COMMONWEALTH OF VIRGINIA

SJR-91 JOINT SUBCOMMITTEE
STRUCTURE AND TRANSITION TASK FORCE

WRITTEN COMMENTS OF STATOIL ENERGY, INC. CONCERNING *COMPETITIVE SERVICES, MARKET POWER AND SUPPLIERS OF LAST RESORT*

JUNE 10, 1998

Statoil Energy, Inc. (formerly The Eastern Group) is pleased to provide these written comments, pursuant to the Division of Legislative Services' staff memorandum of May 29, 1998. Statoil Energy has been monitoring electric restructuring in Virginia, and has previously provided comments on the Virginia State Corporation Commission Staff report titled, "Staff Investigation of the Restructuring of the Electric Industry."

Statoil Energy, Inc. specializes in the delivery of *Total Energy Solutions* ***TM*** to industrial and commercial customers. Headquartered in Alexandria Virginia, Statoil has several offices in the Mid-Atlantic and Northeast regions including offices in Warrenton, Virginia and Virginia Beach, Virginia.

Statoil's affiliate, Statoil Energy Trading, Inc. sells electricity to customers at wholesale and retail, pursuant to a power marketer license issued by the Federal Energy Regulatory Commission. The company is actively engaged in buying and selling electricity across the country; Statoil ranks 10th in the country in terms of wholesale electric trading out of more than 320 power marketers licensed by the FERC, with sales in excess of 2 million MWh. Statoil Energy was the first independent electric supplier to be licensed to sell electricity at retail in the Commonwealth of Pennsylvania and is currently participating in that state's pilot programs. the company has the second largest market share in the Orange and Rockland "PowerPick" retail electric pilot program in New York where retail electric service began in August 1996. We are also participating in the Dairylea electric choice pilot in New York. Statoil's affiliate Statoil Energy Trading, Inc. is a nonregulated power producer registered with the Rhode Island Commission's Division of Public Utilities and Carriers (Docket No. D-96-6(p)); is a pre-registered power marketer in Massachusetts; a registered electricity aggregator in Ohio, and is qualified to sell electricity to commercial and industrial customers in California. The company is actively participating in the electric restructuring proceedings in Pennsylvania, Maryland, New York, Rhode Island, Massachusetts and New Jersey.

Statoil's primary interest is in fair, competitive markets for energy supply and energy-related services.

I. COMPETITIVE SERVICES

Provision of Metering, Billing and other ancillary services should be competitive. There are no technical barriers to allowing competition for these services. Rather, there are significant opportunities for customer savings in non-monopoly distribution-related services. Denying customers access to metering and billing services effective with the beginning of the program would only serve to hold back from the market services that can be competitively provided at this time by non-utility providers, and deny consumers the ability to MAKE A CHOICE and realize the opportunity to achieve savings from that choice. Statoil and others currently provide such services to customers reliably and at lower costs than the utility. Statoil is ready to provide these complete services and currently provides billing services to our natural gas customers and in the retail pilots in New York and Pennsylvania. It is our experience that competition in these services is integrally linked to achieving full and fair competition in generation. Further, we recommend that the task force examine mechanisms for competitive supply of ancillary and distribution-related services to be effective with the initial date of customer choice.

Customers, in coordination with their generation supplier, should be able to select qualified advanced meter reading equipment. Automated meter reading should be used as the basis for billing by the utility and/or the supplier.

The customer should own the meter of his or her choice.

There is no technological reason why the utility should own the meter. All requirements for interface with the delivery system, accuracy and safety can be addressed through the specifications for qualified meter equipment, installation and operation. Ownership by the utility is neither necessary nor appropriate to meeting these requirements.

The customer should also be able to purchase the qualified meter from the source of his choice. The equipment would have to meet all requirements established by the Commission. The utility should have the ability to test the equipment to assure proper functioning and interface with the delivery system.

Statoil further recommends that options for conjunctive (or aggregated or consolidated) service and billing should be offered competitively. Conjunctive electric service provides the terms and conditions under which different customer service locations are aggregated for cost of service, rate design, rate eligibility and billing purposes. Three naval bases in Florida recently entered into an agreement to consolidate their electric accounts resulting in $44 million in savings over ten years (about 20% of the annual electric bills).

Opening these services to non-monopoly suppliers will allow and spur the innovations expected from competition. For example, metering and billing is an important direct contact with the customer. It provides opportunities to customize service to the customers' needs. It can be the vehicle for reducing a customers' bill significantly. And it can be an avenue for advertising other services. By maintaining the utility monopoly over these services, it denies customers the savings and options that would be available to them in a competitive services market. This would clearly reduce the benefits of the choice programs.

