

**DRAFT MATRIX**

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

	SCC	CONSUMER COUNSEL	VA POWER	AEP	ALLEGHENY	CO-OPS	CNG	WASHINGTON GAS	ALERT	VA COMMITTEE	AARP	VCCC
<b>ROLE OF SCC</b>	SCC determines and quantifies stranded costs and benefits. Holds public hearings to determine, monitor and adjust. Protects utility and customers from adverse impact in determination, recovery or provision of net stranded costs and benefits (Guided by enumerated legislative principles).	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).	SCC determines <u>unbundled</u> recovery rates for frozen or <u>capped</u> rate levels, non-bypassable wire charges and credits <u>and exit fees.</u>	SCC approves frozen rate level <u>for generation service, to be applicable during 4-5 year transition period and to be increased during such period only in very limited circumstances (by 1/1/2001);</u> adopts guidelines for determining competitive transition charge <u>to be effective during transition for those customers who access market.</u> Approves frozen rate increases in limited circumstances.	SCC determines and reviews CTC, approves alternative regulatory periods (guided by enumerated legislative principles).	SCC reviews each co-ops plan for recovery of stranded and transition costs. SCC determines competitive transition charge.	SCC holds hearings to allow recovery of costs (Guided by enumerated legislative principles).	<u>Provide notice and conduct evidentiary hearing to determine net stranded costs.</u>	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. <u>Alert has provided specific legislative factors for the SCC to apply when determining the amount of</u>	<u>If SCC determines that a utility will not be able to influence unduly the price of electricity, it shall determine methodologies to produce just and reasonable rates to allow it an opportunity to recover just and reasonable net stranded costs. SCC shall balance the interests of its customers, its investors, and the public, taking into account enumerated factors. SCC may require</u>	SCC determines the sum of stranded costs <u>for each incumbent utility.</u> SCC monitors "continued existence" of incumbent utility. SCC determines stranded cost charges and performs adjustments.	<u>Determine when effective competition exists in the electric market. Conduct separate adjudicatory hearings for each electric utility to determine stranded costs or benefits. Monitor mitigation factors. Periodically conduct reconciliation of each utility's stranded costs or benefits.</u>

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									<u>recoverable stranded costs and stranded benefits. SCC required to make a finding of effective competition prior to permitting recovery of embedded costs as stranded costs or embedded margins as stranded benefits.</u>	<u>sale of all or part of generating assets if it determines that utility's ownership may permit it to influence unduly the price of electricity. SCC must approve, and may impose conditions on, sale.</u>		

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<b>WHAT ELEMENTS INCLUDED IN CALCULATION?</b>	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 <u>and generation-related regulatory assets</u> ). "Mandated obligations" (Power purchase contracts, nuclear decommissioning) "Transition costs" (ISO/RPX formation, <u>consumer and employee benefits, costs associated with pilot project for competition</u> ).	"Generation-related regulatory assets" (Previously deferred generation-related costs) "Transition costs" (pilots, ISO, any impairment <u>of the value of</u> 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	"Stranded costs" - <u>All reasonably and prudently incurred, but unrecoverable, cooperative generation costs, whether directly or indirectly incurred, including net generation plant investments (i.e. investment less depreciation</u> ), nuclear decommissioning, and purchase power contacts). "Transition costs" <u>Costs reasonably</u>	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.	<u>Verifiable, prudent, and necessary costs which the SCC determines cannot, or are not likely to be, recovered by the electric utility from the competitive market over the remaining useful life of such assets, after the electric utility seeking recovery uses all reasonable efforts to mitigate such costs, including the consideration of stranded benefits.</u>	"Embedded costs or margins" the unavoidable, unmitigatable, legitimate, verifiable, prudently incurred and administered costs of existing assets and obligations, incurred prior to a date <u>(to be determined by the General Assembly-ALERT proposes April 15, 1998, the date HB 1172 signed by Governor)</u> , pursuant to the provision of retail electric service, and made	<u>As determined by the SCC, (a) difference between the market value of generating assets and net investment in such assets, and (b) the difference between market value of purchase power contracts and utility's accumulated future fixed obligations under such contracts. Market value is to be determined by SCC as a result of sale of all or a portion of the utility's interest in</u>	Legitimate, verifiable, prudent and non-mitigatable costs made unrecoverable as a result of electric industry restructuring	<u>Generation-related assets (not including assets that the SCC finds or has previously found to be unreasonable, unnecessary, or imprudently incurred; assets or investments that the utility was not legally required to incur; or assets and risks for which the utility has previously been compensated. Must be based on the annual usage of the stranded</u>

