Part III

Recommendations to Facilitate
Effective Competition in the Commonwealth

Executive Summary

In order to provide a comprehensive list of recommendations regarding means of stimulating effective competition in the Commonwealth's electricity market, the Commission Staff was directed to send a letter to over 60 interested stakeholders requesting their suggestions. In that April 24, 2002, letter Staff posed sixteen questions designed to elicit respondent's thoughts on specific restructuring related issues. Responses were received from nineteen parties. In this section of the report, twenty proposals offered by various parties are presented and described in some detail for the LTTF consideration.

The Commission suggests that the LTTF consider two proposals that may stimulate competition, both of which involve giving large customers incentives to shop for energy. Large commercial and industrial customers are an attractive market for competitive suppliers. In addition, large customers tend to be more market savvy. If competitive activity can be stimulated with this segment of the market, the presence of competitive suppliers may redound to the benefit of smaller customers.

The first option the Commission suggests for consideration is that large commercial and industrial customers that are willing to commit to market-based pricing should they ever return to the incumbent utility, would have the ability to switch to a competitive supplier without having to pay a wires charge. This would enhance the ability of the large customers to recognize savings through shopping for an alternative

energy provider. The utility would be advantaged by the elimination of the shopping customer being able to return to capped rates. It appears that this proposal would require a legislative amendment to allow large customers the ability to avoid a wires charge prior to other customers having that option. Section 56-577 2 b provides for similar treatment of all customers.

Another proposal that the Commission offers for consideration is allowing shopping customers that return to their incumbent utility the option to accept market-based pricing rather than capped rates in order to avoid a minimum stay requirement. The current minimum stay rules only apply to customers with a load of 500 kw or above, therefore this proposal would only affect large customers. It would allow those customers to resume shopping immediately rather than be bound to the 12-month minimum stay period. The Commission has asked the LTTF to consider this proposal and whether its implementation would require an amendment to the Restructuring Act.

Among the proposals offered by stakeholders are the elimination or gradual reduction of the price caps and the elimination or adjustment of wires charges. Several parties, particularly competitive service providers, claim that the existence of price caps and wires charges makes it impossible for a competitive market to develop because a competitor cannot make a profit. The counter-argument, offered by most utilities and consumer groups, is that the price caps and wires charges are essential components of the Restructuring Act that were designed to protect the interests of both consumers and utilities. The Commission believes that if we had an effectively operating competitive electric market that could be depended upon to regulate prices, perhaps a case could be made for removing price caps and going to market-based pricing. As it is, however, competitive activity is developing slowly. As for wires charges, the Commission recognizes the difficulty competitors face in offering savings to consumers with a wires charge in place. However, the wires charge are a central component of the Restructuring Act.

Several other proposals offered by respondents have to do with sending customers improved price signals, allowing them to use energy wisely and effectively. There appears to be general agreement that one of the key objectives of a competitive retail electricity market is obtaining cost efficiencies in generation through retail customers" response to improved price signals. These signals, however, require hourly (or sub-hourly) interval metering at the retail customers' premises. A consideration for the LTTF, especially with respect to residential and small business customers, is whether the installation and payment of interval meters (i) should be market-driven and thus left to customers and competitive suppliers, or (ii) should be the responsibility of incumbent utilities in their roles as providers of distribution service. Using the utility for installation would provide for a more rapid and comprehensive deployment of that technology, but would entail a significant up-front investment by the utilities that are currently operating under capped rates. This exemplifies the type of public policy decision required to implement some of the stakeholder's proposals regarding price signals and demand side management.

Other stakeholder proposals discussed in Part III include:

- the SCC or General Assembly should calculate recoverable stranded costs for each utility;
- there should be a five-year moratorium on restructuring; and,

- incumbent utilities should be allowed to legally separate their generation business.

There seems to be universal agreement that before a viable competitive electricity retail market can develop in the Commonwealth, there must be a robust wholesale market and an operational and independent regional transmission organization. While progress has been made, it will take more time before that foundation is a reality. The Commission's recommendations in this report reflect the evolutionary nature of the transition to competition.