Status of Competition in the Commonwealth

One of the most significant activities related to competition in the Commonwealth's electric industry has been the retail access pilot programs. Attachment I at the end of this section is a detailed report on the pilot programs of Dominion Virginia Power ("DVP"), AEP-VA, and Rappahannock Electric Cooperative.

The pilots did not attract the hoped-for level of participation. Only Dominion Virginia Power had customers that switched to a competitive supplier. Currently, there are no competitive offers in any of the pilot programs.

Much has been learned from the pilots, however. Rules have been issued that guide the behavior of utilities and competitive providers. The customers of DVP that actually switched provided a test for the actions required and problems that may occur. Computer systems have been coordinated between the utilities and several of the licensed competitive suppliers. We now also have experience with the licensing process for competitive service providers ("CSPs") and aggregators.

All of the topics above are discussed in detail in Attachment I. Discussed below are other activities that have recently occurred or are on-going that are necessary for the development of an effective competitive market for retail electric services in Commonwealth.

<u>Phase-in Plans</u>

The Restructuring Act provides in § 56-577 A 2 that the phase-in to full retail electric choice will begin on January 1, 2002, and be completed by January 1, 2004. In the Fall of 2000, the Commission Staff met with interested parties to discuss phase-in schedules.

A common theme in the comments of CSPs was that the phase-in schedule should be as brief as possible. They would prefer all customers to be allowed to choose on January 1, 2002.

The CSPs claim that a large market is necessary to justify the expenditure of the marketing dollars necessary for entry. Therefore, the more rapidly a sizeable market is available for competitive activity, the sooner CSPs will consider making offers.

Some of the incumbent utilities had experience with retail choice in other states and were willing to open their entire service territories to competition on January 1, 2002. Dominion Virginia Power was reluctant to offer choice immediately to its more than two million customers. It preferred a two-year phased schedule whereby customers would be offered choice in three increments. Such a schedule would, the Company stated, alleviate concerns that its customer service centers would be overwhelmed by customer inquiry and assistance needs.

After our Staff issued a report with a proposed phase-in schedule for each Virginia electric utility, comments were received from interested parties and an oral argument was held. A final order was issued in the phase-in case, Case No. PUE000740, on March 30, 2001.

We ordered that on January 1, 2002, Conectiv (or Delmarva), Allegheny Power and AEP-VA open their entire service territories to retail choice, as those companies had requested. Also on that date, approximately one-third of DVP's customers will be allowed to choose alternative generation suppliers. Another third of DVP's customers will be allowed to choose on September 1, 2002, and the final third will have choice on January 1, 2003. The cooperatives and Kentucky Utilities have requested, and been granted, the full statutory period, i.e., until January 1, 2004, to make choice available to all of their customers. The smaller more rural markets served by these companies will be the last to attract marketers and, due to their lack of experience in pilots or other jurisdictions, these companies have more preparatory work ahead of them.

The Commission's phase-in schedule creates a large market segment available for competitive providers as soon as possible, while allowing for an orderly transition.

Rate Case/Cost Unbundling

All electric utilities except DVP were allowed by the Act to file a rate case before January 1, 2001, for capped rates that would be in effect until at least 2004 and possibly until 2007. No investor-owned utilities filed a rate case, but five electric cooperatives have done so. One of these cooperatives has since withdrawn its rate case. In July 2000, a Commission order was issued in Case No. PUA990054 detailing rate case rules. All electric utilities reduced their rates effective January 1, 2001, to reflect the state tax law changes eliminating gross receipts taxes in favor of consumption-based taxes to be paid by consumers.

Those utilities that did not file rate cases are expected to furnish cost information as part of their functional separation fillings. This cost information should enable the Commission to separate, or "unbundle", these utilities' rates into their generation, transmission and distribution components, as required by the Restructuring Act. Unbundled generation rates will be used to calculate "wires charges," i.e., surcharges paid to incumbent electric utilities by their customers who purchase generation from competitive suppliers. Wires charges serve as a mechanism for stranded cost recovery for Virginia's incumbent electric utilities during the transition to full retail electric access. Also, the utilities' new competitive tariffs will be reviewed for compliance with the Act and the new retail access rules, which were determined in Case No. PUE0100013. These cases must be completed by the end of this year in order to conform to the Commission's Order in Case No. PUE000740 establishing a phase-in schedule for retail choice in the service territories of Virginia's incumbent utilities.

Functional Separation

The Act requires in § 56-590 B 1 that the Commission direct the functional separation of generation, transmission and distribution of all incumbent electric utilities by January 1, 2002. Regulations guiding the filing of functional separation cases were issued by the Commission on October 19, 2000, in Case No. PUA000029.

Functional separation plans for Allegheny Power and Delmarva, resulting in the legal separation of these companies' generating assets, were negotiated between Staff, the Attorney General's Office and the companies in 2000, and ultimately approved by this Commission. Functional separation plans of the other three investor-owned utilities and the twelve electric cooperatives have been filed. Pursuant to § 56-590 of the Restructuring Act, Virginia's incumbent electric utilities must be functionally separated by January 1, 2002.

Metering and Billing

Section 56-581.1 E calls for the implementation of competitive metering services by licensed CSPs for industrial and large commercial customers by January 1, 2002, and residential and small commercial customers by January 1, 2003. The section also provides that upon the reasonable request of a distribution company, the Commission shall delay the implementation by one year. These requirements were added to the Restructuring Act by SB 1420, passed in the 2001 Session of the General Assembly.

A Commission order was issued on May 15, 2001, in Case No. PUE010298 directing our Staff to convene a work group to consider competitive metering issues. All investor-owned electric distribution companies were directed to file their intended schedule for implementation of competitive metering services. All of the investor-owned electric utilities supported a one-year delay of the provision dates for competitive metering and there was no opposition to that request.

Three work group meetings were held. In July 2001, Staff issued a report on competitive metering that the Commission is currently considering. Staff recommended that a phased approach should be used to implement competitive metering. The first stage would provide a range of options for customers regarding the availability and accessibility of meter data information, including the provision of meter data on a near real-time, on-command basis by January 1, 2003. Staff suggested that it submit a draft of proposed rules for the first stage by February 14, 2002, with assistance from the work group. The work group would then continue to examine the competitive metering market and make recommendations for subsequent phases of implementation. On August 3, 2001, we issued an Order requesting comments concerning (i) the Staff's July report, and (ii) the utilities' filings addressing their intended schedules for implementing competitive metering services. These comments have been filed.

As for billing services, our rules currently permit the distribution company to provide consolidated billing for both it and a CSP or for dual billing, whereby the distribution company and CSP each bill for their services.

Section 56-581.1 B states that effective January 1, 2003, licensed suppliers and aggregators may offer consolidated billing subject to conditions and regulations of the Commission. Upon application of a distributor or upon its own motion, the Commission may delay consolidated CSP billing, but no longer than one year.

A Commission order was issued May 15, 2001, in Case No. PUE010297 directing our Staff to form a work group to investigate consolidated CSP billing. The first meeting of that work group will be held soon. It is expected that proposed rules will be drafted by February of 2002.

Regional Transmission Entities ("RTEs")

In July 2000, the Commission issued an order in Case No. PUE990349 setting rules for the transfer of control and management of transmission assets to RTEs, pursuant to § 56-579. The investor-owned utilities have submitted their RTE plans to the Commission; the Cooperatives do not have to join an RTE since they do not own transmission lines, only distribution lines.

