

COMMONWEALTH OF VIRGINIA

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STATE CORPORATION COMMISSION
DIVISION OF ECONOMICS AND FINANCE

August 31, 2004

Dear Reader:

As directed by §56-596 B of the Virginia Electric Utility Restructuring Act, the State Corporation Commission will issue its fourth annual report to the Governor and the Commission on Electric Utility Restructuring ("EURC") on September 1, 2004.

Subsequent to the printing of this report to meet the September 1, 2004 deadline, the State Corporation Commission issued its Order Granting Approval to AEP-VA to transfer functional and operational control of its transmission facilities to PJM in Case No. PUE-2000-00550. The Order was issued on August 30, 2004.

This information thus updates the discussion regarding Case No. PUE-2000-00550 on page 40 of Part II of the SCC's annual report. Additional details concerning the referenced Order may be found on the Commission's web site at: <http://docket.scc.state.va.us:8080/vaprod.main.asp>.

Sincerely,

David R. Eichenlaub
for Howard M. Spinner

Commonwealth of Virginia
State Corporation Commission

**Report to the Commission on Electric Utility Restructuring
of the Virginia General Assembly**

And the Governor of the Commonwealth of Virginia



**Status Report: The Development of a Competitive Retail Market for
Electric Generation within the Commonwealth of Virginia**

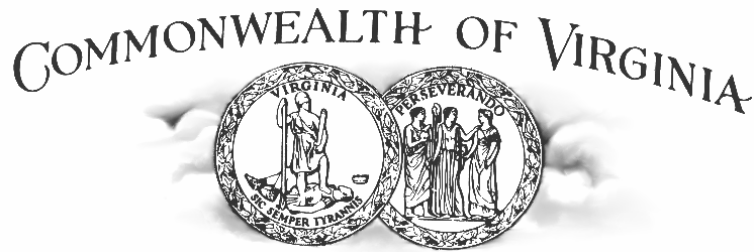
Pursuant to Section 56-596 of the Code of Virginia

September 1, 2004

THEODORE V. MORRISON, JR.
CHAIRMAN

CLINTON MILLER
COMMISSIONER

MARK C. CHRISTIE
COMMISSIONER



JOEL H. PECK
CLERK OF THE COMMISSION
P.O. BOX 1197
RICHMOND, VIRGINIA 23218-1197

STATE CORPORATION COMMISSION

September 1, 2004

TO: The Honorable Mark R. Warner
Governor, Commonwealth of Virginia

The Honorable Thomas K. Norment, Jr.
Member, Senate of Virginia
Chairman, Commission On Electric Utility Restructuring
and
Members of the Commission On Electric Utility Restructuring

The State Corporation Commission is pleased to transmit its report regarding the advancement of competition in Virginia as required by Section 56-596 of the Virginia Electric Utility Restructuring Act.

This report, required annually by September 1, provides information on the status of competition in the Commonwealth, the status of the development of regional competitive markets, and the Commission's recommendations to facilitate effective competition as soon as practical.

Respectfully submitted,

Original signed by

Theodore V. Morrison, Jr.
Commission Chairman

Original signed by

Clinton Miller
Commissioner

Original signed by

Mark C. Christie
Commissioner

TABLE OF CONTENTS

EXECUTIVE SUMMARY

GLOSSARY OF ACRONYMS

PART I: STATUS OF THE DEVELOPMENT OF REGIONAL COMPETITIVE MARKETS:
PERFORMANCE REVIEW OF ELECTRIC POWER MARKETS

PART II: STATUS OF COMPETITION IN THE COMMONWEALTH

PART III: RECOMMENDATIONS TO FACILITATE EFFECTIVE COMPETITION IN THE
COMMONWEALTH

Executive Summary and Overview

It has been over five years since the Virginia General Assembly passed the Virginia Electric Utility Restructuring Act¹ (“the Act”); less than three years remain until the mid-2007 end of the transition period set forth in the Act. Section 56-596 of the Act requires the Virginia State Corporation Commission (“SCC”) to report to the Commission on Electric Utility Restructuring (“CEUR”) and the Governor by September 1 of each year on the status of competition in the Commonwealth, the status of the development of regional competitive markets and the SCC’s recommendations to facilitate effective competition in the Commonwealth as soon as practicable. This section of the statute also requires the SCC to report any recommendations of actions to be taken by the General Assembly, electric utilities, suppliers, generators, distributors, and regional transmission entities that the SCC considers to be in the public interest.

