Report on Status of Stranded Cost Recoveries by Virginia Incumbent Electric Utilities 2001-2005

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 and Definitions

- Method based on the SCC Staff's **"Accounting Approach"** as presented in the SCC's 2003 Stranded Cost Report, and as directed in the CEUR's January 15, 2004 Resolution.

- **Stranded Cost Recovery** is the amount by which a utility's actual earnings from capped rates exceed an assumed level of authorized earnings as if under traditional regulation (calculated over a range of assumed authorized returns).

- **Potential Stranded Cost Exposure** is the difference between a utility's generation revenue requirement as if under traditional regulation (calculated over a range of assumed authorized returns) and what generation revenues would be based on market prices.

- Cumulative stranded cost recoveries for 2001-2005 were compared to the potential stranded cost exposure for 2005 to assess likely over- or under-recovery of stranded costs.

Key Variables Influencing 2005 Results

- **Forecasted generation market prices**.

  Higher market prices = Lower stranded cost exposure.

- **Assumed authorized return levels as if under traditional regulation.**

  Higher assumed authorized returns = Lower earnings available for stranded cost recoveries and higher stranded cost exposure.

  Lower assumed authorized returns = Higher earnings available for stranded cost recoveries and lower stranded cost exposure.

- **Assumed 100% customer choice participation levels for stranded cost exposure calculation.**

  No customer switching = No stranded costs.

Virginia Utilities' Stranded Cost Recoveries (Earnings Available from Capped Rates in Excess of an Assumed 10% ROE or 2.0 TIER)

	Annual Stranded Cost Recovery ($Millions)	Cumulative Stranded Cost Recovery ($Millions)
2001	$46.9	
2002	$740.6	$787.5
2003	$281.7	$1,069.2
2004	$267.0	$1,336.2
2005	$108.1	$1,444.3

Annual Generation Market Prices and Potential Stranded Cost Exposure (With Generation Rev. Req. at Assumed 10% ROE or 2.0 TIER)

	Original SCC-Determined Generation Market Price (cents/kWh)	Generation Revenue Requirement (cents/kWh)	Annual Stranded Cost Exposure ($Millions)
2003	3.65	4.66	$898.2
2004	3.72	5.16	$1,264.9
2005	5.45	5.63	$338.4

Stranded Cost Recovery and Potential Exposure
"Base Case" Results
with Assumed 10% ROE or 2.0 TIER and 5.45¢/kWh Market Price

	Cumulative Recovery 2001-2005	2005 Annual Stranded Cost Exposure
Investor-Owned Utilities:		
Allegheny Power	$11,000,761	$0
Applachian Power Company	$58,877,847	$0
Delmarva Power & Light	$341,735	$2,704,222
Dominion Virginia Power	$1,060,906,347	$335,660,890
Total IOUs:	**$1,131,126,690**	**$338,365,112**
Total Coops:	**$313,202,078**	**$50,025,378**
Total Va Jurisdictional:	**$1,444,328,767**	**$388,390,490**

Stranded Cost Recovery and Potential Exposure
"Low Exposure Case" Results
with Assumed 9% ROE or 1.5 TIER and 6.82¢/kWh Market Price

	Cumulative Recovery 2001-2005	2005 Stranded Cost Exposure
Investor-Owned Utilities:		
Allegheny Power	$14,650,768	$0
Applachian Power Company	$80,850,627	$0
Delmarva Power & Light	$661,080	$0
Dominion Virginia Power	$1,281,398,097	$0
Total IOUs:	**$1,377,560,573**	**$0**
Total Coops:	**$386,368,196**	**$0**
Total Va Jurisdictional:	**$1,763,928,769**	**$0**
Change from Base Case	**$319,600,002**	**$0**

Stranded Cost Recovery and Potential Exposure
"High Exposure Case" Results
with Assumed 12% ROE or 3.0 TIER and 5.45¢/kWh Market Price

	2001-2005 Cum Stranded Cost Recovery	2005 Stranded Cost Exposure
Investor-Owned Utilities:		
Allegheny Power	$5,769,675	$0
Applachian Power Company	$24,023,797	$0
Delmarva Power & Light	$0	$2,716,661
Dominion Virginia Power	$717,740,261	$402,935,942
Total IOUs:	**$747,533,733**	**$405,652,603**
Total Coops:	**$216,969,330**	**$50,523,704**
Total Va Jurisdictional:	**$964,503,063**	**$456,176,306**
Change from Base Case	**-$479,825,704**	**$67,785,816**

Conclusions

- In the “Low Exposure Case,” there was no potential stranded cost exposure for any Virginia utility in 2005.
- In the “High Exposure Case,” the total Virginia stranded cost exposure for 2005 was approximately 47% of the cumulative stranded cost recovery over the 2001-2005 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, relatively higher market prices and minimal customer choice participation significantly insulate Virginia’s utilities from potential stranded costs.