

Commission on Electric Utility Restructuring
February 6, 2006
Richmond, Virginia

At its second meeting of 2006, the Commission on Electric Utility Restructuring (Commission) reviewed several items of legislation that had been introduced without first being considered by the Commission.

Legislative Matters

As introduced by Delegate Clarke Hogan, House Bill 700 would have prohibited any electric utility from seeking an increase in its tariffs to reflect changes in its fuel costs, including the cost of purchased power other than through a comprehensive rate case to establish reasonable and just rates for the service of the utility. Under this measure, the electric utility's capped rates will be adjusted to the levels established through the rate case. Delegate Hogan contended that a full rate case would provide the state Corporation Commission with the opportunity to review the rate of return that a utility is currently earning under its capped base rates, which may mitigate any increase in the utility's fuel factor.

Delegate Hogan offered an amendment in the nature of a substitute to House Bill 700 that would limit its effect to any electric utility that was bound by a rate case settlement that extends in application beyond January 1, 2002 (i.e., Dominion Virginia Power). Dominion is the only electric utility that has had its fuel factor frozen until July 2007, at which point the fuel factor will be subject to an adjustment that will remain in effect until the end of the capped rate period. Dominion objected to the bill on grounds that it would combine a fuel factor case with a base rate case. The Commission unanimously voted not to support the bill.

House Bill 1187, patroned by Delegate Landes, would amend the Electric Authorities Act to provide for the establishment of authorities having a governmental unit as its single member. Such a single-member authority would be exempt from the Virginia Electric Utility Restructuring Act. The measure was intended to allow the town of Elkton, which operates a municipal electric utility, to convert the form of the utility to an authority while retaining the existing exemption from the Act that exists for municipal electric utilities.

Members voiced concerns that the bill may apply to all municipal electric utilities, and expressed their request that its scope be limited to the town of Elkton. The Commission agreed to support the legislation on the condition that it be limited to apply only to Elkton.

House Bill 1541, introduced by Delegate Toscano, was pending in the House Commerce and Labor Committee's Subcommittee on Utilities. The measure expands the definition of an eligible customer-generator to include a customer that contracts with other persons to own, operate, or both, an eligible electrical generating facility. Currently, the customer must own and operate the generating facility. The measure also allows such facilities to have any renewable energy as their total source of fuel; currently, only facilities that use solar, wind, or hydro energy are eligible. Finally, the measure allows a facility that is located on the customer's premises and is connected to the wiring on the customer's side of its interconnection with the distributor to

qualify for net energy metering; currently, the facility must be located on the customer's premises.

The Commonwealth's two major electric utilities were split on the bill. While Dominion had no concern with the bill in its present form, AEP spokesman Barry Thomas observed that the company does not support the measure. The Commission agreed that the bill could proceed without any recommendation.

Senate Bill 711, introduced by Senator Norment, authorizes the Commission to appoint persons who are not members of the Commission to any subcommittee that the Commission may establish. The powers of the Commission are amended to specifically authorize it to evaluate and assess the implications of the scheduled expiration of capped rates. The increase in the price of electricity that has accompanied the expiration of "frozen" electricity rates in other states, including Maryland, Delaware, and Illinois, has generated substantial concern. The measure was endorsed unanimously by the members of the Commission.

Study Resolution

The Commission also considered a resolution, drafted at the direction of Senator Norment, that proposes that the Commission conduct a two-year study of the provision of electric generation service in the Commonwealth following the termination of the rate cap period. As the resolution recites, upon the expiration of the capped rate period on December 31, 2010, customers who do not select a competitive supplier, or have contracted with a supplier that fails to perform, may buy generation service from a default service provider. The rates for default service, which will be established by the State Corporation Commission, are to be based upon prices for generation capacity and energy in competitive regional markets. Default service rates are to consider customers' need for rate stability and for protection from unreasonable rate fluctuations.

The resolution observes that Senate Bill 711 specifically authorizes the Commission to evaluate and assess the implications of the scheduled expiration of the capped rate period. In conducting the study, the Commission is authorized to examine, among such other issues as it deems relevant, how the State Corporation Commission should implement and monitor default service. It is also directed to examine measures to mitigate price volatility that may be present at times in wholesale markets. The resolution states that, pursuant to Senate Bill 711, which is scheduled to become effective on July 1, 2006, the chairman of the Commission will be authorized to establish a subcommittee to conduct the study. The Commission unanimously endorsed the resolution.