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COMMONWEALTH OF VIRGINIA

STATE CORPORATION COMMISSION

AT RICHMOND, DECEMBER 1, 1997

COMMONWEALTH OF VIRGINIA

At the relation of the

STATE CORPORATION COMMISSION CASE NO. PUE950089

Ex Parte: In the matter of
reviewing and considering
Commission policy regarding
restructuring of and competition
in the electric utility industry

ORDER

By order dated September 18, 1995, the Commission established this docket to examine the possible restructuring of the electric utility industry in Virginia and its potential impacts upon the public interest. The Commission Staff was directed to continue and expand an examination of issues related to potential restructuring. All investor-owned utilities and electric cooperatives were made parties to this proceeding. The Commission directed the Staff to analyze and report on restructuring issues. The Staff issued a comprehensive report in July 1996, which addressed in detail a broad range of issues, including reliability of service and possible rate impacts on customers.

On November 12, 1996, the Commission took its next step in evaluating this important subject by issuing orders directing major investor-owned electric utilities to develop, analyze, and file detailed information relevant to possible restructuring. The requested information included updated cost of service analyses, tariffs unbundled to illustrate separately the generation, transmission, and distribution costs associated with providing service, a review of deferred accounting mechanisms, data on reserve margins and possible changes, an evaluation of capacity solicitation and demand-side management programs, and other matters. Utilities responded with the requested information. The two largest electric utilities operating in Virginia, Virginia Power and Appalachian Power ("AEP-Virginia"), produced the information in the same pending proceedings with their respective proposed alternative regulatory plans.

The Commission also directed the Staff to monitor developments in the wholesale power market, to evaluate wholesale competition and its impact on Virginia's utilities and to report its findings to the Commission. Staff was also directed to file a report on the results of retail wheeling experiments and activities in other states. Staff has filed these reports, and further submissions are anticipated.

In February 1997, the General Assembly, in Senate Joint Resolution No. 259, directed the Staff to develop a draft working model on restructuring for the Joint Subcommittee Examining the Restructuring in the Electric Utility Industry. As part of its ongoing investigation of restructuring issues, the Staff established and directed working groups consisting of utilities, cooperatives, customers, and other interested parties to explore restructuring topics in greater detail, which aided the Staff in its preparation of a draft working model.

The Staff issued and presented its report, entitled "Draft Working Model for Restructuring the Electric Utility Industry in Virginia", to the Joint Subcommittee on November 7, 1997. The report addresses a number of issues in detail, and makes specific recommendations on certain steps that should be taken to better prepare Virginia for the changing electric industry environment and to enable the General Assembly, as well as the Commission, to make informed decisions in the future on the possible development of a more competitive industry framework in Virginia.

Several of the principal recommendations made in the Staff's draft working model, and which have been the subject of Staff monitoring and working group discussions, are ready, in our view, for public comment regarding possible implementation. These issues include the following:

1. Utilities and cooperatives should be subject to rate review and evaluation, including a comprehensive cost of service study, unbundling of rates between generation, transmission and distribution costs (for informational purposes), evaluation of rate disparities among classes, and related issues.
2. The Commission should pursue a process that will accommodate the formation of one or more regional independent system operators ("ISOs") and utilities should pursue the formation of one or more ISOs and regional power exchanges ("RPXs").
3. The Commission should implement retail access pilot programs and studies for Virginia's major investor-owned utilities and at least two cooperatives.

With respect to Virginia Power and AEP-Virginia, we note that the rate review and evaluation process set forth in the Staff recommendation has already commenced in proceedings now pending before the Commission.

The Staff's report recommends that the Commission undertake the first two actions listed above irrespective of any decision about the implementation of retail competition or other restructuring of the electric industry in the Commonwealth.

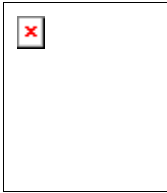
The Staff also concluded that properly designed retail access pilot programs can provide much information¹ vital to the consideration of restructuring issues. With regard to the proposed pilot programs, the Commission notes the requirement of Section 56-234 of the Code of Virginia that permits the Commission to establish "voluntary rate or rate design tests or experiments," but only "where such experiments have been approved by the Commission after notice and hearing. . . ." The Commission particularly wishes to have the views of interested parties on the value, scope and design of pilot retail access programs as it considers whether to take the step of establishing hearings for such programs.

Therefore, as part of our continuing investigation into restructuring, the Commission has determined that it is appropriate that Staff's report be made a part of this docket and that interested parties be allowed to express their views to the Commission on the conclusions and recommendations made therein. The investor-owned electric utilities with a major presence in Virginia (Virginia Power, AEP-Virginia, and Potomac Edison) shall respond to the recommendations set forth above, and cooperatives shall respond, either jointly or individually, to the rate review and evaluation and pilot program recommendations and are encouraged to respond to the ISO/RPX recommendations. Other utilities and interested parties are invited to file comments as well. Any party may also file additional comments on any related issue deemed pertinent by the party to our inquiry.

Accordingly, IT IS ORDERED THAT:

- (1) On or before January 16, 1998, investor-owned utilities and cooperatives and other interested parties shall respond as set forth in this Order.
- (2) This matter shall be continued pending further order of the Commission.

¹ See pages 14-15 of the Staff's November 7, 1997, report.



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