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					education, costs attributable to electric plant rendered no longer used and useful because of competition, purchases from affiliated entities (currently recovered in rates through FERC tariffs.	<u>incurred by cooperative in transition to competitive market, including</u> ISO formation and employee benefits.			unrecoverable as the result of restructuring of the electric industry <u>to permit retail access as required by Virginia law and determined by the SCC</u> The recovery of embedded costs as stranded costs shall not include a return on such investment. Other elements include the market value of generation service, aggregation service, or any other potentially competitive service once the SCC	<u>such assets or contracts.</u>		<u>generation assets by the customer or customer class and must be collected on a cents per kilowatt hour basis.</u>

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									<u>finds there is effective competition for such service, and the enumerated legislative factors referred to in "Role of SCC".</u>			

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<b>WHEN ARE STRANDED COSTS/STRANDED BENEFITS RECOVERED</b>	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 determines stranded costs or benefits.	<del>3-year transition period</del> Stranded costs: recovered during the period when frozen or capped generation rates are available. Mandated obligations: power purchase contracts recovered over remaining term of contracts, nuclear decommissioning recovered over the remaining terms of the NRC licenses. Transition costs: Infrastructure costs	<del>3</del> 4 to 5 year transition period (beginning 1/1/02). ( <del>2002-2005</del> )	5-year transition period from start of customer choice.	The period over which stranded costs are recovered, determined by the SCC with a goal of avoiding major rate impacts. (Any benefits "stranded" by restructuring will accrue to cooperative member-consumers in the future as those benefits occur.)	No recovery beyond the year 200__.	Upon application to SCC and evidentiary hearing. Stranded costs collected for no more than ten years.	Recovery conditioned upon an SCC finding of effective competition. Even though recovery does not commence until the SCC finds there is effective competition for a given service, the SCC measures, monitors and adjusts amounts from the date on which alternative sellers of similar services begin providing such service, to capture "net" stranded costs or	No sooner than an SCC finding, after competition for retail generation sales is permitted, that a public utility will not be able to influence unduly the price of electricity.	Begin 2002, or when effective competition is in place and continue until no longer recovering adjustable stranded costs (But no longer than 10 years).	Upon a SCC finding of competition in the electric market.

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			<u>recovered over useful life of equipment or asset, costs of consumer or employee benefit program or service recovered over duration of program or service.</u>						<u>stranded benefits between the date on which competition is introduced and the time effective competition is found by the SCC to exist.</u>			
<b><u>FROZEN RATES/RATE CAPS</u></b>	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 of stranded benefits.	.....	<u>Guaranteed frozen Frozen or capped generation rate during 3 year available from the beginning of the transition period until customer choice is implemented for a retail customer and for 3 years after that date or until Dec. 31, 2006, whichever is earlier.</u>	Capping of retail rate for generation component of service (approved by SCC) for the 3-year transition period.*  * (Customer may have to pay a non-bypassable wires charge for increased certain transition costs occurring during and	Incumbent utilities freeze generation rates at existing level for 5-year transition period for nonshopping customers. Shopping customers who return to incumbent utilities have a minimum 1 year stay.	<u>Cooperatives are not opposed to a rate cap based on principles of embedded cost-of-service rate regulation, provided there is flexibility to adjust cap to allow recovery of extraordinary y costs.</u>	.....	<u>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 of stranded benefits.</u>	<u>Legislation provides guidance as to an appropriate price cap formula, but SCC is to develop an appropriate formula for individual customer classes for each utility. SCC establishes the appropriate price cap for each</u>	-----	.....	-----

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				following transition period).					customer class of each utility based on the <u>general annual</u> changes in (i) a price index, (ii) a productivity index, and (iii) an adjustment factor for idiosyncratic costs or benefits.			



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<b><u>RECOVERY MECHANISMS: NONBYPASSABLE WIRES CHARGES/EXIT FEES</u></b>	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 the 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	Those retail customers who switch change suppliers during the transition period 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 an allocated share of costs through CTC or exit fee charge approved by SCC.	The SCC may allow recovery in rates through a non-bypassable surcharge or other fees or equitable mechanism.	<u>Customers shall not be required to pay an exit fee to their incumbent utility in order to effectuate a change to another electric service provider.</u>	<del>The SCC shall adopt a just and reasonable method and procedures.</del> The SCC shall not impose an exit fee, or similar charge, directly or indirectly, on a retail consumer who elects to self-generate. <u>No exit fees for those who elect to self-generate and no exit fees in addition to the opportunity for recovery of stranded costs.</u>	-----	<u>Reasonable opportunity to recover Recovery of such costs through the rates of the transmission and distribution utility should be shared equally by all classes of consumer.</u>	

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			SCC.									