Since both Dominion Virginia Power, in Case No. PUE000551, and AEP-VA, in Case No. PUE000550, are members of the Alliance RTE, there were several joint issues related to their RTE filings. A hearing was scheduled to consider the joint issues and separate hearings were scheduled for the remaining issues of each company. The procedural schedule was delayed, however, at the request of both companies and the Commission Staff. Additional Federal Energy Regulatory Commission ("FERC") filings were to be made by the Alliance at the end of August addressing a number of issues the FERC has directed the Alliance companies to resolve through further compliance filings. The resolution of issues before FERC have a direct bearing upon the decisions to be made by this Commission.

Delmarva has filed a motion in Case No. PUE010353 requesting the Commission to find that its membership in the PJM Interconnection constitutes compliance with the Act.

Kentucky Utilities has requested a waiver from the RTE requirements due to its unique situation. It serves only about 29,000 customers in Virginia and it is not interconnected to any utility in Virginia. In addition there is little movement in Kentucky toward retail access. The Company is presently a member of the Midwest Independent System Operator.

Allegheny has filed for approval of its application in Case No. PUE000736 to transfer its assets to a proposed RTO to be known as PJM West. A recent FERC ruling, however, directing that several ISOs, including PJM, PJM West, the New York ISO, and the New England ISO, join in a common mediation to establish a single Northeast RTO, has thrown the PJM West RTO into question as a viable future entity. Thus, the status of Allegheny's application before this Commission is uncertain, pending the outcome of the Northeast RTO mediations before FERC.

PART I
ATTACHMENT I

SUMMARY OF ELECTRIC RETAIL ACCESS PILOT PROGRAMS IN VIRGINIA

Executive Summary

The primary purpose of this report is to present and discuss the three electric retail access pilot programs currently underway in Virginia and the activity of suppliers and customers in each. While this report addresses electric pilot program issues, attached as Appendix B is a brief history of the natural gas retail access programs in the Commonwealth of Virginia and analysis of certain issues that have arisen during those programs. Lessons learned from both the electric and the natural gas pilot programs will assist the State Corporation Commission ("Commission" or "SCC"), the utilities, competitive suppliers and customers as Virginia transitions to full retail access in both industries.

In March 1998, the Commission ordered Dominion Virginia Power ("DVP") and American Electric Power-Virginia ("AEP-VA") to implement pilot programs. In February 2000, Rappahannock Electric Cooperative ("Rappahannock") volunteered to implement a pilot program. The purposes of the pilot programs were to assist the Commission in introducing retail electric choice to utilities and customers in Virginia and to develop the systems and rules necessary for choice. The DVP and AEP-VA pilot programs began in the fall of 2000, and Rappahannock's pilot began in January 2001.

The SCC Staff ("Staff") played an active role in the implementation of the electric retail access pilot programs. The Staff participated in the forums hosted by the utilities for potential competitive suppliers and was active in several working groups with the utilities, consumer representatives and supplier representatives. The Staff monitors the pilot programs and is responsible for reviewing the licensing requests of competitive service providers ("CSPs" or "suppliers").

This report identifies the mechanics of each electric pilot program. All three pilots were designed to allow a limited number of customers to choose a competitive service provider, but customers in only the DVP pilot have received offers from CSPs. Thus, the only marketing and customer switching activity that has occurred and can be observed is in Dominion Virginia Power's pilot program. Suppliers have not made offers to customers in either of the other two pilots.

Currently, even in DVP's pilot, there are no offers available to customers and switching activity has ceased. A significant number of Dominion Virginia Power's eligible customers volunteered to participate in the choice program, yet DVP's quotas for most customer classes have not been met. The numbers indicate many customers want the opportunity to choose a supplier but lacked the incentives to switch during the pilot. Even when presented with the opportunity to save, relatively few customers concluded the savings were substantial enough to make the switch.

Although the supplier offers have been limited and customer participation has been low, it does not mean that the pilots, both gas and electric, have not served their purpose. Some aspects of the pilot programs have proven to be positive learning experiences and are identified below. Also below are situations that occurred during the pilot programs that cause Staff some concern, and these areas will need to be monitored going forward. While several key concerns emerged from incidents occurring in the gas pilot programs, Staff can foresee similar incidents occurring in the electric industry when supplier activity increases.

Positive aspects of the retail access pilot programs:

- *Switching activity* - Dominion Virginia Power and its customers learned how the switching process works and customers learned what actions they are required to perform to cancel an enrollment or switch to another supplier.
- *Information systems* - DVP had the opportunity to test its systems with suppliers and customers. Although AEP-VA and Rappahannock have not yet had the opportunity to test their systems through active customer enrollments, the framework is in place to move forward to retail access.
- *Customer Education* - Staff and the utilities gained experience in educating consumers about choice and identified some areas of education that need to be improved to alleviate customer confusion in the future.

Areas of concern:

- *Supplier default* - Over 3,000 gas customers were affected when four gas suppliers defaulted causing these customers to return to regulated gas service, preventing them from realizing the savings they anticipated receiving under their CSP contracts.
- *Variable rate, long-term fixed contracts* - During the natural gas pilots, Staff became aware of an increased number of variable rate, fixed-term contracts, as a result of price volatility. The potential exists for CSPs to lock consumers into long-term contracts with a low introductory rate, followed by rates that rise substantially over the term of the contract. Variable rate contracts were not offered in the electric retail pilot programs but certainly could be in the future. This is an area where customer education is critical to help customers make informed decisions.[1]
- *Concentration of customers served by incumbent utilities' affiliates* - All CSPs who actively participated in DVP's pilot program are affiliates of Virginia utilities. Two of the affiliates are Dominion companies. In the gas pilots, the two suppliers with the largest percentage of customers were a utility affiliate and a supplier that assumed the contracts of an affiliate.

[1] It should be noted that the accompanying report on the development of regional competitive markets also identifies monthly contracts as an emerging phenomenon in some states' retail choice electricity markets. In that report, for example, it is noted that in Pennsylvania, monthly contracts are accounting for most of the contracts offered since July 2000. This trend has been identified in New Jersey as well.

Background of the Electric Retail Access Pilot Programs in Virginia

On March 20, 1998, the SCC entered an order in Case No. PUE980138 establishing a proceeding that required various parties to perform certain activities and provide information to assist the Commission in investigating the introduction of retail competition to Virginia. This order required Dominion Virginia Power and American Electric Power-Virginia to each begin work directed toward the implementation of at least one retail access pilot program and study. In this order, the Commission encouraged other companies providing retail electric service in Virginia to propose retail access pilots in their service territories.

On December 3, 1998, the Commission established three separate proceedings, one each for DVP's (Case No. PUE980813) and AEP-VA's (Case No. PUE980914) retail pilot programs, and a separate proceeding to consider the adoption of interim rules to govern natural gas and electric pilot programs (Case No. PUE980812). A purpose of the pilot programs was to test the necessary systems and rules before the transition to full retail access.

On February 8, 2000, Rappahannock Electric Cooperative filed an application (Case No. PUE000088) volunteering to conduct a retail access pilot program.

The Commission ordered a work group to assist the Staff in developing interim pilot rules ("Interim Rules"). Following a hearing, the Interim Rules were issued on May 26, 2000. The Interim Rules addressed conduct for competitive service providers, standards of conduct among affiliates, and licensing procedures for CSPs and aggregators during the pilots.

The Staff recently led another work group (Case No. PUE010013) to review the Interim Rules and to propose final rules for retail access. A hearing was held on May 10, 2001, to consider certain issues that were addressed in the proposed rules, and a final order in this case was issued in June 2001.

