

DRAFT MATRIX

**SJR 91
STRANDED COSTS AND RELATED ISSUES TASK FORCE**

	SCC	CONSUMER COUNSEL	VA POWER	AEP	ALLEGHENY	CO-OPS	CNG	ALERT	AARP
ROLE OF SCC	<p>SCC determines and quantifies stranded costs and benefits. Holds public hearings to determine, monitor and adjust. Protects utility and customers from under adverse impact in determination, recovery or provision of net stranded costs and benefits (Guided by enumerated legislative principles).</p>	<p>SCC best suited to fact-intensive process that must be repeated when determining stranded costs or benefits for each existing utility . (guided by enumerated legislative principles).</p>	<p>SCC determines recovery rates for frozen rate levels, non-bypassable wire charges or credits.</p>	<p>SCC approves frozen rate level, adopts guidelines (by 1/1/2001) for determination of CTC, approves frozen rate increase in limited circumstances.</p>	<p>SCC determines and reviews CTC, approves alternate regulatory periods (guided by enumerated legislative principles).</p>	<p>SCC reviews each co-ops plan for recovery of stranded and transition costs. SCC determines competitive transition charge.</p>	<p>SCC holds hearings to allow recovery of costs (Guided by enumerated legislative principles).</p>	<p>SCC uses its unique skills and expertise to assure effective competition. SCC determines stranded costs or stranded benefits (Guided by enumerated legislative principles). SCC , using a legislative formula, determines price caps for each individual customer class of each utility.</p>	<p>SCC determines the sum of stranded costs. SCC monitors "continued existence" of incumbent utility. SCC determines stranded cost charges and performs adjustments.</p>

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WHAT ELEMENTS INCLUDED IN CALCULATION?	Total net investments and financial obligations resulting from a prior legal or regulatory obligation and is properly allocable to such service.	Lost revenues associated with prudently incurred and unrecoverable costs related to utility investments in power production assets.	"Stranded costs" (utility investments in power production assets). "Mandated obligations" (Power purchase contracts, nuclear decommissioning) "Transition costs" (ISO/RPX formation) "Consumer and employee benefits"	"Generation-related regulatory assets" (Previously deferred generation-related costs) "Transition costs" (pilots, ISO, impairment of generation assets).	"Regulatory assets" (previously deferred generation-related costs) "Transition or stranded costs" (above market costs of power purchase contracts; net plant investments; retirement, decommissioning and environmental costs attributed to existing generation plants, employee benefits, refinancing or retiring debt, reengineering computer software, federal and state tax liabilities resulting from restructuring, consumer education, costs attributable to electric plant rendered no longer used and useful because of competition, purchase from affiliated entities	"Stranded costs" (net generation plant investments, nuclear decommissioning, purchase power contracts). "Transition costs" (ISO formation, employee benefits).	Unfunded nuclear decommissioning expense, above-market amounts under contracts entered into under PURPA and approved by SCC, above-market fixed and variable generation costs, and regulatory assets.	"Embedded costs or margins" the unavoidable, unmitigatable, legitimate, verifiable, prudently incurred and administered costs of existing assets and obligations, incurred prior to a date, pursuant to the provision of retail electric service, and made unrecoverable as the result of restructuring of the electric industry.	Legitimate, verifiable, prudent and non-mitigatable costs made unrecoverable as a result of electric industry restructuring.

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					(currently recovered in rates through FERC tariffs.				

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WHEN ARE STRANDED COSTS/STRANDED BENEFITS RECOVERED	Upon its own motion, or the motion of any public utility, customer, or interested party, Commission shall hold hearings to determine net stranded costs and benefits.	Upon onset of effective competition, State Corporation Commission determines stranded costs or benefits.	3-year transition period.	3-year transition period (2002 - 2005).	5-year transition period from start of customer choice.	No recovery beyond the year 200__.	Recovery conditioned upon an SCC finding of effective competition.	Begin 2002, continue until no longer recovering adjustable stranded costs (But no longer than 10 years).
FROZEN RATES	Extended embedded-cost rate freeze or cap most practical method of affording consumers symmetrical treatment with respect to protection from market risks and the return or stranded benefits.	Guaranteed frozen generation rate during 3-year transition period.	Capping of retail rate (approved by SCC) for the 3-year transition period* * (Customer may have to pay a non-bypassable wires charge for increased transition costs occurring during transition period).	Incumbent utilities freeze rates at existing level for 5-year transition period.	SCC establishes the appropriate price cap for each customer class of each utility based on the general changes in (i) a price index, (ii) a productivity index, and (iii) an adjustment factor for idiosyncratic costs or benefits.

