

Testimony of Greg White, Vice President
Virginia, Maryland, Delaware Association of Electric Cooperatives
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The electric cooperatives are very concerned about the issue of transmission constraints and market power. In regard to transmission, the cooperatives are in the same position as the municipal utilities that spoke earlier; we are totally "transmission dependent." We are somewhat different from them with respect to generation since we currently own approximately one-half of our generation needs. The balance is purchased through contracts. Since we must purchase such a significant amount of our power at wholesale, it is imperative that this market be open and vibrant.

We are in agreement with Mr. Thomas Nicholson from the Office of the Attorney General that a thorough, independent study be conducted of transmission constraints and market power issues in Virginia. We will look forward to participating in that study.

We do agree with Mr. Farrell from Virginia Power that utilizing geographic areas much larger than Virginia will be beneficial, if not essential, to developing an effective wholesale market. However, we will not be able to define that geographic area as long as there are constraints in moving power freely within it. With the current transmission constraints, we believe the Virginia Power area will be an island within that region with its own pricing.

Mr. Farrell also discussed other regions that have set up Independent System Operators (ISO's). These ISO's have dealt with market power by setting price caps during times when there are constraints, and by setting price caps for certain units which must be run to maintain system stability. We agree that such a system can be part of the solution to market power and transmission constraints, but this also raises another concern. That concern relates to the divestiture of generation units, which would then fall into this category of running under capped prices. Generally these price caps would be based on a total of the embedded cost (capital) and the variable cost (fuel). Therefore, if a generating unit were sold above its book value, which has occurred in recent sales of utility generating plants, then this would automatically raise the price cap on that generation. This in turn will raise the market price of electricity during those times when price caps are in effect. For this reason, we do not believe generation divestiture should be allowed until the transmission constraint and market power problems are resolved.

An example of our concern about transmission constraints can be found by checking the Virginia Power Open Access Same Time Information System (OASIS) that Mr. Dahlquist of MEPAV mentioned. This system shows that there are only 286 MW's of firm transmission capability available for purchase into Virginia Power's system for the month of June 1998. This is not a very significant level of available firm transmission capacity. Since the cooperatives do not own enough generation to meet our load, we simply must have firm transmission service available to move our purchased power to our member cooperatives.