The SCC offers this Report pursuant to the requirements of the Act consisting of three parts. Part I is a description of evolving regional retail and wholesale markets prepared by Dr. Kenneth Rose, Senior Fellow, Institute of Public Utilities at Michigan State University. Part II reports on the status of retail access and competition in the Commonwealth. Part III presents and discusses recommendations to facilitate effective competition in Virginia that were raised by stakeholders responding to an annual SCC solicitation of potential recommendations and actions by the SCC.

Part I of this Report contains detailed data and information on restructured wholesale and retail electricity markets around the United States. The economic health of these markets is questionable. Major generating companies continue to face substantial

financial difficulties. The industry credit crunch continues as does fallout from securities and trading scandals. At the same time that generating companies are facing these difficult financial conditions, Dr. Rose reports that there remains strong concern that significant market power is being exercised in all wholesale markets that have been independently analyzed. The coincidence of these two phenomena -- the alleged exercise of market power that serves to increase market prices and thus the returns to generators, coupled with the widespread financial distress in the industry which should be alleviated by the exercise of market power -- is puzzling. These two coincident results, taken together, illustrate the difficulty of fashioning electricity markets that ensures both the provision of safe and reliable service and the vigorous competition needed to forestall any exercise of market power.

Dr. Rose's Part I also provides extensive descriptions of retail markets on a state-by-state basis. He reports that 16 states and the District of Columbia continue to allow retail access. Several states have decided to delay retail access, restrict retail access to only larger customers or otherwise curtailed their retail access efforts. Of the 17 jurisdictions that allow retail access, there is little, if any, effective retail competition for electric service in the residential and small commercial market.

On the basis of the extensive information submitted by Dr. Rose in Part I of this Report, the SCC concludes that, while retail access is widely available in many jurisdictions, vigorous retail competition has yet to develop. This national result, when combined with results obtained here in the Commonwealth as detailed in Part II of this Report, still causes serious concern regarding the ability of retail electric competition to

¹ Title 56, Chapter 23 of the Code of Virginia.

provide, at the present time, lower prices for Virginians than would have been charged under the traditional regulation of the industry.

Part II of the Report focuses on activities in Virginia related to retail access and resulting competition in the electricity market over the past year. It also reviews the SCC's efforts to develop a proper infrastructure to accommodate competition and to prepare Virginians for consumer choice for generation, as directed by the Act.

During the past year the SCC has continued to implement the Restructuring Act. At the present time, about 3.1 million electricity customers in Virginia have the right to choose an alternative supplier of electricity. Approximately 29,400 customers in the southwestern part of the Commonwealth exempted from the Act by legislation enacted by the General Assembly in 2003 and approximately 7,600 customers served by Powell Valley Electric Cooperative.

As we reported last year, the right to choose has not yet evolved into the ability to choose. While it is clear that the SCC, the utilities and the various stakeholders have effectively enabled almost universal retail access in Virginia, there is little competitive activity in the Commonwealth. We understand that many suppliers still perceive little economic incentive to enter the Virginia retail market. No competitive service provider is offering energy priced so that switching customers may save money. Currently, one supplier continues to serve less than 1,900 residential customers and 20 small commercial customers in northern Virginia with an environmentally-friendly "green" power offer. This service is more expensive than Dominion Virginia Power's price-to-compare. Again, as detailed in Part I, this lack of activity is not unique to the Commonwealth; in

other states currently offering retail access, few customers have the option to purchase power at a price lower than their incumbent's price to compare.

Over the past twelve months, the SCC, aided by the incumbent utilities and interested stakeholders, continued to make strides in preparing the Commonwealth for the arrival of competition for the generation component of electric service. Work coordinated by the Staff has assisted the SCC to provide the foundation for retail access by examining many issues, including competitive metering, supplier billing, default service, energy infrastructure, and regional transmission organizations ("RTO"). The SCC appreciates the time and effort of the respondents that have contributed to Staff's efforts.

