Comments by Virginia Power - May 26, 1998

STRANDED COSTS and TRANSITION COSTS

Stranded Costs

Electric utilities have been required by law and regulation to provide an adequate supply of electric generation as part of their obligation under the “regulatory compact” to serve all customers. “Stranded costs” are principally losses in the economic value of an electric utility’s investments and obligations related to the supply of electric generation that result from the implementation of competition in the purchase and sale of electric energy. Costs that may become stranded are costs that traditionally are included in rates and are paid by customers. Investments and obligations related to generation supply include, but are not limited to:

- generating facilities owned in whole or in part by the utility;
- all costs associated with all power purchase contracts entered into by or transferred to that utility, including those with independent power producers and those entered into under PURPA;
- all costs associated with decommissioning nuclear generating facilities;
- all costs associated with federal or state action or inaction, including federal or state environmental protection requirements; and

- all generation-related regulatory assets, which are other costs that were incurred by the utility and were approved by the regulator for deferred recovery, over time. One example is the cost of asbestos removal at power stations during the 1980s—these costs were deferred and are being amortized over the life of the respective power stations.

In addition to stranded costs associated with the supply of generation, other costs that are included in rates and paid by customers may become stranded. Investments and obligations related to non-generation assets that could be rendered obsolete due to the particular method of implementation of competition may include, but are not limited to:

- system operating control systems;
- metering equipment;
- billing systems; and
- other displaced equipment and/or facilities.

Transition Costs

In order to implement competition, electric utilities must undertake investments and incur increased costs of operation both during and beyond the transition to competition. These costs are referred to as transition costs. Such costs are incurred due to the need to provide the infrastructure and systems to allow competition to take place and to provide for public purpose programs within a competitive environment.

Transition costs include, but are not limited to:

- Investments in infrastructure including information technology and other costs associated with ISO and RPX establishment and operation;

- Public purpose program costs, including universal service, energy efficiency, protection of the environment and research & development;

- Consumer education programs to inform customers regarding operation of a competitive electricity market;

- Education, retraining and outplacement services for employees of electric utilities who will be directly affected by implementation of competition; and electric competition pilot program planning, operation and closure costs.