Role of the SCC in the Implementation of the Retail Access Pilot Programs

The Commission Staff has been involved in a variety of efforts to implement the electric retail access pilot programs in Virginia. Staff assisted the process by speaking at supplier forums, monitoring lottery processes when customer classes were over-subscribed, reviewing education materials and programs and assisting in any other efforts when requested by utilities, suppliers and consumer groups. The utilities were required to provide a number of reports for monitoring purposes. The Staff monitors the pilot programs for customer activity, competitive service provider activity, and customer rescissions and complaints among other things. Customers are given ten days to rescind an enrollment with a CSP for any reason.[2]

Dominion Virginia Power's pilot program is the only program that has had active supplier participation. No customers have yet been provided an offer to switch in AEP-VA's or Rappahannock's pilot programs.

DVP filed an initial report on its pilot on February 15, 2001, and filed a semi-annual report on April 16, 2001. AEP-VA filed its first pilot report on May 18, 2001. Rappahannock filed its first pilot report on August 1, 2001.

[2] The rescission process is an anti-slamming mechanism where customers who may have been enrolled without their consent may respond to a letter sent by the utility and prevent the switch of their service from actually occurring.

During the development of the pilot programs, the utilities asked the Staff to participate in a Consumer Education Working Group ("CEWG") created to ensure consumers across the state were receiving consistent information about choice. The utilities recognized that while each pilot had its own utility-specific features, overlapping issues existed among all of the pilot programs. The CEWG developed standard terminology to use in consumer education material.

Another initiative the Staff has been involved in is the Virginia Electronic Data Transfer Working Group ("VAEDT"). In April 1999, the VAEDT was established and the Staff was invited to participate in the role of facilitator. The VAEDT was created to develop standards and guidelines for Electronic Data Interchange ("EDI"). EDI is a means for the utility and a CSP to communicate electronically. EDI involves the computer-to-computer exchange of business information. It includes information such as customer enrollment, usage and billing. All CSPs are required to use EDI to transact business with the utilities during the pilots. A CSP may negotiate with a utility to use some alternative to EDI on a temporary basis.

The VAEDT met every other week until June 2000, when it filed with the Commission its Virginia Plan, Implementation Guidelines and Data Dictionaries, and EDI Test Plan. During the pilots, Staff monitors EDI testing among trading partners. The VAEDT continues to meet to refine standards as experience is gained through the pilots and to prepare for full retail access.

Staff also participates in a regional effort that was recently formed to maintain uniform criteria for exchanging electronic information between electric utilities and CSPs. The regional effort will make it easier for CSPs to operate in multiple states by requiring fewer system changes and allowing them to reference a single document for EDI information.

Another important role of the SCC during the pilot programs has been the licensing of CSPs. CSPs are required to be licensed by the Commission in order to operate in the pilot programs in Virginia. Staff is responsible for accepting and reviewing the applications of CSPs and recommending to the Commission when a CSP should receive a license. Licensing is discussed later in this report.

Mechanics of the Pilot Programs

This section provides a general description of the electric retail access pilot programs of Dominion Virginia Power, American Electric Power-Virginia and Rappahannock Electric Cooperative. The following elements of each pilot program are described: size, eligibility and selection, flexibility to withdraw from pilot or switch suppliers, billing and metering. The pilots are presented in the order the Commission approved them.

Pilot Description: Dominion Virginia Power

<u>Size</u>

There are two phases of Dominion Virginia Power's *Project Current Choice* pilot program, each phase consisting of Plan A and Plan B customers. Plan A customers include residential, small (GS-1) and intermediate businesses (GS-2) and worship sites. Plan A eligibility is limited to each phase's geographic area of choice ("GAC").

Plan B eligibility includes all large commercial and industrial customers in the Company's service territory whose demand is greater than 500 kW and who are served at secondary voltage (GS-3) and primary voltage (GS-4). For Plan B customers, there is a limit of 270,000,000 kWh available for GS-3 customers, and 240,000,000 kWh for GS-4. Participation by large commercial and industrial customers is by individual account and is based on the usage of each account. Each GS-3 account is limited to an annual maximum usage of 30,000,000 kWh. Each GS-4 account is limited to an annual maximum usage of 40,000,000 kWh. Participating accounts were selected via a lottery and those accounts not selected were placed on a waiting list in the order of their lottery number.

Phase I of the pilot program began in Central Virginia in late May 2000, but to allow time for DVP to comply with the Interim Rules and conduct EDI testing with CSPs, energy flow from CSPs was not permitted until after September 1, 2000. Additionally, little CSP activity was anticipated during the summer months. The Central Virginia GAC includes the City of Richmond, the counties of Chesterfield, Hanover, Henrico, and the town of Ashland. In total, 343,917 customers in the Central Virginia GAC were eligible to volunteer to participate in *Project Current Choice* at the beginning of Phase I. Phase I Central Virginia Plan A participation is open to 33,000 residential customers, 2,100 GS-1 customers, 450 GS-2 customers, and 30 worship sites.

Phase II of *Project Current Choice* is located in Northern Virginia and includes Fairfax County, the city of Fairfax, and the towns of Clifton, Herndon and Vienna. Energy flow from CSPs could begin in the Phase II GAC on January 1, 2001. At the beginning of Phase II, a total of 339,674 customers in the Northern Virginia GAC were eligible to volunteer to participate. For Plan B, 852 GS-3 and 111 GS-4 customers volunteered to participate. Phase II is open to the same number of customers in each class as allowed in Phase I, doubling the size of the pilot.

Flexibility to Withdraw from Pilot Program or Switch Suppliers

Dominion Virginia Power's pilot allows customers to switch suppliers every month. Plan A customers are allowed as much time as they need to choose another supplier. A customer who decides at any time to withdraw from the pilot program, is no longer eligible to shop for the duration of the pilot. Plan B customers have 15 days to select a new supplier if they drop a CSP or are dropped by a supplier. If a new supplier is not selected within that time, the customer is removed from the pilot and the position is given to the next customer on the waiting list.

Billing

Dominion Virginia Power renders a consolidated bill for its charges and supplier charges during the pilot program. Pilot customers billed under Pilot Schedules PGS-3 and PGS-4 have the option of receiving dual bills where DVP sends a bill for the local distribution company charges and the CSP renders a separate bill for its charges.

Metering

Competitive metering is not available in Dominion Virginia Power's pilot program. A customer in the pilot may choose to use the standard meter or pay additional costs to have more advanced metering capabilities installed by DVP. DVP will own all meters used during the pilot program for billing the customer and is responsible for the installation, maintenance and removal of all meters.

Pilot Description: American Electric Power-Virginia

Size

AEP-VA launched its pilot program in two phases. Phase 1 began October 1, 2000, with approximately 22,000 residential customers given the opportunity to choose their provider of electricity. Phase 2 began March 1, 2001, doubling the size of the pilot program to include another 22,000 customers. The first phase of AEP-VA's pilot involves potentially approximately 125 megawatts of electricity, or five percent of AEP's total load in Virginia. The second phase doubles the size to 250 megawatts or ten percent of total load. Class participation for the pilot program is allocated proportionally based upon the total number of kWh for each class.

Eligibility and Selection Process

All of AEP-VA's approximately 471,000 residential, commercial and industrial customers are eligible to volunteer to participate in the pilot program. Actual participation is limited as described above. If the number of volunteers in a customer class exceeds the available slots, a lottery is used to determine who participates. Pilot program enrollment for residential and small commercial customers is determined based on the maximum amount of kWh that actually enrolls with a CSP. AEP-VA's pilot is undersubscribed in all customer classes but the industrial class. A lottery was used to determine which industrial customers were eligible to shop.