II. MARKET POWER

Statoil believes that the Commission should have, and should exercise, the fullest latitude possible to address market power issues in the retail market. This includes consideration of divestiture, auction and competitive bidding approaches being implemented in other states as a means of mitigating market power. Statoil recommends that the Staff begin their analysis of market power prior to the start of the transition period.

The traditional vertically-integrated electric utility can exercise the market power conveyed by its monopoly in each of the electricity functions - generation, transmission, distribution, and related services. The Federal Energy Regulatory Commission has, through Orders 888 and 889 and related orders, established a structure for transmission services that is based upon open, non-discriminatory access for all qualified users of transmission services. However, implementation of this open access transmission market structure has only just begun across the country, and in Virginia. Therefore, it would be premature to conclude that market power in transmission has been mitigated and that all related competitive issues have been resolved. Outstanding issues range from posting of available transmission capacity to resolution of transmission constraints. Although many of these issues must be resolved by the FERC, some, such as easing of transmission constraints through application of technology, will require state commission action. However, resolution of such issues should not be viewed as without resolution or as insurmountable impediments to retail competition. Rather, the Commission should investigate these issues, in collaboration with stakeholders, and taken needed actions on a timely basis.

Exercise of market power in generation is a clear impediment to effective , fair competition in electricity service. A variety of methods for mitigating market power in generation are being examined and implemented in other states, including divestiture, auctioning, strict structural separation, functional separation and strict and enforceable code of conduct. It is imperative that the Commission examine market power in generation in Virginia and determine appropriate methods for mitigating this market power so that fair, competitive markets can develop.

The monopoly in many aspects of distribution service is likely to continue for some time. However, it is imperative that the Commission undertake two inquires related to distribution services. First, it should be determined which distribution services would be most efficiently provided by a monopolist and which could be more efficiently procured by customers in a competitive market. For example, other states have determined that customers should have a choice in who provides their billing services. In those states customers can choose from a variety of billing options, including receiving their bills from the utility, a competitive supplier or some combination. The Commission should require the unbundling of distribution services and allow the sole provision of these services by the utility only after determining that the service would be most efficiently provided by a monopolist.

The second inquiry related to distribution service relates to the services which the utility will provide to electricity suppliers. In the future, competitive generation suppliers will be the utility's customers for delivery service. The way these services are unbundled, designed and priced can have significant effect on the development of competitive. The Commission should ensure that the terms and conditions of the utility's provision of suppliers services are publicly known, fair, and supportive of development of effective competition.

III. SUPPLIERS OF LAST RESORT AND DEFAULT PROVIDERS

Other states, notably Pennsylvania, are contemplating models under which supplier of last resort and default service is provided competitively. Statoil Energy favors this models, as we see no reason why customers of this type of service should not enjoy the benefits of competition. Supplier of Last Resort/Competitive Default Service is designed to ensure that the benefits of competition accrue to those residential and commercial customers who are unable to obtain, for whatever reason, service from a competitive electricity generation supplier or marketer.

The State Corporation Commission, in collaboration with stakeholders, should be charged with developing the details of SOLR/CDS service, including qualifications for providers. SOLR/CDS providers should deliver all necessary retail services, including but not limited to, energy, capacity, transmission, ancillary services, line losses, balancing, billing, metering, and credit and collections. Each utility must unbundle these services so that SOLR/CDS consumers do not pay twice for any service.

In order to avoid market power issues, all consumers eligible for SOLR/CDS service (e.g., individual service accounts/meters) should be assigned on a random basis to sufficiently large groups of customers to attract SOLR/CDS suppliers, but not give undue competitive advantage to the utility or the competitive supplier. The SCC will also have to fashion the process by which new consumers would be added incrementally to each group.

Bidding rules to be developed by collaboratives in conjunction with SCC should consider the following:

> Any supplier, or consortium of suppliers, licensed by the SCC could bid to provide SOLR/CDS service, although the incumbent electric utility should be prohibited from bidding.

The bid should require a one (1) year term, unless an alternative term is approved by the SCC, and should require a fixed rate for the term, unless an alternative rate structure is approved by the SCC.

Other recommendations for SOLR/CDS service:

1. Consumers should retain the right to select a competitive supplier at any time.

2. There should be no penalty for return to SOLR/CDS service. In other words, if a consumer returns to SOLR/CDS service for any reason, the consumer should will receive service from its SOLR/CDS on the same terms and conditions, and at the same rate as available to other SOLR/CDS consumers.

3. Consumers should retain the right to select a competitive supplier at any time.

4. The SOLR/CDS provider should, at the customer's option, provide a single bill.

5. The SOLR/CDS provider will include all customer care functions, including processing customer accounts.

Respectfully submitted:

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