implements retail customer choice of electric energy supplier. If that occurs, the amendment provides that KU would become subject to all of the provisions of the Virginia Electric Utility Restructuring Act, including the rate provisions.

The amendment would take KU out of the Restructuring Act, except with respect to capped rates, so KU would have no issues relating to wire charges, stranded costs, default service, competitive metering and billing or other issues under the Restructuring Act. KU would continue to be obligated to provide service to customers in its assigned service area and to provide the quality of service required by the Commission as it has for years in accordance with Chapter 10 of Title 56.

Under the amendment KU would not be subject to the regional transmission provisions of §§ 56-577 and 579, but such exemption is appropriate because KU is not interconnected with any other Virginia electric utility, except Powell Valley Electric Cooperative which itself is not interconnected with any other Virginia electric utility. KU is, however, a member of the Midwest Independent System Operator (MISO) organization because its transmission system is interconnected with other Midwestern electric utilities. Thus KU would comply with the intent of §§ 56-577 and 579 that incumbent electric utilities participate in a regional transmission entity.