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May 18, 1998

The Honorable Jackson E. Reasor, Jr.
Member, Virginia Senate
P. O. Box 691
Bluefield, Virginia 24605

Dear Jack:

At the meeting of the Joint Subcommittee Studying the Restructuring of Electricity last week, you requested comments regarding the topics to be studied by subcommittees. On behalf of Alliance for Lower Electric Rates Today in Virginia ("ALERT"), we offer the following suggestions for consideration.

A. Under the Stranded Costs and Related Issues Task Force, add these issues:

- Define "stranded costs"
- Should stranded costs be recoverable? If so, establish the process for determination of stranded costs
 - What will be the forum for the decision - State Corporation Commission, General Assembly, other?
 - Will there be opportunity for intervenors or public participation in the process?
 - What standard will be used in determining stranded costs?
 - Who will have the burden of proof?
 - What categories of assets or costs will be considered eligible for stranded costs recovery?

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- How will stranded costs be valued?
 - By divestiture
 - Third-party valuation
 - SCC hearing with opportunity for public input
 - Utilities submit line item valuation of all assets for review
- How will rates be unbundled?
 - Utilities required to submit line item valuation of assets to remain regulated
- Consideration of useful life of "stranded" generation assets

B. Under the category **Describe the formula that could be used if utilities are permitted to recover stranded costs**, the first sub-bullet should read "which generation-related assets are to be included" instead of "which sources of generation are to be included". We recommend the following additional items in this category:

- Cutoff date (after which a utility's investment is not recoverable)
- Required divestiture of generation assets as a pre-requisite to recovery by a utility
- Incentives to encourage re-negotiation of NUG contracts and for other mitigation efforts
- Consideration of the value of "true-ups"
- Rate cap for recovery period

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C. In connection with your bullet **Describe the formula that could be used if consumers are permitted to recover stranded benefits**, we again suggest changing "sources of generation" to "generation-related assets" so that the first item under this bullet would read "which generation-related assets are to be included".

Additionally, we suggest adding the following:

How to allocate stranded benefits between shareholders and rate payers and, further, how such benefits should be allocated to the various classes of rate payers.

D. In the third bullet **Describe methods that mitigate, simplify or enhance the recovery of stranded costs or benefits for utilities and consumers**, we suggest the following additional considerations:

- Netting of negative stranded costs against stranded costs
- The application of over-earnings to pay down stranded costs
- Ownership of assets after stranded costs are paid

E. Under the Structure and Transition Task Force, we would recommend the following (additions appear in italics):

Describe the purchase of generated electricity in a competitive market.

- RPX
 - *Price protection*
 - Bilateral contracts
 - Effect on customers currently served by coops or municipal distributors
 - Distinction between FERC/Commonwealth oversight

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- *Aggregation*
- *Co-generation*
- *License*

What duties are imposed on generators of electricity as a result of competition?

- Divestiture
- Relations among affiliates
- Reliability
- Voltage stability
- Generation reserves

Describe the transmission of electricity in a competitive market.

- ISO formation
- Bilateral contracts
- Distinction between FERC/Commonwealth oversight
- *Common carrier*

What duties are imposed on transmitters of electricity as a result of competition?

- Import capacity
- Oversight of operations
- *Oversight of rates*

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- *Reliability*
- *Relief of transmission congestion*

Describe the distribution of electricity in a competitive market.

- Treatment of coops and municipal
- Oversight of operations and rates

What duties are imposed on distributors of electricity as a result of competition?

- Metering and billing
- Collection/dispersal of stranded costs and benefits
- Maintenance
- Default providers
- "Providers of last resort"

Describe the transition to a competitive market for generated electricity.

- Pilot programs
- "Baseline" rate cases
- Mandated rate freezes or cuts
- Preliminary wholesale competition
- Phase-ins by customer class or percentage of consumers (*load*)

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- Time line for transition
- Unbundling
- Competition transition costs (e.g. consumer education, ISO/RPX formation, etc.)
- Legislative oversight committee
 - *Merchant plants*
 - *Eminent domain*
- *Jurisdiction - roles and responsibilities*
 - *Antitrust*
 - *Runaway prices*
- *Controlling market power*
 - *Codes of conduct for marketers and aggregators*
 - *Control of affiliate transactions*

We look forward to working with the Stranded Costs and Related Issues Task Force and the other task forces this year.

Please do not hesitate to contact us if you have any questions regarding the above recommendations from ALERT.

Sincerely,

Reginald N. Jones

Ralph L. Axselle, Jr.

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RNJ/jlb

cc: The Honorable Richard J. Holland
The Honorable John Watkins
The Honorable Clifton A. Woodrum
The Honorable Thomas K. Norment, Jr.

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