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EXIT FEES	SCC to look at reasonableness of recovery mechanism proposed by each utility.	Recovery mechanism should ensure that all customer classes share equitably in paying stranded costs and receiving stranded benefits.	Those retail customers who switch during transition period to a competitive supplier pay a non-bypassable wire charge to recover "stranded costs," "mandated obligations," "transition costs," consumer and employee benefits, determined by SCC. Retail customers who switch to local or on-site generation pay a charge calculated by incumbent utility and approved by SCC.	Those retail customers who switch pay a competitive transition charge, approved by the SCC.	Those retail customers who switch pay a competitive transition charge, approved by the SCC. Upon return to incumbent utility - minimum 1-year stay.	All current distribution customers pay CTC. Those who self-generate pay a charge approved by SCC.	The SCC may allow recovery in rates through a non-bypassable surcharge or other fees or equitable mechanism.	The SCC shall adopt a just and reasonable method and procedures. The SCC shall not impose an exit fee, or similar charge, directly or indirectly, on a retail consumer who elects to self-generate.	Reasonable opportunity to recover costs through the rates of the transmission and distribution utility.

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COMPLETION OF TRANSITION PERIOD	At completion of transition period, customers pay a competitive generation rate and a non-bypassable wire charge for mandated obligation, remaining transition costs, consumer and employee benefits.	At completion of transition period, customers pay a competitive generation rate and a non-bypassable wire charge for further costs associated with (i) establishment of ISO, (ii) establishment of RPX, or (iii) public purchase program.	Potential alternative payment period for no more than 2 additional years. Power purchase contracts recovered over remaining life. Surcharges for universal service program costs.	No stranded cost surcharge that will delay competition for electricity beyond the year 200__.	No more than 10 years to recover.

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STRANDED BENEFITS	SCC shall determine, monitor and adjust, from time to time as it finds appropriate, a mechanism that reasonably provides for the provision of net stranded benefits to such customers.	“stranded benefits”- utility’s net profits over and above earnings that would result under the continuation of traditional cost-based regulation. Like stranded costs, the SCC determines stranded benefits through a fact intensive process for each utility.	For purchase power contracts, if the estimated amount to be received from the sale of electric energy purchased pursuant to all purchase power contracts is more than the estimated amount the electric utility must receive to recover its cost of service for such contracts, the difference shall be returned in full to the retail customers located in service territory of the incumbent electric utility	AEP’s legislative proposal does not address stranded benefits. AEP has made previous public comment about stranded benefits.	-----	-----	-----	Recovery not approved until SCC finding of effective competition. (“Stranded benefits” recoverable incremental net difference between the embedded costs and the market value of any potentially competitive service. Calculated (net sum) by the SCC using enumerated legislative principles.	-----

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			through a credit determined by the SCC						
MITIGATION	the degree to which discretionary utility management decisions have decreased or increased or increased potentially unrecoverable costs in the past, and the degree to which reasonable programs and procedures are proposed by the utility to decrease such costs in the future.	If the utility had the discretion to determine whether to incur or mitigate the costs, the conduct of the utility with respect to the costs of the assets and obligations when compared to other utilities with similar obligations to serve the public.	Purchase power contracts- if utility's efforts to mitigate reduce costs of purchase power contracts, reduction is shared by ratepayers and stockholders. No authorization for SCC to require an electric utility to buy down, buy out, or terminate or otherwise renegotiate or restructure a power purchase contract.	-----	Reasonable efforts to mitigate generation-related transition or stranded costs. No requirement to mitigate purchase power contracts.	SCC to consider efforts of coops in mitigating stranded costs. Distribution coops have duty to mitigate stranded costs and transition costs to the extent practicable. In evaluating mitigation efforts, the SCC shall consider efforts undertaken over time, prior to enactment of bill, to reduce or moderate customer	"non-mitigable costs"	"mitigation"- all actions or occurrences that reduce the amount of money that an electric company would need to collect in order to recover its embedded costs over time, including those resulting from both matters within the company's control and from matters not wholly within the company's control. "embedded costs" are unmitigable.	An electric utility shall pursue all reasonable means to reduce its potential stranded costs and to receive the highest value for generation assets and contracts. SCC will reduce or increase the amount of stranded costs allowed a utility based on that utility's efforts to mitigate stranded costs.

