

June 9, 1998

Hon. Clifton A. Woodrum, Co-Chair
Structure and Transition Task Force, SJR 91
Post Office Box 1371
Roanoke, VA 24007

Hon. Thomas K. Norment, Jr., Co-Chair
Structure and Transition Task Force, SJR 91
Post Office Box 1697
Williamsburg, VA 23187-1697

**Re: SJR 91 Subcommittee Task Force on Structure and Transition
Competitive Services Following Restructuring; Suppliers of
Last Resort and Default Providers**

Dear Messrs. Woodrum and Norment:

MEPAV is pleased to present its views on the issues to be taken up at the Structure and Transmission Task Force Meeting scheduled for June 15. We previously presented our views on market power, particularly as related to transmission constraints, to the full Restructuring Subcommittee on June 3. We now comment on the other two issues to be addressed at the June 15 meeting, and conclude as follows:

- Distribution and related activities, such as billing and metering, should not be opened up to competition, but should continue to be local distribution company ("LDC") services; and
- The LDC should act as both supplier of last resort and default supplier.

Competitive Services Following Restructuring

MEPAV believes that the only area that offers significant potential benefits from competition at this time is the generation market (assuming market power problems are resolved). Transmission will continue to be a monopoly service for the foreseeable future and require the safeguards of independence and regulatory oversight if competition in the generation market is to work and if consumers are to be protected. MEPAV believes that distribution and related activities, such as billing and metering, should continue to be LDC services, subject to the same regulation as at present (by the State Corporation Commission or by citizen owners of a municipal LDC). Unlike the generation market, we have not seen a case made for opening up these activities to competition at the inception of retail choice. Indeed, because of issues related to suppliers of last resort and

serious safety concerns, a precipitous opening up of these activities to competition is not advisable and will necessarily result in costly duplication of facilities and potentially higher costs to customers.

Specifically, MEPAV is concerned that the extra confusion created by introduction of competition into LDC services would impact adversely on the public and might undermine the hoped-for benefits of competition in the generation market. Moreover, MEPAV's members would be faced with safety problems if meters are installed incorrectly and are not maintained properly. In addition, they foresee problems if a fire or other emergency were to occur and it is unclear which entity would have the responsibility (or ability) to take corrective measures in connection with meters that may be owned by other entities. Similarly, needless introduction of additional players into LDC services would impede a customer's ability to look to a single local entity to address concerns about their electric service, and could multiply the number of entities that would need to be afforded rights to ingress and egress customer property. Finally, the distribution utility's independent need to obtain accurate metering information for the billing of distribution services and for planning its distribution system means that opening up this function will result in duplicate meters and extra costs to consumers.

MEPAV's view that distribution and related activities should continue to be LDC services would not foreclose distribution entities, such as MEPAV's members, from contracting with others to provide services, such as meter installation and maintenance, for them. The decision of whether to so contract should remain with the distribution entity which could make informed decisions as to the benefits of contracting for such services or providing the services themselves, taking into account efficiencies, safety considerations, customer welfare, and reliability.

Suppliers of Last Resort and Default Providers

LDCs should also be the suppliers of last resort and default providers. Because those distribution entities have traditionally served these functions, they are already in a position to continue to serve the functions and should be permitted to continue these roles, receiving appropriate compensation, in a competitive environment. For those customers not wishing, or not able, to select an alternate supplier, the least disruptive approach would be to provide for the distribution service provider to continue to be the supplier when the customer has not elected to obtain service from an alternate supplier. That way, customers that cannot, or elect not to, choose an alternative electricity supplier can continue to have a single local entity with whom they need to interface regarding their electricity service.

The role of supplier of last resort is particularly significant inasmuch as it provides a safety net in two distinct circumstances: (1) for those customers who are perceived to be credit risks; and (2) for these customers whose power supplier fails to deliver as scheduled. MEPAV supports the comments on this issue previously submitted by the Virginia,

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Maryland & Delaware Association of Electric Cooperatives who request that the suppliers of last resort receive reimbursement from all retail electric suppliers for providing service to customers that are credit risks and that they be permitted to charge a premium to the power suppliers or perhaps the customers in circumstances where the power supplier fails to deliver. Otherwise, the suppliers of last resort would be burdened with a risk and cost for providing a necessary function in assuring that customers needs for an essential service are met. MEPAV also supports the recommendation that the SCC be given the authority to create a certification program for power suppliers. Because of the problems that have been experienced in other states caused by some opportunistic and unscrupulous would-be electric suppliers, there is a necessary consumer protection role for the SCC.

There are two principal reasons why distribution service providers should be the default providers as well -- lack of disruption of existing relationships and regulatory simplicity. Continuity of the preexisting supply relationship where a customer makes no election to change is not only common sense, but obviates the need to develop a new administrative structure to implement an alternative scheme in a manner that is perceived as fair to all, while maintaining reliability.

Thank you for the opportunity to comment on these issues. We appreciate the opportunity to work with the Subcommittee Task Forces.

Sincerely

David A. Howe, President

DAH:

cc: Hon. Jackson E. Reasor
Hon. Jerrauld C. Jones
Hon. Eric I. Cantor
Hon. Kenneth W. Stolle
Mr. Arlen Bolstad (by e-mail and facsimile)