Flexibility to Withdraw from the Pilot Program or Switch Suppliers

For the pilot program, customers may choose a new supplier once every six months. A customer may return to AEP standard service at any time, but must stay with that service for 12 months.

Billing

If offered by a supplier, a customer can elect to receive a single consolidated bill from either the competitive service provider or AEP-VA, or separate bills from each, otherwise, the customer will receive a consolidated bill from AEP-VA.

Metering

Six months after the start of the AEP-VA's pilot program, CSPs have the opportunity to offer competitive metering services. Competitive metering services may include installing, testing and maintaining meters, meter reading and associated data processing.

Pilot Description: Rappahannock Electric Cooperative

Size

Approximately 900 Rappahannock customers were given the opportunity to shop for a supplier beginning January 1, 2001. Of these 900 slots, 875 are for residential customers, 15-20 for small commercial, and 1-10 for large commercial and industrial customers. Participation for small commercial customers is limited to .4 megawatts. Participation for large commercial and industrial customers is 1.1 megawatts.

Eligibility and Selection Process

Rappahannock randomly selected 2000 residential customers to receive information about the opportunity to volunteer for the pilot. One hundred small commercial customers and 119 large commercial and industrial customers were invited to participate.

Flexibility to Withdraw from the Pilot Program or to Switch Suppliers

Customers choosing a competitive service provider are allowed to change providers as often as every 60 days. A customer is allowed to return to Rappahannock at any time, but may no longer participate in the pilot.

Billing

Rappahannock renders the bill for both the local distribution company's charges and the supplier's generation charges, including any transmission charges that apply.

Metering

Competitive metering was not proposed for Rappahannock's pilot program.

Rates and Projected Market Prices

All electric utilities except Dominion Virginia Power were allowed by the Restructuring Act to file a rate case before January 1, 2001, for rates that would be in effect until at least 2004 and possibly until July 2007. No investor-owned utilities filed a rate case, but five electric cooperatives did. In July 2000, a Commission order was issued detailing rate case rules (PUA990054). All electric utilities reduced rates effective January 1, 2001, to reflect the state tax law changes.

Those utilities that did not file rate cases will, as part of their functional separation filings, furnish cost information enabling the Commission to separate, or "unbundle" these utilities' rates into their generation and other functional components. Unbundled generation rates will be used to calculate "wires charges," i.e.; surcharges paid to incumbent electric utilities by their customers who purchase generation from competitive suppliers. Wires charges serve as a mechanism for stranded cost recovery for Virginia's incumbent electric utilities during the transition to full retail access.

The SCC established the projected market price for generation for customers in each pilot area following the approval of each of the pilot programs. The projected market price for DVP's residential customers is 5.117¢/kWh, and customers who choose an alternative supplier during DVP's pilot are subject to a wires charge.

In the case of AEP-VA, the projected average market price is higher than the company's current average cost of generating electricity for its own customers; therefore, its wires charge is zero. For eligible residential customers, the projected market price is 4.45¢/kWh.

The SCC calculated a projected average market price for each class of customers in Rappahannock's pilot. For residential customers, the projected average market price is 4.766¢/kWh. The price for small commercial customers is 4.363¢/kWh, and for large industrial customers the price is 3.684¢/kWh. During the pilot, Rappahannock customers who switch to an alternative provider pay a wires charge.

When the pilot programs end and retail choice becomes available statewide, the Commission will establish new projected market prices.

Education Efforts

Pilot program education conducted by the utilities needed to address three audiences. The utilities conducted supplier forums designed to educate potential suppliers on how each of their pilots programs would operate. The utilities educated their employees to answer customers' questions and also be able to make informed choices for themselves when considering a competitive service provider. But the most extensive part of the education process for all utilities is the consumer education portion.

Consumer education and outreach is the most expensive part of the education effort and is on-going throughout the pilot and beyond.

Supplier Forums

DVP, AEP-VA, and Rappahannock each hosted supplier forums prior to the start of their respective pilots. SCC Staff participated in each of the companies' supplier training forums. DVP hosted two supplier training sessions while AEP-VA and Rappahannock each had one. DVP's and AEP-VA's forums were well attended by suppliers, but Rappahannock had only two potential suppliers attend its forum.

Employee Education

DVP, AEP-VA, and Rappahannock each had an internal communication program to educate employees about their respective pilot programs. Each utility made use of many of the same communication tools such as published and electronic newsletters, employee newspaper, electronic news displayed on television monitors, personal letters from senior executives, the company's intranet and internet, and face-to-face meetings to educate its employees about its pilot program. Job-specific training was provided to "front-line" employees that interact most frequently with customers.

Customer Education/Outreach

Staff actively participated with Dominion Virginia Power, AEP-VA and the cooperatives on the Customer Education Working Group and in the development of the Consumer Education Plan that was filed as an attachment in each of the companies' pilot program applications. Staff also hosted the CEWG stakeholder workshop at the Commission seeking response and input from numerous and varied interested parties. Staff's input and feedback from various parties was incorporated into the final Consumer

Education Plan. This Plan served as the starting point for each utility's pilot education efforts.

All three companies used similar tools to educate their customers. The following lists demonstrate the amount of effort and the number of communication methods employed to try to reach the greatest number of customers.

Dominion Virginia Power used the following external communication devices:

- Newspaper advertising
- Television advertising
- Radio advertising, including radio spots, traffic report sponsorship and public radio sponsorship
- Internet banner advertising
- Web site
- Movie screen advertising
- Billboard advertising
- Bus cards
- Metro rail cards
- Direct mail
- Bill inserts
- Interviews with newspaper, television, radio, magazine and trade publication reporters

AEP-VA used the following customer education tools:

- Bill inserts
- Bill messages
- Newspaper advertising
- Direct mail
- External public relations
- Web site
- Grass roots outreach and partnering
- "How to Shop" packets

Rappahannock used the following communication methods:

- Local newspaper
- Web site
- *Cooperative Living* (the monthly cooperative magazine)

- Bill insert
- Bill messages
- Public events
- Customer information pack

According to Dominion Virginia Power's first semi-annual report on *Project Current Choice*, the company has received numerous requests from radio and television reporters for interviews concerning *Project Current Choice*. Company representatives have also spoken at many clubs and organizations about its pilot program and restructuring. DVP believes these requests are a good indication of the heightened awareness of energy choice in Virginia and that its education efforts have been effective.

Suppliers/Aggregators

Licensing

As mentioned previously in this report, the Commission is responsible for licensing suppliers and aggregators interested in participating in the retail access pilot programs in Virginia. Staff has established an efficient mechanism for processing license applications. Staff has an internal deadline of 45 days from the receipt of a complete application to the issuance of a license. Thus far, that deadline has been met. To date, the Commission has issued a total of twenty-seven licenses to electric and natural gas CSPs and aggregators. Of those CSPs, sixteen are licensed to provide electric service or aggregation. Two natural gas CSPs and one gas aggregator have had their licenses revoked by the SCC. Additionally, one aggregator has gone out of business. A list of suppliers can be found in Appendix A of this report**.** To facilitate prompt processing of license requests, the SCC web site provides access to the licensing requirements and contains a sample license application form.

Supplier Registration

In order to participate in the pilot programs, a CSP must also complete a registration process with the respective utilities. EDI testing between the CSP and the utility is required as part of the registration process. The testing must be completed before a supplier can begin enrolling customers.

