

**SJR91 JOINT SUBCOMMITTEE
STRUCTURE AND TRANSITION TASK FORCE
MEETING OF JUNE 15, 1998
COMMENTS OF AMERICAN ELECTRIC POWER - VA**

A. **Determining which electricity service will be competitive services following restructuring**

AEP continues to support consumer choice in the electric utility industry, and we have been and continue to be involved in many discussions with many entities to produce an orderly transition to that end. In its simplest terms, we believe that the presently regulated, bundled set of services we call "electricity" can and should be unbundled to reveal a variety of different services or functions to be performed for customers. In very general terms, we envision the supply of electricity as consisting of a generation function, a transmission function and a distribution function, each with possible subcomponents.

As we have stated previously, AEP believes that there should be a one to two year "unbundling period" where these functions are separated in terms of rates, and during which a new informational and operational infrastructure is put in place to accomplish these changes. Following this period, a "transition period" of four to five years would exist during which customers would begin to have a choice.

AEP believes that having consumer choice would require a new concept of an industry structure wherein all of Virginia's electricity consumers would have the right to choose their supplier of generation services. The industry is beginning to gravitate toward the term of ESPs, or Energy Service Providers, as it describes a number of entities who will interact with customers to either physically supply/produce or arrange to provide through acquisition, electrical generation capacity and energy from a generation source. In order for an ESP to be able to participate in markets, certain registrations and compliance with proofs of performance may be required. In general, generation assets would be deregulated in this environment and would be able to participate in the broad-based market for generation services. Such generation services could be sold through the market clearing duties of a Regional Power Exchange (RPX) or through individual contracts with the customer.

For this structure to work, all customers would have open and nondiscriminatory access to the transmission and distribution delivery networks of existing utility entities. We further believe that these transmission and distribution functions will, for the most part, continue to be subject to regulation with respect to price, service quality and reliability. The transmission function will continue to be regulated by the FERC, or Federal Energy Regulatory Commission, and reliability will be accomplished through the control exercised by a FERC approved and regulated ISO (or Independent System Operator) or ISO's. Distribution functions, with some exceptions, will continue to be regulated by current state regulatory commissions.

AEP believes that there may be portions, or components, of the distribution function or services which, because of their nature, can and should be considered as candidates for being provided through competitive markets. Such markets would involve an ability of a customer to choose from numerous suppliers the entity they want to provide these services. We believe that components of the distribution services such as metering (ownership, reading and maintenance), billing services and meter/billing data management should be considered as likely candidates for being provided by a competitive marketplace.

B. Market Power

Electric power systems, while interconnected with neighboring systems for the important purpose of mutual support during emergency and other situations, have evolved to serve a defined territory within which their customers reside. In a future competitive environment where suppliers compete for retail customers across traditional service territory boundaries, constraints on the ability to transmit power may come into play and, if they do, create undue advantages for suppliers and disadvantages customers. Where power transmission interfaces are strained from a capacity standpoint today, accommodation of power flows related to cross-boundary competition for retail customers could, obviously, prove difficult.

The effect of a transmission constraint could be dependent upon the type of market which is ultimately established. Within a regional power exchange or pool structure, an alteration of the market-influenced order of dispatch of generating units could be required to cope with transmission constraints in the short run. Rules which would negate market power, as well as encourage construction of needed transmission capacity in the long run, would be needed (assuming that development of such rules is indeed possible). Where the competitive market involves a system of bilateral contracts between suppliers and customers, transmission constraints may preclude customers from being able to arrange for transmission service from certain suppliers, thereby presenting an undue advantage for other suppliers from which transmission service may be more than adequate. In this case, the only remedy may be longer-run and more difficult...that is, encouraging or requiring the construction of the additional transmission capacity necessary to remove the constraint.

In Virginia, the limitations of existing west-to-east transmission capacity were demonstrated during the late 1980s and early 1990s when developers expressed interest in meeting Virginia Power's capacity needs by installing generating units within the State's coalfield region, but were unable to follow through with legitimate proposals due to the unavailability of transmission service on a long-term, firm basis.

AEP has proposed to construct a 765 kilovolt (kV) transmission line from Wyoming County, West Virginia to Cloverdale, Virginia for the purpose of ensuring reliable service to its southern region customers, including those in western Virginia. The line's projected in-service date is December, 2002. Virginia Power Company has proposed a 500 kV

transmission tie between its system and AEP's easternmost extra-high-voltage station at Joshua Falls, east of Lynchburg. AEP's project would provide substantial incremental transmission capacity, in the west-to-east direction, though it has been proposed to meet reliability needs that are independent of the State's decision on whether to enact legislation providing for competition at the retail level for electric utility services.

AEP's position is that market power related to transmission constraints could exist and could create undue advantages and disadvantages in Virginia. It submits that, prior to the onset of competition, available steps be taken to mitigate transmission-related market power, with such steps including the construction of currently-proposed major transmission projects.

C. Suppliers of Last Resort and Default Providers

Default Providers and Suppliers of Last Resort involve two different , but somewhat related concepts.

A default provider of electricity would continue to provide service if a customer elects not to exercise choice to select another or alternate provider of generation services. Service would continue to be provided at a bundled, regulated rate. The utility may provide the required power from its own sources, its generation business unit, a marketing affiliate or through arrangements with other suppliers

A provider of last resort would have the responsibility of providing generating capacity and energy to a customer when and if that customer's chosen generation supplier (and any prearranged back up supplier) was immediately unable to meet the customer's requirements. A provider of last resort, in essence, becomes an emergency service provider.

This role, unfortunately, falls to either (1) under the current industry structure, the supplier to which the customer is committed and provides said customer with delivery (transmission and distribution) service, or (2) the market as a whole, under the structure now envisioned for Virginia. The "provider of last resort" is a role which either of these entities should be assigned only on a planned or willing basis. Otherwise, Energy Service Providers may be able to sell, and customers may be willing and able to buy, a level of service which is non-firm and subject to periods of unavailability, intending to "lean on" as necessary said last-resort supplier. With no entity planning for the capacity needs of the customer, degradation of service would be the likely result.

AEP supports Commission review and oversight of this issue through the certification of suppliers, and through a review of appropriate quality of service standards.