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						rate levels while maintaining safe and efficient operations.			
STANDARD OR BURDEN OF PROOF WHEN DETERMINING RECOVERY OF STRANDED COSTS	Public utility seeking recovery of net stranded costs bears burden of proving such costs and their reasonableness, and reasonableness of recovery methods	SCC makes determination. A suggested legislative factor- the extent to which such costs are verifiable.	Nonbypassable wires charges-based on cost allocation methodology last approved by the SCC prior to Jan. 1, 2002. Guaranteed frozen rates-established based on embedded cost ratemaking methods and principles recognized and approved by the SCC in the utility's last general rate proceeding prior to the effective date of competition.	For capped rates, timely application to SCC. SCC to employ traditionally used rate making principles and rules, and give due recognition to the added risks associated with capping rates for a long period.	When determining CTC, SCC to allow (i) full recovery for all generation-related regulatory assets and other deferred charges typically recoverable under current regulatory practice, (ii) reasonably verifiable generation related assets, liabilities, and electricity supply costs.	Restructuring plans must be submitted to SCC with supporting documentation. SCC may schedule evidentiary hearings w/ proper notice and opportunity for cross examination .	Costs must be verifiable and nonmitigable	Entity seeking recovery has burden of proof. SCC develops a just and reasonable method and procedure for affording the opportunity to recover the embedded costs or margins. Unavoidable, unmitigable, legitimate, verifiable, prudently incurred and administered costs.	Legitimate, verifiable, prudent and nonmitigable .

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APPLICABILITY OF PROPOSAL TO ELECTRIC COOPERATIVES	All public utilities supplying electric service as of the effective date of the article under a certificate of public convenience and necessity issued by the SCC.	All public service companies	Each electric utility in the Commonwealth that, prior to the effective date of this chapter, supplied electric energy to retail customers located in an exclusive service territory established by the SCC.	Electric utilities which serve retail customers in the Commonwealth.	Each electric utility (Also see 6/25/98 submission to Structure and Transition Task Force-distribution utilities and non-investor owned utilities must be subject to the same rules and regulations as investor-owned utilities in the same time frame.	Address co-ops stranded costs separately, through amendment of the portion of the Code of Virginia directed to coops.	-----	Term "vertically integrated electric utility" does not include a cooperative association or nonprofit corporation or association or other provider of electricity service that is declared to be a public utility pursuant to sec. 56-232 and provides service only to its members.	Each electric utility.
"TRUE-UP" MECHANISMS	SCC, upon its own motion, or the motion of any electric public utility, customer of such utility, or other interested party, shall, after notice and hearing,	SCC given the flexibility to develop and implement the procedure for direct recovery of stranded costs and benefits.	Nonbypassable wires charge: determined each year by SCC, using a fair and reasonable methodology for allocating costs and credits.	Capped rate may be adjusted under limited circumstances.	The SCC shall establish procedures for the annual review of the CTC.	The SCC shall establish procedures for periodic review and reconciliation of the costs recovered through the CTC. First	Through annual rate adjustments, the SCC shall ensure that the only costs recovered in regulated rates are those costs that are stranded	No recovery until effective competition. Price cap formula would be adjusted annually.	In 2002 and every 3 years thereafter until a utility is no longer recovering stranded costs, SCC shall correct any substantial inaccuracies

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	determine, monitor, and adjust from time to time as it finds appropriate, net stranded costs and net stranded benefits and the recovery mechanism for such net stranded costs and benefits for each class of customer for each such utility.					review not less than 2 years or more than 5 years after commencement of transition to competitive retail market.	under the provisions of this Act.		in the stranded costs estimates and estimates associated with the adjustable stranded costs and adjust the stranded cost charges to reflect such correction. The SCC may correct adjustable stranded cost estimates and adjust the stranded cost charges on their own initiative or upon petition.

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