

COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION



Report to the
Legislative Transition Task Force
of the
Virginia General Assembly

Recommendation and Draft Plan
Retail Electric Billing and Metering Services

December 12, 2000

Response to § 56-581.1 of the Code of Virginia

**REPORT TO THE LEGISLATIVE TRANSITIONAL TASK FORCE
OF THE VIRGINIA GENERAL ASSEMBLY**

RECOMMENDATION AND DRAFT PLAN

RETAIL ELECTRIC BILLING AND METERING SERVICES

DECEMBER 12, 2000

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RECOMMENDATION AND DRAFT PLAN

RETAIL ELECTRIC BILLING AND METERING SERVICES

DECEMBER 12, 2000

EXECUTIVE SUMMARY

The State Corporation Commission (the "Commission") hereby submits this report providing its recommendations and draft plan for retail electric billing and metering services to the Legislative Transition Task Force ("LTTF") pursuant to § 56-581.1 of the Virginia Electric Utility Restructuring Act (the "Act").¹

Section 56-581.1 of the Act (included as Appendix A), requires that on or before January 1, 2001, the Commission provide a recommendation to the LTTF as to whether electric metering and billing services, or both, may be provided by persons licensed to provide such services. The Commission is required to address the appropriateness of, and commencement date for, the competitive provision of these services, and must include a draft implementation plan.

By Order dated July 12, 2000, the Commission established a proceeding, Case No. PUE000346, for purposes of developing a recommendation and draft plan pertaining to retail electric billing and metering services. The Order directed the Commission Staff to publish notice of the proceeding and invited interested persons to evaluate and comment on discussion draft plans and associated issues included in attachments to the Order. The discussion plans were developed by the Commission Staff to provide a basis for initiating discussion and soliciting the focused input of interested parties. All parties also were provided the opportunity to request a hearing.

The Commission received comments from fourteen parties, including two that requested a hearing. A hearing on this matter was conducted on November 1 and 2, 2000. In addition to the Commission Staff, seven witnesses, representing Allegheny Power, AEP, the Cooperatives, Delmarva Power, Dominion Virginia Power, and Automated Energy, Inc. and the National

¹ Chapter 23 (§§ 56-576 et seq.) of Title 56 of the Code of Virginia.

Energy Marketers Association, presented testimony at that hearing. Following that hearing, the Commission reviewed the record in this matter, and on that basis hereby submits its report and recommendations herein.

In brief, the Commission proposes restructuring the provision of electric billing service to accommodate and enhance Virginia's competitive electricity market. Specifically, the Commission recommends authorizing licensed competitive suppliers of electric energy ("competitive service providers" or "CSPs") to offer and coordinate the provision of billing service to retail customers under three billing options. These options include separate billing by each retail service provider, incumbent electric utility ("local distribution company" or "LDC") consolidated billing, and CSP consolidated billing. The Commission recommends that the separate billing and LDC consolidated billing options be implemented January 1, 2002, concurrent with the beginning of the transition period for retail choice, and that the CSP billing option be implemented no later than January 1, 2003. The majority of parties participating in the retail billing and metering proceeding appear to agree generally with the three billing options recommended by the Commission. The Commission's recommendation also is generally consistent with the basic billing structure and options that have been adopted by the majority of states implementing industry restructuring.

With respect to electric metering services, the Commission recommends that legislative action in this area should be deferred, pending further study. This recommendation is driven by the issue's complexity and limited market activity nationwide. The Commission particularly recommends close monitoring of competitive metering markets in other states that have adopted competitive structures. Whether and how such markets develop may provide valuable information for Virginia's determination on how best to proceed with respect to appropriate market structure, customer availability, and implementation dates. In accordance with § 56-581.1 C of the Act, the Commission will continue to report annually on the progress of its investigation and include appropriate recommendations in these future reports.