According to DVP's semi-annual report filed with the SCC on April 16, 2001, the following seven CSPs had completed registration with DVP as of February 28, 2001:

- AEP Retail
- Allegheny Energy Supply Company
- Dominion Energy Direct Sales
- Dominion Retail, Inc.
- DTE Energy Marketing, Inc.
- Pepco Energy Services
- Washington Gas Energy Services

The following three suppliers have pending registrations with DVP:

- Cooperative Energy (not yet licensed by the SCC)
- Old Mill Power Company
- SmartEnergy.com

Although most CSPs applied for a license to participate in all of the electric pilots, Dominion Virginia Power's *Project Current Choice* is the only pilot program that has had active CSP participation. The following four suppliers, all of which are sister subsidiaries of Virginia utilities, have been active in *Project Current Choice*:

- Dominion Retail, Inc.
- Dominion Energy Direct Sales
- Washington Gas Energy Services
- AEP Retail Energy

Four CSPs, Allegheny Energy Supply, Dominion Energy Direct Sales, SmartEnergy.com and Old Mill Power, have initiated registration with AEP-VA.

Allegheny Energy Supply has completed registration and EDI testing for dual billing, but is not currently marketing to customers in AEP-VA's pilot program. Old Mill Power has completed EDI testing with AEP but has not completed the rest of the registration process.

One CSP, Old Mill Power, has a pending registration with Rappahannock and has completed EDI testing with the cooperative.

Marketing

The only marketing activity that has taken place thus far is in Dominion Virginia Power's *Project Current Choice*. Four suppliers have marketed to and enrolled customers in DVP's pilot. This section of the report describes the various offers made to residential customers and the tools CSPs used to present those offers.

In September 2000, Dominion Retail, Inc. mailed an offer to Phase I residential pilot customers with a guaranteed fixed price of 4.35¢ per kWh, for electricity through December 31, 2001. The offer was available to the first 20,000 customers to sign up by October 12, 2000. A customer may cancel anytime without penalty and has no minimum usage or deposit requirements. Additionally, there are no fixed services charges or cancellation or late payment fees. After December 31, 2001, the supplier may cancel or change its terms anytime upon thirty days' notice.

After the original cutoff date, Dominion Retail extended an offer at a fixed price of 4.61¢ per kWh. The second offer remained available until December 2000.

Washington Gas Energy Services ("WGES") also made an offer to Phase I residential customers. WGES guaranteed a winter rate of 4.07¢ per kWh through May 2001. WGES's offer had the following terms:

- Electric power supply services includes all electric generation and transmission charges.
- Offer available to pilot customers who enrolled with WGES no later than October 15, 2000.
- Supplier charges will be included on the customer's utility bill.
- Late payments subject to a late payment charge of 1% per month.
- If WGES chooses to renew the customer agreement, it will provide 45 days notice of the new terms and conditions for the renewal term.
- The agreement may be terminated by WGES for any reason on 30 days' notice.
- The customer may cancel the agreement in writing but will be subject to a $25 termination fee.

In addition to sending direct mail, WGES conducted a door-to-door campaign in the Richmond area. As a result of this campaign, DVP received a large number of customer complaints about WGES' s sales tactics. The complaints will be discussed later in the Customer Issues section of this report. WGES extended its original offer at a higher price of 4.20¢ per kWh available through November 2000, but did not make an offer available to Phase II customers.

In Phase II of *Project Current Choice*, Dominion Retail, Inc. offered a fixed price of 4.97¢ per kWh through December 2001. This offer was limited to the first 10,000 residential customers who signed up by January 20, 2001. The terms and conditions of the Phase II offer were consistent with the supplier's original offer in Phase I. The Staff is not aware of any subsequent offers by Dominion Retail.

In November 2000, AEP Retail Energy offered DVP's pilot volunteers a guaranteed fixed price of 5.3¢ per kWh for all electricity used through December 31, 2001. AEP Retail solicited customers using direct mail, newspaper advertising and telemarketing. The offer was for 100% renewable fuel power featuring waste wood from timber operations or wood processing plants. AEP Retail's offer was available to the first 1,000 customers to enroll and the supplier would make a $25 donation to the

Foundation for Environmental Education for each customer. The donations will be used to install a solar panels learning lab at the Learning From Light project school to educate Virginia's children about the value of renewable energy. AEP Retail Energy's offer is the only "unique" offer made so far during the pilot and the price offered is higher than what customers would pay if they remained with the utility. Customers would pay around 10 cents extra per day if they signed up with AEP Retail.

Dominion Energy Direct Sales ("DEDS") and WGES enrolled non-residential customers during Phase I of the pilot. DEDS also solicited and enrolled non-residential customers for Phase II. Staff is not aware of the details of offers made to commercial customers.

In recent months, AEP Retail's offer was the only one available to residential customers. WGES informed both customers and DVP that it did not intend to extend its offer beyond May 2001. WGES dropped its residential and commercial customers effective on each customer's May 2001 electric bill. Staff received notice from AEP Retail that effective April 27, 2001, its offer would no longer be available to customers. AEP Retail was close to reaching the 1,000 limited spaces and informed the Staff that it did not intend to continue taking enrollments for new customers.

With a few months remaining in the pilot programs, residential customers in Virginia currently have no choices available to them. Additionally, based on the lack of switching activity among commercial customers, it appears that DEDS is no longer actively enrolling commercial customers.

Customer Issues

The SCC established an energy choice hotline that began receiving calls in July 2000. From July 2000 through May 2001, the hotline has received 1,357 calls with inquiries, concerns and complaints about energy choice and the pilots. The majority of the calls to the hotline have been requests for general information and a list of suppliers. A few complaints have been received with most concerning confusion about the distribution charge and disappointment over the lack of suppliers actually serving customers. The confusion issue can be minimized with additional and improved customer education.

In its semi-annual report, Dominion Virginia Power provided the following breakdown by categories of the calls it has received for the months of June 2000 through February 2001.

Categories	Number of Calls
Pilot Complaints	178
Rescission – Other	1189
Supplier Complaint	83
Slamming	76
Supplier Referral	618
Billing Inquiries	1196
Total	**3340**

Dominion Virginia Power received numerous complaints regarding WGES for using what some customers considered to be “strong arm tactics” when it marketed door-to-door in the Central Virginia GAC. Some customers felt pressured to sign-up to enroll with WGES, and some customers were confused about what they were signing. In some instances, WGES’s salespeople were accused of blatantly misrepresenting themselves and leading customers to believe they represented DVP. The Commission received six or seven complaints about WGES and was contacted by DVP about the problem. The Staff contacted WGES and expressed its concern and was told by a representative of WGES that the door-to-door sales campaign was conducted by contractors and had ended. WGES assured the Staff that the problem would not occur again. WGES discontinued marketing altogether at that time.

In reviewing the list of calls provided by DVP, Staff observed a number of calls where customers called to rescind an enrollment because they were confused and thought that when they signed an enrollment with Dominion Retail they were signing up to stay with Dominion Virginia Power. There was obvious confusion between the affiliate's name and logo and Dominion Virginia Power's name and logo. Virginia Power's name was changed to Dominion Virginia Power at about the same time the company was promoting the pilot program. Customers rescinded enrollments or withdrew from the pilot program for many other reasons including too much information and too confusing, that they were satisfied to remain with Dominion Virginia Power, or that they believed they were not going to see a significant amount of savings. Some customers did not realize they would still incur charges from the utility for distribution. One would think that any amount of savings would be a positive thing if it costs the customer nothing to switch, but based on the explanations logged by the call center at DVP, some customers changed their minds about switching because they believed they would not save "enough" money.

