

Part I

Status of Competition in the Commonwealth

Executive Summary

This first section of our annual report to the Governor and Legislative Transition Task Force provides a review of the competitive activity in Virginia's electricity market during the past year plus an update on the Commission's various efforts to (i) implement provisions of the Virginia Electric Utility Restructuring Act, (ii) develop a proper structure for competition, and (iii) educate Virginia's consumers about energy choice.

In January of this year, approximately 1.45 million consumers in Virginia have gained the right to choose an alternative supplier of electricity. This includes about 1.3 million residential customers. On September 1, 2002, approximately 750,000 more customers will have the right to choose. Thus, as of September 1st, about 2.2 million of the 3.1 million total number of customers in Virginia will have the right to choose.

Unfortunately the right to choose has not yet evolved into the ability to choose. Currently no competitive service provider is offering Virginians energy priced below capped rates. At the time of this report, only 2,500 residential consumers and 24 small commercial consumers are using an alternative supplier. The residential consumers that have switched are customers of a competitive provider offering "green" power at a premium to the incumbent utility's price-to-compare.

During the past year the Commission and incumbent utilities, with the assistance of many interested stakeholders and consistent with the implementation requirements of the Restructuring Act, have made significant strides in preparing the Commonwealth for the day when competitive activity truly arrives. Functional separation and rate

unbundling cases have been completed for each incumbent utility. The information from those cases along with a determination of market prices for electricity have been used to calculate appropriate wires charges and resulting price-to-compare numbers.

Various work groups established and coordinated by the Commission Staff have been assisting the Commission in conducting investigations and developing rules designed to provide the foundation for an effectively competitive marketplace. These groups have examined issues such as competitive metering, consolidated billing, minimum stay provisions, electronic data interchange, power plant siting rules, energy infrastructure information, distributed generation, market price determination, and aggregation. The Commission appreciates the time and effort of the parties that have participated in these work groups. We are disappointed, however, that despite our prodding, competitive service providers have had limited participation. To be fair, we have learned from some competitive providers that they view the Virginia retail market as currently providing little economic incentive for entry.

Commission orders have been issued in the past year relating to competitive metering, consolidated billing, market price/wires charge determination, power plant siting rules, minimum stay provisions, and Northern Virginia Electric Cooperative's retail access program.

The first year of the Virginia Energy Choice consumer education program has been successful in increasing the awareness of energy restructuring. Unfortunately, due to the slow development of actual competition, consumers have not been able to act upon the message. For that reason, the advertising budget for the second year of the consumer education program has been reduced by 50% and the overall budget by more than 30%.