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<b>COMPLETION OF TRANSITION PERIOD</b>	.....	.....	At completion of transition period, customers pay a competitive generation rate and a non-bypassable wire charge for mandated obligations, remaining transition costs, consumer and employee benefits.	At completion of transition period, customers pay a competitive generation rate and possibly a non-bypassable wire charge for further unrecovered costs associated with (i) establishment of ISO, (ii) establishment of RPX, or (iii) public purchase program.	<u>Collection of CTC limited to 5 years, not to extend beyond 7 years. Surcharges for universal service program costs remain. Potential alternative payment period for no more than 2 additional years. Power purchase contracts recovered over remaining life.</u>	<u>Transition period according to current statute (ending 2004). Period for recovery of transition costs and stranded costs determined for each cooperative by SCC.</u>	No stranded cost surcharge that will delay competition for electricity beyond the year 200__.	<u>Within ten years, subject to the discretion of the SCC.</u>	<u>Transition period ends, for purposes of stranded costs/stranded benefits recovery mechanism and the deregulation of generation facilities, when there is effective competition (no date certain). Recovery period for stranded costs/stranded benefits may extend beyond transition period.</u>	-----	No more than 10 years to recover.	-----

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<b>STRANDED BENEFITS</b>	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	<u>AEP defines stranded benefits as “the reasonable expectation of a customer of a low cost utility that his rates will continue to be relatively low in the future.” AEP suggests that the expectation be accommodated by a capping of rates throughout a relatively long transition period of 4-5 years (and until 2005 or 2006).</u>	<u>The proposed rate freezes ensure that nonshopping customers continue to receive the benefits of low rates. Within the CTC calculation, revenue shortfalls from high cost generating assets will be netted against revenue received from low cost generating assets, thus capturing potential stranded benefits during the transition period.</u>	<u>By virtue of the cooperative structure, benefits that may be “stranded” by restructuring will continue to accrue to cooperative member-consumers through lower rates or retirement of capital credits.</u>	-----	<u>Recovery not approved until an SCC finding of effective competition.</u>	Recovery not approved until SCC finding of effective competition. <u>As with stranded costs, even though recovery does not commence until the SCC finds there is effective competition for a given service, the SCC measures, monitors and adjusts amounts from the date on which alternative sellers of similar services begin providing</u>	<u>SCC determines methodologies to produce just and reasonable rates to allow the utility to return to its customers (and, conversely, to allow the utility to keep for itself) any just and reasonable net stranded benefits resulting from difference between the market value of generating assets and net investment in such assets, and the</u>	SCC determines the sum of the stranded benefits for each incumbent utility. SCC determines stranded benefits credits and performs adjustments.	<u>Stranded benefits, when determined by the SCC, shall be returned to ratepayers.</u>

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			the incumbent electric utility through a credit determined by the SCC						such service, to capture “net” stranded benefits between the date on which competition is introduced and the time effective competition is found by the SCC to exist. (“Stranded benefits” include but are not limited to the recoverable incremental net difference between the embedded costs and the market value of any potentially competitive service. Calculated (net sum) by the SCC	difference between market value of purchase power contracts and its accumulated future fixed obligations under such contracts.		

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									using enumerated legislative principles.			
<b>MITIGATION</b>	The degree to which discretionary utility management decisions have decreased 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.	Power purchase 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 otherwise renegotiate or restructure a power purchase contract.	<u>AEP's proposal for stranded cost recovery during the transition period strongly encourages mitigation.</u>	Reasonable efforts to mitigate generation-related transition or stranded costs. <del>No requirement to mitigate purchase power contracts.</del>	SCC to consider efforts of co-ops in mitigating stranded costs. Distribution co-ops 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	"Non-mitigable costs"	<u>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 including purchase power contracts.</u>	<del>"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.</del> "embedded costs" are	<u>When determining just and reasonable net stranded cost, SCC to consider the degree to which the utility has minimized the total costs that it seeks to recover as just and reasonable net stranded costs.</u>	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.	<u>Enumerated mitigation factors, including renegotiation of purchased power contracts, selling uneconomic assets, selling excess capacity, and applying consolidated tax savings. SCC shall require performance standards governing the avoidable costs associated with assets that are potentially strandable.</u>

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						customer rate levels while maintaining safe and efficient operations.			<p>unmitigable. Includes but is not limited to (i) sales of capacity, energy, or ancillary services from generating facilities that are wholly or partly owned by the company or any affiliate of the company; (ii) sales of capacity, energy, or ancillary services from generating facilities with which the company has a power purchase agreement; (iii) adjustments to the company's obligations under power</p>			