AEP-VA is also tracking the types of questions it receives from customers. The company has seen an increase in the number of calls regarding the unavailability of CSPs in AEP-VA's territory. Customers want to know why there are no providers marketing in

Virginia. Other calls include requests for information and explanations about the pilot program and retail access, inquiries about eligibility and switching, complaints about deregulation and concerns over what is happening in California.

Rappahannock reported minimal call center activity from January through June.

Customer Participation

The following tables contain the number of volunteers, the number of available slots, and the number of switches to a supplier for each pilot program. The information is shown for each class of customer.

Dominion Virginia Power
Data below is as of July 19, 2001:

Class	**Volunteers**	**Switches ****	
Residential	71217 of 66000 slots	21535	
Church	73 for 60 slots	0	
GS1	8009 for 4200 slots	1900	
GS2	2109 for 900 slots	399	
	Available VA kWh	**Volunteers**	**Switched**
GS3	270,000,000	845	4
GS4	240,000,000	110	2

** In February 2001, the number of customers enrolled with a CSP reached close to 31,000. The numbers above reflect the return of WGES customers to DVP as well as customers returning to DVP by choice.

American Electric Power-Virginia
Data below as of April 30, 2001:

Class	**Volunteers**	**Accounts Switched**
Res/Sm Comm	16690	0
Sanctuary worship	24	0
Total Res/Sm comm	**16714**	**0**
Commercial	272 for 143 slots	0
Sanctuary worship	6 for 2 slots	0
Total Commercial	**278 for 145 slots**	**0**
Industrial	**40 for 23 slots (lottery)**	**0**

Rappahannock Electric Cooperative

Data below is as of March 16, 2001

Class	**Volunteers**	**Switches**	**Solicited to Participate**
Residential	93 of 875 slots	0	2000
Sm. Comm.	5 for 15-20 slots	0	100
Lg. Comm. & Ind.	30 for 1-10	0	119

As mentioned earlier in this report and as reflected in the tables above, the only supplier activity in the pilot programs thus far has been in DVP's *Project Current Choice* program and that activity has ended with the recent withdrawal of AEP Retail Energy's offer. No aggregators have actively participated in the pilot programs. Suppliers have indicated to Staff that they will be more willing to market in Virginia when the entire state is available for choice. Many suppliers indicated that the pilots were too small for competitive supply to be profitable. With the accelerated phase-in schedule recently approved, it will be interesting to see how many of those suppliers will enter the Virginia market.

Lessons Learned

Although the level of participation by suppliers during the pilot programs has been disappointing, it is not surprising. Unlike utility rates in most other states where choice is available, electric utility rates in Virginia are relatively low. Unfortunately, CSPs could offer residential customers very little savings over what they are currently paying their local electric utility.

The pilots have been helpful for utilities and the Commission to understand and develop the technical procedures needed to accommodate retail access. Large customers are receptive to selecting an alternative service provider. Residential customers are not as eager to switch providers. Dominion Virginia Power has gained the most experience from its pilot in the procedures for implementing retail access. AEP-VA and Rappahannock have gained useful experience in the EDI testing procedures, and since no suppliers were rushing to get through the testing, the utilities have had the luxury of time to work through technical problems as they have occurred.

The need for customer education and awareness is of utmost importance. Based on calls to the SCC's energy hotline and the utilities' call centers, some customers are still confused and unaware that they are responsible for paying distribution charges. The utilities and the Commission can use the information obtained through the call centers to develop future education efforts with the goal of minimizing customer confusion in the future.

A review of the offers made during the pilots suggests that most of the active suppliers were willing to make below-cost offers. The suppliers may have agreed to these terms to gain experience, to establish a toehold in the marketplace, or to establish name recognition rather than to make profits. Interestingly, the names of the CSPs were already somewhat known in Virginia because all four active suppliers were affiliates of investor-owned utilities in Virginia. As stated previously in this report, the names of the CSPs were a source of confusion for some customers.

It is difficult to say with certainty that price was the motivating factor for customers to switch even though that is probably a fair assumption. Close to 1,000 customers chose AEP Retail's "premium" offer where they could pay up to 10¢ extra per day for electricity generated by renewable resources. It may be important to note that AEP Retail's offer was available at a time when no other offers were available.

Some customers may have switched just to exercise their options for choice. Staff may gain some insight into the "switching for the sake of switching" idea with the help of AEP Retail. The CSP has offered to compile information from its call center and share it with Staff. With its offer recently closed, the supplier intends to question customers who call about their decision to attempt to enroll with AEP Retail. The supplier hopes to gain insight into why a customer chooses the renewable alternative.

Have the pilots been a success? By some, but not all measures, the answer is yes. A number of customers have had the opportunity to choose an alternative provider and can continue to save money through the end of the pilot. The fact that suppliers are not marketing or even pursuing registration with the utilities is disappointing. Customers are frustrated that they were told they would be able to shop for a supplier and then after calling through a list of several electric suppliers or aggregators find no one making any offers. Dominion Virginia Power's quotas for most customer classes have not yet been filled. However, if any utility or any customer learned anything about choice or how to implement it, the pilots have been a positive step toward full retail access. The date for full retail access is quickly approaching, and the pilots are serving their primary practical purpose to test the necessary systems and rules before the transition to full retail access.

APPENDIX A

STATUS OF APPLICATIONS FOR COMPETITIVE SERVICE PROVIDER/AGGREGATOR LICENSURE

Status of Applications for Competitive Service Provider/Aggregator Licensure (Updated August 17, 2001)

Status/ Date Licensed	**Company Name**	**LDC Pilot Programs** **VP=Virginia** AEP-VA=AEP Virginia REC=Rappahannock Elec. Coop. WGL=Washington Gas CGV=Columbia Gas of VA	**Customer Class(es)** R=Residential C=Commercial I=Industrial	**Services Provided**
Natural Gas - 08/03/00 Elec. & Agg. - 08/23/00	Pepco Energy Services	WGL, CGV, VP, AEP-VA, REC	R, C, I	Natural gas, electric and aggregation
08/23/00	Dominion Retail, Inc.	VP	R, C	Electric
07/09/01 Amendment	Dominion Retail, Inc	VP, AEP-VA, WGL, CGV, REC	R, C, I	Electric, natural gas and aggregation **AMENDMENT**
08/24/00	DTE Energy Marketing, Inc.	VP, AEP-VA	C, I	Electric
8/31/2000	Washington Gas Energy Svcs	WGL, CGV, VP, AEP-VA,	R, C, I	Electric & natural gas
9/7/2000	Dominion Energy Direct Sales	WGL, CGV, VP, AEP-VA, REC	C, I	Electric & natural gas
09/18/00	EnergyWindow, Inc.	VP, REC, AEP-VA	R, C, I	Aggregation
09/22/00	Allegheny Energy Supply Co.	AEP-VA, VP	R, C, I	Electric
09/28/00	The New Power Company	WGL, CGV	R, C	Natural gas and Aggregation
08/16/01	The New Power Company	VP	R, C	Electric and Aggregation **AMENDMENT**
10/06/00	essential.com, Inc.	WGL, CGV, VP, AEP-VA , REC	R, C	Electric & natural gas
10/06/00	SmartEnergy, Inc.	VP, REC, AEP-VA, CGV, WGL	R, C	Electric, natural gas and aggregation
10/18/00	Amerada Hess Corporation	WGL, CGV, VP, AEP-VA, REC	C, I	Electric, natural gas and aggregation
10/27/00	Old Dominion Electric Coop. d/b/a Cooperative Energy	WGL, CGV	R, C, I	Natural gas
11/09/00	Energy Svcs Mgmt Va LLC, d/b/a Virginia Energy Consortium	VP, REC, AEP-VA	R, C, I	Aggregation
11/09/00 Lic. Revoked eff. 1/1/01	United Energy of Virginia, Inc.	WGL, CGV	R, C, I	Natural gas
11/14/00	AEP Retail Energy	VP, REC	R, C, I	Electric
		LDC Pilot Programs **VP=Virginia**		