I. Purpose of Report

This report to the LTTF presents the Commission's recommendation and draft plan for retail electric billing and metering services as directed by the General Assembly. Section 56-581.1 of the Act requires that on or before January 1, 2001, the Commission provide a recommendation to the LTTF as to whether electric metering and billing services, or both, may be provided by persons licensed to provide such services. The Commission is required to address the appropriateness of, and commencement date for, the competitive provision of these services, and must include a draft implementation plan. The recommendation and draft plan may vary by service, type of seller, region, incumbent electric utility, and customer group, and must:

1. Be consistent with the goal of facilitating the development of effective competition in electric service for all customer classes;
2. Take into account the readiness of customers and suppliers to buy and sell such services;
3. Take into account the technological feasibility of furnishing any such services on a competitive basis;
4. Take into account whether reasonable steps have been or will be taken to educate and prepare customers for the implementation of competition for any such services;
5. Not jeopardize the safety, reliability or quality of electric service;
6. Consider the degree of control exerted over utility operations by utility customers;
7. Not adversely affect the ability of an incumbent electric utility authorized or obligated to provide electric service to customers who do not buy such services from competitors to provide electric service to such customers at reasonable rates; and
8. Give due consideration to the potential effects of such determinations on utility tax collection by state and local governments in the Commonwealth.

Development of the Commission's recommendation and plan required notice and an opportunity for hearing.

II. Commission Proceeding for Developing a Recommendation and Draft Plan

By Order dated July 12, 2000, the Commission established a proceeding, Case No. PUE000346, for purposes of developing a recommendation and draft plan pertaining to retail electric billing and metering services. The Order directed the Commission Staff to publish notice of the proceeding and invited interested persons to evaluate and comment on discussion draft plans and associated issues included in attachments to the Order. The discussion plans were developed by the Commission Staff to provide a basis for initiating discussion and soliciting the focused input of interested parties. All parties were provided the opportunity to request a hearing.

The Commission received comments from fourteen parties including The Potomac Edison Company d/b/a Allegheny Power, Appalachian Power Company d/b/a American Electric Power ("AEP"), the Division of Consumer Counsel of the Office of the Attorney General, Automated Energy, Inc., the Cooperatives,² Delmarva Power & Light Company ("Delmarva Power"), Edison Electric Institute, the Industrial Electric Customers,³ LG&E Energy Corporation, National Energy Marketers Association, RGC Resources, Inc., Schlumberger Resource Management Services North America, Utility.com, and Virginia Electric and Power Company ("Dominion Virginia Power"). In addition to providing comments, the Cooperatives and Dominion Virginia Power requested a hearing.

On September 13, 2000, the Commission issued an Order Setting Hearing, establishing a procedural schedule and directing the Commission Staff to file testimony including its proposal for a recommendation and draft plan. The Commission Staff was further directed to consider comments filed in this proceeding when developing its proposal. Other parties were invited to comment in writing on the Commission Staff's testimony or to file and present testimony. A hearing on this matter was conducted on November 1 and 2, 2000. In addition to the Commission Staff, seven witnesses, representing Allegheny Power, AEP, the Cooperatives, Delmarva Power, Dominion Virginia Power, and Automated Energy, Inc. and the National Energy Marketers Association, presented testimony at the hearing.

Appendix B of this report provides a list of the orders, comments, prefiled testimony, and public hearing transcripts comprising the record in this proceeding. Copies of these documents have been provided to the staff of the LTTF.

² The term "the Cooperatives" refers to a group of electric cooperatives consisting of A & N, BARC, Community, Central Virginia, Craig-Botetourt, Mecklenberg, Northern Neck, Northern Virginia, Powell Valley, Prince George, Rappahannock, Shenandoah Valley, Southside, and the Virginia, Maryland, & Delaware Association of Electric Cooperatives.

³ The Industrial Customers is a group comprised of the Virginia Committee for Fair Utility Rates and the Old Dominion Committee for Fair Utility Rates.

Based on the comments and testimony filed and presented in this proceeding and the requirements imposed by § 56-581.1 of the Act, the Commission developed its recommendation and draft plan (included as Appendix C) for retail electric billing and metering services, which is presented in the following sections of this report.