The SCC has issued orders or reports during the past year relating to issues such as competitive metering, supplier billing, market price/wires charge determination, regional transmission organizations, and pilot programs within Dominion Virginia Power's territory. Slow development of competitive activity and statewide budget constraints have caused the SCC to continue suspension of its consumer education efforts.

Part III of the Report includes discussion of recommendations and comments advanced by various stakeholders as a means of facilitating effective competition in the Commonwealth as soon as practicable as well as the Commission's activities to properly align processes and systems to foster effective competition.

As outlined in this Report, the problems that are impeding the development of retail competition in Virginia and other regional markets continue unabated. In terms of the existence of retail competition, little, if anything, has changed since last year. There

still appears to be universal agreement that before a viable competitive retail market develops in the Commonwealth there must be a robust wholesale market and an operational and independent regional transmission organization. While much work has been done or is in the process of being done, it will take more time before that foundation becomes a reality. We currently have the basic rules, systems, and procedures in place to harmonize retail access and will continue to monitor market conditions and react accordingly.

ACRONYMS

ACC	Arizona Corporation Commission
AEI	American Energy Institute
AEP-VA	American Electric Power- Virginia
AP	Allegheny Power
BG&E	Baltimore Gas and Electric
BGS	basic generation service
BHE	Bangor Hydro-electric Company
CGV	Columbia Gas of Virginia
CMP	Central Maine Power Company
CSP	competitive service provider
CTC	competitive transition charge
DEDS	Dominion Energy Direct Sales
DEQ	Department of Environmental Quality
DVP	Dominion Virginia Power
ECN	Energy Cooperative of New York
EDI	electronic data interchange
ESCO	energy service company
FERC	Federal Energy Regulatory Commission
FREDI	First Regional Electronic Data Interchange
GISB	Gas Industry Standards Board
ICAP	installed capacity market of PJM
ICC	Illinois Commerce Commission
IEEE	Institute for Electrical and Electronic Engineers
KU	Kentucky Utilities
KW	kilowatt
LDC	local distribution company
LMP	locational marginal price
LTTF	Legislative Transition Task Force
MMU	Market Monitoring Unit of PJM
MPC	Montana Power Company
MPS	Maine Public Service Company
MPSC	Maryland Public Service Commission
MW	megawatt
NAESB	North American Energy Standards Board
NARUC	National Association of Regulatory Utility Commissioners
NEM	National Energy Marketers Association
NMPC	Niagra Mohawk Power Corporation
NOPEC	North East Ohio Public Energy Council
NOPR	Notice of proposed rulemaking
NOVEL	Northern Virginia Electric Cooperative
NU	Northeast Utilities
NYSEG	New York State Electric and Gas
O&R	Orange and Rockland

ODEC	Old Dominion Electric Cooperative
ODP	Old Dominion Power
PES	Pepco Energy Services
PE	Potomac Edison
PJM	Pennsylvania-New Jersey-Maryland Interconnection
PMW	Power Markets Week
POLR	provider of last resort
PSE&G	Public Service Electric and Gas Company
PUCO	Public Utilities Commission of Ohio
PUCT	Public Utility Commission of Texas
REC	Rappahannock Electric Cooperative
REP	retail electric provider
RG&E	Rochester Gas and Electric
ROA	retail open access
RTE	regional transmission entity
RTO	regional transmission organization
S&P	Standard & Poor's Ratings Service
SCC	State Corporation Commission
SERC	Southeastern Reliability Council
SOS	standard offer service
SPP	Southwest Power Pool
SWEPCO	Southwestern Electric Power Company
T&D	transmission and distribution
UBP	Uniform Business Practices
UHR	UHR Technologies
UCAP	unforced capacity market of PJM
VCCC	Virginia Citizens Consumer Council
VCFUR	Virginia Committee for Fair Utility Rates
VEC	Virginia Energy Choice
VEPA	Virginia Energy Providers Association
VIPP	Virginia Independent Power Producers
WGES	Washington Gas Energy Services
WGL	Washington Gas Light
WTU	West Texas Utilities