Status/ Date Licensed	Company Name	AEP-VA=AEP Virginia REC=Rappahannock Elec. Coop. WGL=Washington Gas CGV=Columbia Gas of VA	**Customer Class(es)** R=Residential C=Commercial I=Industrial	Services Provided
11/28/00 Lic. Revoked eff. 7/17/01	OnlineChoice.com	WGL, CGV, VP, AEP-VA, REC	R, C	Aggregation
11/30/00	Bollinger Energy Corporation	WGL, CGV	C, I	Natural gas
11/30/00 Lic. Revoked eff. 5/4/01	PowerTrust Energy Svcs, Inc.	WGL, CGV	R, C	Natural gas and Aggregation
11/30/00 Lic. Revoked eff. 5/4/01	PowerTrust.com, Inc.	WGL, CGV	R, C	Aggregation
11/30/00	Enron Energy Marketing Corp.	WGL, CGV	R, C	Natural gas
11/30/00	Enron Energy Services, Inc.	WGL	C, I	Natural gas
12/20/00	Tiger Natural Gas, Inc.	WGL, CGV	R, C, I	Natural gas
12/22/00	America's Energy Alliance, Inc	WGL, CGV, VP, AEP-VA, REC	R, C	Electric, natural gas and aggregation
02/05/01	BGE Commercial Bldg Systems Inc	WGL	C	Natural gas
02/20/01	Titan Energy of Chesapeake, Inc. c/o AES Energy Svcs	WGL, CGV	R, C, I	Natural gas
04/18/01	Old Mill Power Company	VP, AEP-VA, REC, CGV, WGL	R, C, I	Electric, natural gas and aggregation
Pending	Old Dominion Electric Coop. d/b/a Cooperative Energy	VP, AEP-VA, REC	R, C, I	Electric
Pending	UGI Energy Services, Inc.	WGL, CGV, VP, AEP-VA, REC	C, I	Electric, natural gas and aggregation
Pending	Energy Svcs Mgmt Va LLC, d/b/a Virginia Energy Consortium	WGL, CGV	C, I	Aggregation
Pending	Metromedia Energy, Inc.	WGL, VP	C, I	Electric and natural Gas
Pending	Cook Inlet Power, LP *	VP, REC, AEP-VA	C, I	Electric
Pending	ACN Energy, Inc.	WGL	R	Natural gas
Pending	AOBA Alliance, Inc. *	VP, AEP-VA, WGL, CGV	C	Aggregation

* Application for full retail access

APPENDIX B

SUMMARY OF NATURAL GAS RETAIL ACCESS PROGRAMS IN VIRGINIA

Summary of Natural Gas Retail Access Programs in Virginia

This section of the report provides a brief history of the natural gas retail access programs in the Commonwealth of Virginia and analysis of certain issues that have arisen during these programs. Large natural gas customers in the Commonwealth have been allowed to arrange for their own supply and transportation of gas for more than ten years. But in 1997, natural gas retail access became available on a limited basis through two retail access pilot programs, one in the service territory of Washington Gas Light ("WGL") and the other in the territory of Columbia Gas of Virginia ("CGV"). This report does not propose to provide a detailed look at the individual dynamics of each program, but rather attempts to highlight the developmental stages of each program.

WGL's Retail Access Program

The Commission initially approved WGL's retail access pilot program in Case No. PUE971024 by Final Order dated June 18, 1998. The two-year pilot program was scheduled to begin on or about October 1, 1998. As approved, all WGL's customers were eligible to choose a competitive service provider ("CSP") with up to ten percent of WGL's customers actually allowed to switch to a CSP in the first year and up to 20 percent in the second year.

Natural gas deliveries under the program began on January 1, 1999. By October 1, 1999, one year after the effective date of the program, approximately 17,000 residential customers and 3,500 non-residential customers were receiving service from CSPs. One year later those numbers had increased to approximately 38,600 residential customers and 5,100 non-residential customers. This past winter, due largely to volatile prices in the natural gas market, enrollments dropped and as of March 30, 2001, the conclusion of the pilot program, approximately 31,600 residential customers and 4,350 non-residential customers were receiving service from a CSP.

On September 11, 2000, WGL applied for approval to end the pilot program and implement full retail access throughout its Virginia territory and the territory of its Shenandoah Gas Division. In its proposal, WGL requested permission to phase in retail access for all its customers over a two-year period. The Commission approved the application with certain modifications. Among the modifications was a shortened phase-in period that allowed retail access to all WGL's non-residential customers and to 50 percent of its residential customers (approximately 150,000) effective April 1, 2001. The remaining WGL residential customers will be eligible to choose a CSP effective January 1, 2002. Additionally, all Shenandoah Gas customers, both residential and non-residential, were eligible to choose a CSP effective April 1, 2001.

As of May 1, 2001, WGL's program had eleven active CSPs serving approximately 4,400 non-residential customers and five active CSPs serving approximately 37,000 residential customers. Cumulatively, these accounts represent approximately 32 percent of the natural gas consumed in WGL's service territory and include those customers who switched to a CSP during the pilot program. It is important to note however, that WGL's unregulated affiliate, WGES, is serving approximately 85 percent of non-residential customers and approximately 80 percent of residential customers. In total only approximately eight percent of the customers are being served by a CSP not affiliated with a Virginia utility.

CGV's Retail Access Program

The Commission approved CGV's retail access pilot program in Case No. PUE970455 by Final Order dated September 30, 1997. The two-year program began October 1, 1997, and served as the first retail access program in the Commonwealth. As approved, the program was limited geographically to CGV customers in Prince William, Fauquier, Culpeper, and Fairfax counties. Within that area, all of the approximately 26,500 customers were eligible to enroll and switch to a CSP. On August 24, 1999, the Commission granted an extension of the program from October 1, 1999 to October 1, 2000. A second extension was granted on September 18, 2000 in Case No. PUE000284, allowing the program to continue until the Commission approves a permanent program or October 1, 2001, whichever comes first. The company recently requested another extension of the pilot program, but has not yet filed an application requesting approval of a permanent program.

As of May 1, 2001, 37,900 customers were eligible to participate in CGV's program. Six CSPs are providing service to approximately 430 non-residential customers and four CSPs are providing service to approximately 5,600 residential customers, which represents approximately 16 percent of the eligible customer base. Of the six CSPs serving customers, four enrolled new customers to begin service effective with their June 2001 meter reading. Cumulatively these accounts represent approximately 16 percent of the natural gas consumed in CGV's service territory. Approximately 84 percent of these customers are served by an affiliate of a Virginia utility.

Natural Gas Retail Supply Issues

Several general issues relative to the natural gas retail access programs warrant discussion. Prior to addressing those issues, it is important to note that the Division of Energy Regulation has received relatively few complaints regarding the natural gas choice process. Certainly, complaints have been received relative to alleged or actual transgressions of a few CSPs and utility companies, however it is important to distinguish between complaints relative to specific issues and concerns with the overall process. That being stated, two issues in particular deserve mention — supplier defaults and level of customer switching activity.