III. Recommendation and Draft Plan for Retail Electric Billing Service

The Commission generally recommends that retail electric billing service be restructured to accommodate and enhance Virginia's competitive electricity market. Under Virginia's current restructuring model, the vast majority of retail customers choosing a competitive supplier will have two retail electric service providers. The LDC will provide regulated distribution service and the licensed CSP will provide competitive energy supply service, including transmission service procured in the wholesale market.⁴ The Act also recognizes a potential role for aggregators as providers of retail energy supply brokerage services.⁵ Billing services should be restructured to recognize this business model, customary business practices, and the single-bill preference of many small consumers.

The Commission specifically recommends authorizing licensed CSPs to offer three billing options to their retail customers: (i) separate bills from each retail service provider; (ii) a single CSP consolidated bill, reflecting charges from both the CSP and LDC (and where applicable an aggregator); and (iii) a single LDC consolidated bill. CSPs would determine which of these billing options to offer; they would be responsible for making and coordinating billing arrangements. Customers would effectively make the ultimate billing decision through their selection of a CSP.

The majority of parties participating in the retail billing and metering proceeding appear to agree generally with the three billing options as recommended by the Commission. Two exceptions should be noted. The Cooperatives believe that billing should continue to be provided by LDCs (through a single LDC consolidated bill) until consumers become more comfortable with the concept and functions of a competitive retail energy supply market. The Cooperatives believe that the recommended billing options would add to the conflict, confusion, and uncertainty regarding the restructuring of the electric industry. If the General Assembly takes legislative action adopting the Commission's recommendations, the cooperatives would prefer that implementation of CSP consolidated billing within their service territories be deferred. Upon consideration of the unique circumstances relative to cooperatives, the Commission has recommended an exemption for the cooperatives (as well as for municipal electric utilities) from CSP consolidated billing, subject to certain conditions.⁶ AEP, on the other hand, may believe that the Commission's recommendation is overly

⁴ Certain large retail customers may be able to procure retail transmission services as a separate service. To the extent regulated electric services are further unbundled and made competitive, there may be more types of competitive service providers.

⁵ Billing issues associated with aggregators were raised late in the proceeding and were not fully developed in comments or testimony. While the Act anticipates that aggregators will function as brokers of energy supply services, it is unclear how aggregators will bill for their services. For example, aggregators might be paid directly by CSPs and not by the retail customers they aggregate. As the functions of these aggregators evolve, adjustments to the retail billing structure and associated regulations may be required.

⁶ See, the Commission's recommendation in part III. C. of this report.

prescriptive and limits potential market development. Specifically, AEP recommends: 1) the additional authorization and licensing of a new type of retail service provider, "billing agents," to provide billing services; and 2) allowing consolidated billing services and options to develop from market forces without regulatory requirements or intervention.

The Commission notes that the majority of states implementing electric industry restructuring have adopted billing structures similar to the options recommended by the Commission. States with this basic structure include Arizona, Arkansas, California, Delaware, Illinois, Maryland, Montana, New York, Oregon, and Pennsylvania. At the same time, in most of these states electric cooperatives and municipals are exempted from either direct retail access or billing and metering restructuring provisions. In California, Delaware, Maryland, Oregon, and Pennsylvania, for example, cooperatives and municipals are directly exempted from billing and metering restructuring provisions.

- A) The General Assembly should authorize licensed CSPs and Aggregators to bill retail customers directly for services rendered effective January 1, 2002. Such authorization should be applicable for all regions of Virginia, inclusive of the service territories of all LDCs, and for all customer groups subject to the conditions, regulations, and licensing requirements established by the Commission.**

Such authorization allows for a **separate billing option**. Under this option, the LDC, as the provider of retail metering service, would send customer consumption information to the CSP. The LDC would prepare and issue a bill to the retail customer for regulated distribution service, and the CSP would prepare and issue a bill to the customer for competitive energy supply service. The customer would receive these two bills and remit payment to each provider. If the customer also received services of some kind from an aggregator, the customer could potentially receive a third bill from the aggregator.

