

**To: Senator Thomas K. Norment, Jr. and Delegate Clifton A. Woodrum
Co-Chairs, Structure and Transition Task Force
SJR 91 Subcommittee on Restructuring the Electric Utility Industry**

**From: Allegheny Power
American Electric Power
Old Dominion Electric Cooperative
Virginia Independent Power Producers
Virginia-Maryland-Delaware Association of Electric Cooperatives
Virginia Power**

Date: May 20, 1998

Re: Proposed "Structure Issues"

Representatives of Allegheny Power, American Electric Power, Old Dominion Electric Cooperative, the Virginia Independent Power Producers, the Virginia-Maryland-Delaware Association of Electric Cooperatives and Virginia Power have conferred regarding the "Structure issues" proposed for consideration by the Structure and Transition Task Force of the SJR 91 Subcommittee. The intention of the parties, as reflected in this report, is to identify any Structure issues that they believe should be deleted from or added to the Task Force's list and to determine if a consensus exists among the parties with regard to any of the proposed issues. In each instance in which a perfect consensus on an issue was not readily apparent, the electric industry representatives agreed to state only that the issue would be appropriate for consideration.

Although the electric industry representatives identified above agree that the following report reflects their common view on the structure issues proposed to be considered, each reserves the right to provide the Task Force an individual report that may elaborate upon or supplement this joint report. Comments regarding "Transition issues" proposed for consideration by the Task Force will be provided at a later date.

Generation / Supply Issues

A new entity will emerge in a competitive electric market that has not previously existed in the traditional, fully integrated, regulated industry structure - - the competitive retail supplier. As a general consideration, any determination about the manner in which electricity is bought or sold in a competitive market, as well any duties or requirements to be imposed on generators of electric energy located in the Commonwealth, must also address those competitive suppliers. When defining structure, rules, requirements, etc., efforts must be undertaken to ensure that all elements are applied equally to any entities that supply or propose to supply electric energy to retail customers in the Commonwealth, regardless of whether such suppliers own or operate generation facilities or are located within or outside of Virginia.

Describe the purchase of generated electricity in a competitive market.

- **RPX** *Appropriate for consideration*
- **Bilateral contracts** *Appropriate for consideration*
- **Effect on customers currently served by coops or municipal distributors**
Municipally owned or operated electric utilities should, at the discretion of their local governing bodies, have the opportunity to participate in a competitive retail electric market. If a municipally owned or operated electric utility opts to market its electric energy to retail customers outside of its distribution service territory, other suppliers of electric energy should be permitted to market electric generation to the municipal's retail customers. Cooperative electric utilities should participate in the competitive retail market for electric energy, although their entry into competition may need to proceed on a time schedule that varies from that applicable to investor-owned utilities.
- **Distinction between FERC / Commonwealth oversight** *Appropriate for consideration*
- **Aggregation** *Appropriate for consideration*

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

- **Divestiture** *Divestiture should not be mandated.*
- **Relations among affiliates** *Affiliate relations is a complex issue that is appropriate for consideration. As a basic premise, however, the functional unbundling of a utility's services should ensure the separation of generation and transmission.*
- **Reliability, voltage stability, and generation reserves** *A number of federal governmental agencies (FERC, DOE) and voluntary industry organizations (North American Electric Reliability Council, or "NERC," other regional reliability councils), as well as each ISO that exists or is under development to serve some portion of Virginia, are all presently examining these issues.*

Transmission Issues

Describe the transmission of electricity in a competitive market.

- **ISO formation** *Every transmission owner in the Commonwealth is presently in discussion with either the Alliance Transmission Entity, the PJM ISO, or the Midwest ISO. The electric industry representatives that are party to these comments share the view that the General Assembly should not attempt to mandate that a particular ISO formation be developed for the Commonwealth.*

- **Bilateral contracts** *To the extent there may be bilateral transmission contracts in an otherwise competitive environment, such contracts would be subject to FERC-established tariffs.*
- **Distinction between FERC / Commonwealth oversight** *It appears that the FERC would have exclusive jurisdiction to regulate any ISO that may be formed.*

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

- **Import capacity and oversight of operations** *Appropriate for consideration*
- **Oversight of rates** *Transmission service is included in the bundled rates for retail service that is presently under the jurisdiction of the SCC. Under retail competition, the charges for transmission service will be unbundled (separated from other charges for the production and delivery of electricity) and then will be subject to FERC regulation.*

Distribution Issues

Describe the distribution of electricity in a competitive market.

- **Cooperative and municipal electric utilities; oversight of distribution operations and rates** *As a general premise, the distribution of electric energy and the overall regulation of distribution operations and rates should remain unchanged. That is, the distribution of electric energy by investor-owned utilities and electric cooperatives will continue to be regulated by the State Corporation Commission, and exclusive distribution service territories should be preserved. Municipal electric utilities are not currently under the SCC's jurisdiction. Although distribution rates for investor-owned utilities and cooperatives should be unbundled from rates for other services, distribution rates will continue to be regulated by the SCC.*

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

- **Metering and billing** *Appropriate for consideration*
- **Collection/dispersal of stranded costs or benefits** *Appropriate for consideration*
- **Maintenance** *Distribution operators will continue to maintain distribution facilities subject to SCC regulation.*
- **Default providers** *The electric industry representatives that are party to these comments agree that the definition of "default provider" and the circumstances under which a consumer may be assigned to a default provider are appropriate for consideration. They presently share the view, however, that the incumbent electric utility should be obligated to serve as the "default provider" to supply electricity at market-based prices.*

- **“Provider of Last Resort”** *It is assumed that a “provider of last resort” means the provider responsible for supplying electric energy to a consumer who otherwise is unable to secure an electric energy supplier or obtain electric energy from the supplier with whom the consumer has a contract. The electric industry representatives that are party to these comments presently share the view that the incumbent electric utility should be obligated to serve as the “provider of last resort” to supply electricity at market-based prices. If satisfying this responsibility, however, results in costs to the incumbent utility, the incumbent utility should be compensated through some competitively-neutral recovery mechanism.*