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									<p><u>purchase agreements that decrease such obligations, such as those that may be obtained through contract buy-out or renegotiation</u>; (iv) <u>residual value</u>; (v) <u>refinancing debt to reduce interest obligations</u>; and (vi) <u>sales and voluntary writedowns of company assets.</u></p>			
<b>STANDARD OR BURDEN OF PROOF WHEN DETERMINING RECOVERY OF</b>	Public utility seeking recovery of net stranded costs bears burden of proving such costs and their reasonablene	SCC makes determination. A suggested legislative factor- the extent to which such costs are verifiable.	Nonbypassabl e wires charges- based on cost allocation methodology last approved by the SCC prior to Jan. 1, 2002.	For capped rates, timely application to SCC. SCC to employ traditionally used rate making principles and rules, and give	When determining CTC, SCC to allow (i) full recovery for all generation-related regulatory assets and other deferred	Restructuring plans must be submitted to SCC with supporting documentation. SCC may schedule	Costs must be verifiable and nonmitigable	<u>An electric utility seeking recovery of net stranded costs shall bear the burden of proving that such costs</u>	Entity seeking recovery has burden of proof. SCC develops a just and reasonable method and procedure for	<u>Public utility seeking recovery of stranded costs has burden of proof in establishing before the SCC such</u>	Legitimate, verifiable, prudent and nonmitigable	<u>“just and reasonable” stranded costs and stranded benefits.</u>



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<b>STRANDED COSTS</b>	ss, and reasonableness of recovery methods.		<del>Guaranteed frozen</del> <u>Frozen or capped</u> 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.	due recognition to the added risks associated with capping rates for a long period.	charges typically recoverable under current regulatory practice, (ii) reasonably verifiable generation related assets, liabilities, and electricity supply costs.	evidentiary hearings w/ proper notice and opportunity for cross examination		<u>were prudently incurred. Net stranded costs are the jurisdictional amount of verifiable, prudent and necessary costs which the SCC determines cannot, or are not likely, to be recovered.</u>	affording the opportunity to recover the embedded costs or margins. <u>Only</u> unavoidable, unmitigable, legitimate, verifiable, prudently incurred and administered costs <u>of existing assets and obligations incurred by an electric utility prior to April 15, 1998 and made unrecoverable as the result of the restructuring of the electric utility industry to permit retail access as required by Virginia law</u>	<u>costs and methodologies to produce just and reasonable rates to recover them.</u>		

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									and determined by the SCC. Stranded costs determinations or procedures shall not unduly discriminate against any participant in the market. Return of "unavoidable, unmitigable" investment permitted, but no return on such investment is allowed.			
<b>APPLICABILITY OF PROPOSAL TO ELECTRIC COOPERATIVES</b>	All public utilities supplying electric service as of the effective date of the article under a certificate of public convenience and necessity	All public service companies	Each electric utility in the Commonwealth that, prior to the effective date of this chapter, supplied electric energy to retail	Electric utilities which serve retail customers in the Commonwealth.	Each electric utility <u>servicing retail customers. If co-ops are exempted, reciprocity must apply if the co-ops sell outside their current service territories.</u>	Address co-ops stranded costs separately, through amendment of the portion of the Code of Virginia directed to co-ops.	-----	-----	Term "vertically integrated electric utility" does not include a cooperative association or nonprofit corporation or association or other	-----	Each electric utility.	-----

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	issued by the SCC.		customers located in an exclusive service territory established by the SCC.		<del>(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.</del>				provider of electricity service that is declared to be a public utility pursuant to sec. 56-232 and provides service only to its members.			
<b>“TRUE-UP” MECHANISMS</b>	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, determine, monitor, and adjust from time to time as it finds	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 review not less than 2 years or more than 5 years after	Through annual rate adjustments, the SCC shall ensure that the only costs recovered in regulated rates are those costs that are stranded under the provisions of this Act.	<u>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, determine, monitor, and adjust from time to time</u>	No recovery until effective competition. Price cap formula would be adjusted annually. <u>True-up occurs during transition period because recovery is delayed until the SCC</u>	-----	In 2002 and every 3 years thereafter until a utility is no longer recovering stranded costs, SCC shall correct any substantial inaccuracies in the stranded costs estimates and	<u>SCC to conduct periodic reconciliation of each utility's stranded costs or benefits.</u>

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	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.					commencement of transition to competitive retail market.		<u>as it finds appropriate, net stranded costs and net stranded benefits and the recovery mechanism for such net stranded costs and net stranded benefits for each class of customer for each such utility.</u>	<u>finds there is effective competition. The SCC measures, monitors and adjusts amounts from the date on which alternative sellers of similar services begin providing such service, capturing 'net' stranded benefits from the date on which competition is introduced and the time effective competition is found by the SCC to exist. Once the stranded costs/stranded benefits recovery</u>		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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									<u>period commences, the SCC determines the period over which recovery may occur as part of the SCC's adoption of a just and reasonable method and procedure.</u>			

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