Authorizing CSPs and Aggregators to bill retail customers directly for services rendered is consistent with customary business practices. Billing and collection is a fundamental business support activity. Every business entity has a basic responsibility to ensure the accurate identification of services rendered to its customers, to maintain accurate customer accounts, and to bill and collect accordingly. It is customary business practice that the provider of a competitive service decides the terms and conditions of service including the billing and payment options offered to customers.

Authorizing CSPs and aggregators to bill retail customers directly would enhance the development of a competitive retail energy supply market. The customer communication link established through the billing process is, or has the

potential to become, a valuable marketing tool for CSPs and aggregators in terms of product branding and promotion. They would be able to offer choices desired by customers over and above the minimum requirements established by the Commission with respect to bill format, content, and timing. Additionally, the billing process provides a platform for marketing and providing value-added non-electric services. Such billing features and value-added services could become important components of the total energy supply package offered by CSPs and aggregators. The National Energy Marketers Association, a non-profit trade association representing energy marketers, emphasized these potential benefits in its comments and strongly urged the Commission to recommend CSP billing authorization.

- B) The General Assembly should authorize licensed CSPs to offer a consolidated billing service to their retail customers with two options: 1) LDC consolidated billing effective January 1, 2002; and 2) CSP consolidated billing effective no later than January 1, 2003. Such authorizations, except as provided below, should be (i) applicable to all regions of Virginia, (ii) inclusive of the service territories of all LDCs, and (iii) made applicable to all customer groups subject to the conditions, regulations, and licensing requirements established by the Commission.**

Under the **LDC consolidated billing option**, the LDC consolidates its charges with that of the CSP into a single bill. Thus, the LDC would send customer consumption information to the CSP, which would calculate customer charges for competitive energy supply service and send this billing information back to the LDC. The LDC, in turn, would calculate charges for regulated distribution service and prepare and issue a consolidated bill to the retail customer reflecting LDC charges and incorporating CSP charges in allotted space on the bill. The customer would receive the single combined bill and remit payment to the LDC. Upon receipt of the customer's payment, the LDC would disburse the appropriate amount to the CSP. If the customer is receiving and directly paying for aggregation service, the Aggregator also would have to provide its billing charges to the LDC for inclusion on the consolidated bill.

Under the **CSP consolidated billing option**, the LDC would calculate customer charges for regulated distribution service and send this billing information and customer consumption data to the CSP. The CSP would calculate customer charges for competitive energy supply service and prepare and issue a consolidated bill to the retail customer reflecting CSP charges and incorporating LDC charges in allotted space on the bill. The customer would receive the single combined bill and remit payment to the CSP. Upon receipt of the customer's payment, the CSP would disburse the appropriate amount to the LDC. If the customer is receiving and directly paying for

aggregation service, the Aggregator also would have to provide its billing charges to the CSP for inclusion on the consolidated bill.

A consolidated billing service would remove a barrier to participation in the competitive electricity market by small consumers with a single-bill preference.

The Commission Staff concluded that most small electric consumers would prefer to receive a single electric bill rather than separate bills from CSPs and LDCs. The preference is likely rooted in the convenience of receiving the charges of both the LDC and CSP on a single billing statement, and making a single payment for both services.⁷

Authorizing CSPs to offer the LDC consolidated billing option would remove market entry barriers for some competitive suppliers. This option should be available during the initial transition period that commences January 1, 2002.

During the initial stages of industry transition, it is important to encourage the entry of new competitive suppliers to enhance market development. Many of these potential new suppliers may view the ability to offer a consolidated billing service as an important marketing tool, but may initially lack fully developed billing systems capable of performing consolidated CSP billing in compliance with applicable regulations and standards. While theoretically the CSP could contract with an independent wholesaler to provide this service, the development of a wholesale market that is capable of meeting requirements and providing a practical alternative may require some time as well. In the meantime, requiring the LDC consolidated billing option advances the public policy goal of promoting the development of a competitive retail electricity market. It may be appropriate to consider authorizing the Commission to terminate such a requirement upon a finding that sufficient competition exists, after notice and an opportunity for a hearing.

