

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, 2005

COMMONWEALTH OF VIRGINIA



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STATE CORPORATION COMMISSION

September 1, 2005

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

Clinton Miller
Commission Chairman

Original signed by

Theodore V. Morrison, Jr.
Commissioner

Original signed by

Mark C. Christie
Commissioner

TABLE OF CONTENTS

EXECUTIVE SUMMARY AND OVERVIEW

GLOSSARY OF ACRONYMS

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

PART II: STATUS OF RETAIL ACCESS AND COMPETITION IN THE
COMMONWEALTH

PART III: RECOMMENDATIONS TO FACILITATE EFFECTIVE
COMPETITION IN THE COMMONWEALTH

Executive Summary and Overview

It has been over six years since the Virginia General Assembly passed the Virginia Electric Utility Restructuring Act (“Restructuring Act” or “Act”)¹, and a little more than half-way to the end of the transition period in 2010 as 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 its fifth annual 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 the SCC’s view of the current competitive marketplace, including comments offered by stakeholders responding to an annual SCC solicitation of potential recommendations and actions to facilitate effective competition.

¹ Virginia Electric Utility Restructuring Act, Chapter 23 (§ 56-576 et seq.) of Title 56 of the Code of Virginia.

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. As generating companies continue to face 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. Part I does show competitive penetration among larger customers in some jurisdictions, such as New York and Texas. However, at this point in time, it is premature to determine the extent of any benefit to these larger customers.

On the basis of the extensive information submitted by Dr. Rose, 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 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 3.2 million electricity customers in Virginia have the right to choose an alternative supplier of electricity.

As we reported last year, the right to choose has still not evolved into the ability to choose. While it is clear that the SCC, the utilities and the various stakeholders have effectively enabled retail access in Virginia, there remains 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 slightly below 1,600 residential customers and 20 small commercial customers in Dominion Virginia Power's ("Dominion" or "DVP") northern service area with an environmentally-friendly renewable power offer. This service is more expensive than DVP's price-to-compare and the number of customers taking such service has declined from last year's report. 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 groups coordinated by the Staff continue to assist the SCC and provide the foundation for retail access by examining many issues. The SCC appreciates the time and effort of the respondents that have participated with these work groups. The Commission has issued orders during the past year relating to topics such as the delay of default service, market price/wires charge determination, market-based costs, regional transmission organizations ("RTO"), and pilot programs within Dominion's territory.

Part III of the Report presents comments advanced by various stakeholders as means of facilitating effective competition in the Commonwealth. It also discusses the Commission's continued actions to implement the elements of the Restructuring Act and the 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 under an operational and independent regional transmission organization. Now that the Virginia utilities are integrated into PJM, time and experience will determine if such a marketplace

will indeed develop. 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

A&N	A&N Electric Cooperative
ACC	Arizona Corporation Commission
AEI	American Energy Institute
AEP	American Electric Power
AP	Allegheny Power
APCo	Appalachian Power Company
BARC	BARC Electric Cooperative
BGS	basic generation service
BHE	Bangor Hydro-electric Company
CBEC	Craig-Botetourt Electric Cooperative
CEC	Community Electric Cooperative
CEUR	Commission on Electric Utility Restructuring
CGV	Columbia Gas of Virginia
CSP	competitive service provider
CTC	competitive transition charge
CVEC	Central Virginia Electric Cooperative
DCPSC	District of Columbia Public Service Commission
DP&L	Delmarva Power & Light Company
DEPSC	Delaware Public Service Commission
DEQ	Department of Environmental Quality
DVP	Dominion Virginia Power
EDI	electronic data interchange
ESCO	energy service company
FERC	Federal Energy Regulatory Commission
FREDI	First Regional Electronic Data Interchange
ICAP	installed capacity market of PJM
ICC	Illinois Commerce Commission
IEEE	Institute for Electrical and Electronic Engineers
ICC	Illinois Commerce Commission
IURC	Indiana Utility Regulatory Commission
KU	Kentucky Utilities
kW	kilowatt
KPSC	Kentucky Public Service Commission
LDC	local distribution company
LMP	locational marginal price
MEC	Mecklenburg Electric Cooperative
MIPSC	Michigan Public Service Commission
MMU	Market Monitoring Unit of PJM
MDPSC	Maryland Public Service Commission
MW	megawatt
NAESB	North American Energy Standards Board
NARUC	National Association of Regulatory Utility Commissioners
NCUC	North Carolina Utilities Commission

NEM	National Energy Marketers Association
NJBPU	New Jersey Board of Public Utilities
NNEC	Northern Neck Electric Cooperative
NOPEC	North East Ohio Public Energy Council
NOPR	Notice of proposed rulemaking
NOVEC	Northern Virginia Electric Cooperative
ODCFUR	Old Dominion Committee for Fair Utility Rates
ODEC	Old Dominion Electric Cooperative
ODP	Old Dominion Power
PAPUC	Pennsylvania Public Utilities Commission
PES	Pepco Energy Services
PE	Potomac Edison
PGEC	Prince George Electric Cooperative
PJM	PJM Interconnection, LLC
POLR	provider of last resort
PUCO	Public Utilities Commission of Ohio
PUCT	Public Utility Commission of Texas
REC	Rappahannock Electric Cooperative
REP	retail electric provider
ROA	retail open access
RTE	regional transmission entity
RTO	regional transmission organization
S&P	Standard & Poor's Ratings Service
SCC	Virginia State Corporation Commission
SERC	Southeastern Reliability Council
SOS	standard offer service
SPP	Southwest Power Pool
SSEC	Southside Electric Cooperative
SVEC	Shenandoah Valley Electric Cooperative
T&D	transmission and distribution
UBP	Uniform Business Practices
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
VMDA	Virginia, Maryland, & Delaware Association of Electric Cooperatives
WGES	Washington Gas Energy Services
WGL	Washington Gas Light
WVPSC	West Virginia Public Service Commission