Report on Status of Stranded Cost Recoveries by Virginia Incumbent Electric Utilities 2001-2004

for
The Commission on Electric Utility Restructuring of the Virginia General Assembly

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Study Purpose

- Section 30-205 3. of the Code of Virginia provides that the CEUR shall:

  Monitor**, after the commencement of customer choice and with the assistance of the State Corporation Commission and the Office of Attorney General, the incumbent electric utilities, suppliers, and retail customers, **whether the recovery of stranded costs, as provided in § 56-584, has resulted or is likely to result in the overrecovery or underrecovery of just and reasonable net stranded costs[.]

Study Method

- Method generally based on the SCC Staff's **"Accounting Approach"** as presented in the SCC's 2003 Stranded Cost Report.

- **Stranded cost recoveries** were calculated as the difference between actual earnings from capped rates and an assumed level of authorized earnings as if under traditional regulation, over a range of return levels.

- **Potential stranded cost exposure** for 2004 was calculated as the difference between generation revenues based on market prices and generation revenue requirements under continued regulation, over a range of assumed authorized return levels.

- Average annual stranded cost recoveries for 2001-2004 were compared to the potential stranded cost exposure for 2004 to assess likely over- or under-recovery of stranded costs.

Key Variables Influencing Results

- Forecasted generation market prices.
  - Higher market prices = lower potential stranded costs
  - A $2/MWh (~5%) change in 2004 market prices would result in a $170 million/year change in total Va. stranded cost exposure
- Assumed authorized return levels as if under traditional regulation.
- Assumed customer choice participation levels.

2004 Sales and Generation Revenue Requirements

	Total Va Juris kWh Sales	Percent of Total	2004 Generation Rev Rqt / 1	Percent of Total
Investor-Owned Utilities:				
Allegheny Power	2,778,255,638	3.2%	$106,999,575	2.4%
Appalachian Power Company	15,197,698,918	17.3%	$679,245,834	15.0%
Delmarva Power and Light	433,924,727	0.5%	$22,097,545	0.5%
Dominion Virginia Power	61,032,403,492	69.5%	$3,269,751,500	72.2%
Total IOUs:	**79,442,282,775**	**90.5%**	**$4,078,094,454**	**90.0%**
Total Coops:	**8,335,614,482**	**9.5%**	**452,163,304**	**10.0%**
Total Va Jurisdictional:	**87,777,897,257**	**100.0%**	**$4,530,257,759**	**100.0%**

1/ Sources are AIF filings for investor-owned utilities and RUS Form 7 for Coops. Revenue requirements are Base Case estimates which assume 10% ROE/2.0 TIER.

“Base Case” Results
with 10% ROE/2.0 TIER, and 3.72 c/kWh Market Price

	Cumulative Recovery 2001-2004	Annual 2004 Stranded Cost Exposure
Investor-Owned Utilities:		
Allegheny Power	$11,000,761	$3,648,466
Applachian Power Company	$58,877,847	$113,891,435
Delmarva Power & Light	$0	$5,955,545
Dominion Virginia Power	$1,060,906,347	$999,346,090
Total IOUs:	**$1,130,784,955**	**$1,122,841,535**
Total Coops:	**$206,474,440**	**$142,078,446**
Total Va Jurisdictional:	**$1,337,259,394**	**$1,264,919,981**

“Low Exposure Case” Results
with 9% ROE/1.5 TIER, and 4.46 c/kWh Market Price

	Cumulative Recovery 2001-2004	2004 Annual Stranded Cost Exposure
Investor-Owned Utilities:		
Allegheny Power	$14,650,768	$0
Applachian Power Company	$80,850,627	$0
Delmarva Power & Light	$0	$2,730,476
Dominion Virginia Power	$1,281,398,097	$515,290,039
Total IOUs:	**$1,376,899,493**	**$518,020,515**
Total Coops:	**$264,471,531**	**$80,208,189**
Total Va Jurisdictional:	**$1,641,371,024**	**$598,228,704**
Change from Base Case	**$304,111,629**	**-$34,078,745**

“High Exposure Case” Results with 12% ROE/3.0 TIER, and 3.72 c/kWh Market Price

	Cumulative Recovery 2001-2004	**2004 Annual Stranded Cost Exposure**
Investor-Owned Utilities:		
Allegheny Power	$5,769,675	$3,648,466
Applachian Power Company	$24,023,797	$120,934,033
Delmarva Power & Light	$0	$5,983,598
Dominion Virginia Power	$717,740,261	$1,064,178,620
Total IOUs:	**$747,533,733**	**$1,194,744,716**
Total Coops:	**$130,068,734**	**$142,521,663**
Total Va Jurisdictional:	**$877,602,467**	**$1,337,266,379**
Change from Base Case	**-$459,656,927**	**$72,346,398**

Stranded Cost Mitigation
Reported by DVP for 1998-2004
($Millions)

Description	**1998-2003 Jurisdictional Amount**	**2004 Jurisdictional Amount**	**1998-2004 Jurisdictional Amount**
Non-Utility Generators			
Buyout of Contracts	$257	$183	$440
Purchase of NUG Assets	$55	$85	$140
Total NUG Expenditures	$312	$268	$580
Accel. Recovery of Regulatory Assets			
1998 Stipulation in Case No. PUE-1996-0296	$106	$0	$106
1999 Write-off Due to Restructuring Legislation	$432	$0	$432
Total Regulatory Assets	$538	$0	$538
Early Retirement/Restructuring Programs			
2000 Early Retirement/Involuntary Separation	$25	$0	$25
2001 Restructing Plan	$15	$0	$15
2002/2003 Ongoing Involuntary Separation	$2	$0	$2
Total Restructuring Programs	$42	$0	$42
Total Mitigation Expenditures:	**$892**	**$268**	**$1,160**
Annual Savings Produced from Mitigation:	**$160**	**$58**	**$218**

This Schedule provides information concerning Company expenditures for the period 1998 through 2004 for purposes of mitigating stranded cost exposure. The stated expenditures include only the generation portion, therefore both the accelerated recovery of regulatory assets related to the 1998 Rate Stipulation and the early retirement/restructuring programs have been reduced accordingly. In addition, the annual savings resulting directly from these mitigation efforts through the year 2004 are presented for informational purposes.

Conclusions

- For the "Low Exposure Case", the total Virginia stranded cost exposure for 2004 is approximately <u>1.5 times</u> the average annual stranded cost recovery over the 2001-2004 period.

- For the "High Exposure Case" the total Virginia stranded cost exposure for 2004 is approximately <u>6.1times</u> the average annual stranded cost recovery over the 2001-2004 period.

- Stranded cost results remain highly dependent on the level of generation market prices, assumed return levels that would apply if utilities continued under a regulated environment, and customer choice participation levels.

- At present, wires charges, rising market energy prices and low customer choice participation rates significantly insulate Virginia's utilities from potential stranded costs.