REMARKS OF WILLIAM F. STEPHENS

Good morning, let me begin by giving you a very brief overview of recent and current activities at the State Corporation Commission. As you are certainly aware, we are currently engaged in two major rate cases, one for Virginia Power and the other for AEP-Virginia. As part of that work, we are exploring a number of issues including the unbundling of rates into generation, transmission and distribution components. Certainly additional unbundling will be required in the future if services such as metering, meter reading and billing become candidates for the competitive market.

As you may also be aware, we are receiving monthly updates from our utilities relative to their activities in the formation of ISOs/RPXs. Members of our Staff are regularly attending regional meetings related to the Midwest ISO, the Alliance ISO and the PJM ISO.

We are also considering AEP's application for expanding its 765 KV transmission system in Southwest Virginia. That expansion is proposed as a solution for maintaining reliability in Southwest Virginia as load grows in a generation deficient area. Such transmission expansion has implications for regional reliability and perhaps market power as well in a restructured environment.

You have asked for input today relative to the existence of transmission constraints as the market power issue is confronted. Inasmuch as our utilities are well represented here, I will let them present the specifics of transmission constraints that have been experienced in recent years or months. As I am sure you will hear, such constraints generally exist during peak periods when load is often dependent on remote generation delivered by the regional high voltage transmission system.

I would caution you, however, not to conclude that market power is only an issue during peak loading periods. Transmission is generally not constrained during shoulder and off-peak periods simply because local generation is depended upon to serve local load. If enough local generation were withheld from the market, you may find transmission constraints across virtually all hours as remote generation tries to serve local load.

As a result, as the market power issue is confronted, we must identify which of the incumbent utilities' generating facilities are "must-run" and during what loading conditions is this "must-run" status applicable. Put another way, if the incumbent utility's generation is withheld from the market, can competitors serve the load? If the answer is no, we likely have a market power issue to address.

As we have noted in the past, such market power will gradually be ameliorated if new transmission lines are built and if new competitive entrants construct local generation.

With that said, I'll close by emphasizing that while market power may exist in large part because of a lack of transmission facilities, the existence or lack of existence of historical transmission constraints is not necessarily a good measure of the potential market power of incumbent utilities with significant local generation. We must gauge the dependence of local load on local generation and what the implications of that dependence have on the evolution of a competitive generation market.