Competitive Service Provider Default

The volatility in natural gas prices this winter had a dramatic affect not only on the regulated utilities, but also on the natural gas CSPs. In most cases CSPs enrolled customers for one or two year fixed-price contracts, and depending on when the contracts were signed, the fixed price was as low $3.20 per MCF. As has been well documented, wholesale natural gas prices eclipsed $10.00 per MCF during this last winter. While the utilities, by law, were allowed to recover prudently incurred costs from their customers, the CSPs were left with the option of either honoring their contractual obligation, which would likely result in their losing significant amounts of money, or defaulting on their contractual obligation and sending customers back to the utility's regulated service. Unfortunately, several suppliers were unable to financially withstand the economic losses and therefore defaulted.

In total, four suppliers defaulted in the two pilot programs affecting approximately 3,200 customers, which equates to approximately five percent of the customers that switched to a competitive service provider. Of these four suppliers, two defaulted prior to or shortly after implementation of the Interim Rules and, therefore, had not been licensed by the Commission; one had its license revoked by the Commission; and the other voluntarily relinquished its license.

The Commission received numerous consumer complaints relative to CSP defaults and the perceived lack of assistance they received from the Commission. Consumers expected the Commission to force the CSP to honor its contract or reimburse them for the lost savings. In any competitive market there will be winners and losers; however, these cases underscore the importance of consumer education to ensure public understanding that although the Commission licenses CSPs, it cannot protect consumers from all inherent risks of a competitive market, nor can it adjudicate individual contractual disputes. In short, if a CSP fails to honor its contract, the Commission can revoke its license but it cannot order the CSP to pay damages to an individual customer.

Customer Switching Activity

Both natural gas pilot programs experienced fairly robust switching activity compared to that experienced in the electric pilot programs. However, two issues raise some level of concern and should be monitored. First, due to the price volatility this winter, the Commission Staff has become aware of an increased number of variable rate, fixed-term contracts. While this approach is understandable given the price volatility experienced in the natural gas markets, the concern lies with the potential for CSPs to lock consumers into a long-term contract based on a low initial rate and then raise that rate substantially in future months. This problem is exacerbated if in addition to the long contract term there is an expensive contract cancellation fee. To date the Commission

Staff has not received complaints relative to this issue; therefore, Staff's concern is speculative.

Second, the concentration of customers served by a utility-affiliated CSP merits monitoring. In total, 15 CSPs are serving customers in the two programs. Of those 15, two are serving approximately 89 percent of the customers; one of those CSPs is an affiliate and the other assumed the contracts of an affiliate. This high concentration of market share raises significant questions regarding the competitive robustness of these markets. However, it must be noted that one program is a pilot and the other is just moving into full-scale choice, and several CSPs have indicated that they are waiting for full retail access prior to entering the Virginia market aggressively. Attached to this report is a list of the active CSPs and the number of customers they currently serve.

Consumer Complaints

The third issue relates to consumer complaints received in the Division of Energy Regulation. It is interesting to note that the types of complaints relative to retail access have been drastically different for the natural gas pilot programs than for the electric pilot programs. In the electric programs, complaints have predominantly been about the general process and the lack of available options. In the natural gas programs, the complaints have been specific to a CSP or utility and not about the retail access process.

The complaints received to date generally fall into three categories: supplier default, door-to-door sales, and timeliness of reverting back to the utility when the consumer requests to either cancel or not renew a contract. Complaints relative to supplier default were discussed earlier, and do not require further elaboration.

Complaints relative to door-to-door sales have been lodged against two companies. In both instances, consumers indicated they either were intimidated by the high-pressure sales tactics or felt that the salesperson misrepresented the facts. In each case, the CSP indicated that they would conduct additional training with the sales staff and would remove any "bad apples" from their payroll. No additional complaints have been lodged against either CSP since the Commission Staff spoke with company representatives.

Clearly high-pressure sales and blatant misrepresentation of facts is unacceptable. A successful implementation of the Commission's consumer education program will be a vital consumer protection measure. An educated consumer will be better able to recognize incorrect information and resist high-pressure sales intimidation. Additionally, education will increase consumer awareness of the Commission and its role in investigating complaints relative to CSPs and their compliance with the Commission's retail access rules.

The Commission Staff received complaints against one CSP relative to the timeliness of the CSP reverting a customer's service back to the utility when the consumer requested that the contract not be renewed. In each case, the consumer notified the CSP of its non-renewal decision, but was not switched back to the utility. As a result, the consumers continued to receive service from the CSP at a new and higher rate. Once contacted by the Commission Staff, the CSP responded to the individual consumer complaints, and has reimbursed consumers for the difference between its rate and the utility's now lower rate. The specific problem appears to have been resolved, and Staff's proposed rules (i) requiring the CSP to provide notice to customers 30 days prior to assigning contracts to another CSP, and (ii) requiring the CSP to notify the utility of a customer's decision to cancel a contract address the general problem.

Conclusions

The two natural gas retail access programs have provided useful information to utilities, CSPs, consumers, and the Commission Staff. The level of CSP activity has been considerably better in the natural gas programs than has been experienced in the electric programs, although the high level of affiliate market concentration may have distorted the actual level of competitive activity. The complaints received at the Commission indicate that the Commission must play a central role in monitoring the marketplace, but do not indicate that consumers are frustrated with the overall process of natural gas retail access programs.

Based on experience gained in its pilot program, WGL has decided to move forward from its pilot stage into full retail access. CGV recently requested permission to extend its pilot program beyond October 1, 2001. However, on June 13, 2001, the Commission Staff requested that CGV give serious consideration to expanding that pilot to a full retail access program for all of its customers. Similarly, the Commission Staff requested that Virginia Natural Gas provide a letter detailing its intentions relative to opening its service territory to choice. Together these three utilities account for nearly 90 percent of the consumers served by jurisdictional natural gas utilities in the Commonwealth. In short, while there is no legislated mandate that retail supply choice in the natural gas industry be completed by a date certain, the Commission Staff is encouraging the natural gas utilities to take the necessary steps to open their territories to retail access.

Washington Gas' Program

CSPs serving non-residential customers as of May 1, 2001:		Customers Served	
Amerada Hess		197	
BGE Commercial Building Systems		84	
Bollinger Energy Corporation		3	
Dominion Energy Direct Sales		11	
Enron Energy Services		140	
Metromedia Energy		180	
The New Power Company (1)		24	
Pepco Energy Services		13	
UGI Energy Services/Gasmark		13	
WGES – (Washington Gas affiliate)		3,718	
	Totals	4,383	

CSPs serving residential customers as of May 1, 2001:			
America's Energy		156	
The New Power Company (1)		4,327	
Pepco Energy Services		1,144	
Titan Energy		847	
WGES – (Washington Gas affiliate)		25,878	
	Totals	32,352	36,735

Columbia Gas' Program

CSPs serving non-residential customers as of May 1, 2001:			
America's Energy Alliance		2	
Bollinger		38	
The New Power Company (1)		311	
Pepco Energy Services		5	
Statoil Energy		8	
Washington Gas Energy Services		65	
	Totals	429	

CSPs serving residential customers as of May 1, 2001:			
America's Energy Alliance		754	
The New Power Company (1)		3,113	
Pepco Energy Services		132	
Washington Gas Energy Services		1,579	
	Totals	5,578	6,007

(1) Includes customers formerly served by Columbia Energy – (Columbia Gas affiliate)