

Date: June 10, 1998

To: SJR-91 Joint Subcommittee and Interested Parties

Re: Comments of Allegheny Power Concerning Issues Identified For Discussion at the June 15, 1998 Meeting of the Structure and Transition Task Force

Allegheny Power offers the following comments on two of the issues identified for discussion at the June 15 Structure and Transition Task Force in the May 29, 1998 memorandum from SJR-91 Staff to restructuring and transition stakeholders.

1. Determining which electricity services will be competitive services following restructuring.

The purpose of introducing competition and customer choice in generation is to allow the forces of competition to discipline electricity prices for all customers. At this point in the debate, Allegheny Power advocates that the generation portion of retail electricity service should be competitive. Once choice is implemented, all utility generation in the competitive marketplace must be fully deregulated. A fully mature competitive market for generation will, at a minimum, reflect the following characteristics:

- All customers will be able to choose their generation supplier;
- All generation will be deregulated and subject to market pricing wherein all suppliers are subject to the same rules;
- Transmission will be regulated at the federal level by FERC; and
- Distribution territories will remain in place with the distribution facilities continuing to be regulated by state commissions.

At present, there is no need to make major changes to the traditional regulation of distribution services. All retail customers should have access to their utility's distribution services in much the same manner as they do today. Distribution utilities will retain the obligation to connect all customers to the electric system and will have the obligation to deliver power from their generation supplier of choice. Distribution utilities will also continue to provide metering and billing services to all customers as part of that distribution service, at least in the first years of customer choice. While it may be feasible to unbundle certain aspects of distribution service such as metering and billing as a competitive option in the future, it is premature to address the further unbundling of distribution service prior to implementing full retail access.

Allegheny Power believes that services such as energy conservation, load management and so-called "green power" properly belong in a competitive market. As Virginia moves to implement customer choice, customers should be allowed to procure these services competitively. To do otherwise would subvert the benefits of competition.

2. Suppliers of Last Resort.

At the onset of customer choice, all customers should have the option of remaining with their incumbent utility at regulated rates for the duration of the transition period. After the transition period is over, any price caps will be eliminated and the distribution utility will have the obligation to procure electricity at market rates for customers who do not choose an alternative supplier. At the end of the transition period, customers should have the option of choosing, either directly or by default, their incumbent distribution utility to supply them with power at market-based rates in the future. The availability of market alternatives will be sufficient to protect the customer from concerns about the prices charged by the local utility for default generation services. In a competitive market where choice is available to all customers, customers will only choose to stay with the local utility if it continues to provide them with service (including price, terms and conditions) that is equal or superior to the service that they will be able to get from other competitive suppliers.

The distribution utility should not be required to supply customers who default on their bills to third-party competitive suppliers without assurance of compensation. Nor should the distribution utility be responsible for non-payments to third-party energy suppliers. If partial payment is received, it should first be applied toward the distribution portion of the bill because of the distribution utility's continuing obligations to the customer in a deregulated environment and to ensure continued system reliability. The state will need to come up with another means of addressing the problem of customers who refuse to pay for their electric services, including establishing rules for the disconnection of service and the recovery of uncollectables from the obligation to serve as a part of the regulated revenue requirement. (Note: Requirements for universal service programs or customers who default on their payments should not be confused with the default service discussed above, where a customer fails to choose an alternative electricity supplier, thus by "default" chooses to remain with its local distribution utility for generation services.)

Finally, Allegheny Power supports the concept of a universal service fund to ensure that low-income customers are able to pay for essential electric services. In order to protect the customer who is not able (rather than not willing) to pay, the state should require that all energy users support an assistance program, with minimum eligibility requirements, funded by a universal service charge on all electricity service provided in the state. This fund should be set up in such a way that utility shareholders are not at risk for the provision of such publicly desired services.