Authorizing CSPs to offer consolidated billing service options would enhance competition, minimize confusion among consumers, and reduce coordination issues between the CSP and the LDC. During the billing and metering proceeding, the cooperatives and Delmarva Power suggested that LDCs be permitted to offer their customers LDC consolidated billing, irrespective of the availability and offering of CSP consolidated billing. However, in the Commission's view consolidated billing

⁷ It bears noting that consolidated billing is an optional billing and payment coordination service designed ultimately to benefit the electricity customer. It does not supplant the fundamental responsibility of either the CSP or LDC to bill and collect for services rendered. It affects how each mechanically or procedurally bills and collects, not whether they bill and collect. Each retail service provider must continue to: maintain customer accounts; calculate, prepare and submit customer-specific bills or billing information (perhaps in an electronic format to the party preparing the consolidated bill); and pursue collection activities. Similarly, the retail customer retains ultimate responsibility to pay each retail service provider for delivered services. These relationships could change by parties voluntarily agreeing to buy or sell receivables.

competition between CSPs and LDCs would be counterproductive. Such competition would only set the stage for customer confusion and conflict between CSPs and LDCs. Moreover, such a practice would not be consistent with the development of a competitive electricity market. Unlike the monopoly LDC, CSPs must endeavor to attract and contract with retail customers with whom they have no previous business relationship. Customer enrollment and billing provide opportunities for CSPs to (i) foster the development of relationships with customers, and (ii) demonstrate responsiveness to customer demand. Permitting LDCs to go head-to-head with CSPs in offering consolidated billing would undoubtedly impede CSP efforts to establish direct business relationships with their energy supply customers. Additionally, from a practical perspective, it is logical that CSPs determine, in the first instance, customer billing options; billing arrangements should be understood and settled at the same time customers choose CSPs to furnish energy supply services.

The required effective date for the CSP consolidated billing option should be January 1, 2003, thereby allowing for time needed to (i) develop and approve regulations, (ii) establish standard business practices and data exchange protocols, and (iii) modify and test information systems. However, the Commission should be authorized to implement this option earlier in the service territories of those incumbent utilities demonstrating readiness in advance of January 1, 2003. Several incumbent utilities expressed concern about the timely development of regulations and standards and the utilities' ability to modify and fully test systems in time to meet an earlier implementation date. It should also be noted that in many restructuring states, including Maryland and Pennsylvania, the implementation of the CSP consolidated billing option has lagged behind the LDC consolidated billing option. Consequently, the Commission believes it is appropriate to delay the required effective date for such billing beyond the beginning of the transition period. However, AEP has indicated that it expects to be fully prepared to implement the CSP consolidated billing option prior to this date. Accordingly, the Commission believes that flexibility should be maintained for a potential earlier implementation date in any incumbent utility's service territory that demonstrates readiness, subsequent to the approval of final regulations and the establishment of standards, but prior to January 1, 2003.

Consideration of authorizing independent third party "billing agents" to offer retail electric billing services should be deferred at the present time. The introduction of a new type of retail service provider into the consolidated billing process would increase transactional complexity and complicate coordination issues, potentially increasing confusion that may result from the initial stages of restructuring. Similarly, consideration of aggregator consolidated billing should be deferred until later in the

restructuring transition for the same reasons. There may be greater justification for considering the authorization of aggregator consolidated billing (as opposed to other third parties) since aggregators are already recognized in the Act, and will provide retail coordination service directly to customers. However, the Commission recommends delaying such consideration until a more complete understanding is developed relative to the role aggregators will seek to serve in the restructured electric industry. Although the Commission recommends deferring consideration of retail “billing agents,” both LDCs and CSPs could contract with wholesale providers of billing services while retaining ultimate retail responsibility for compliance with relevant Virginia statutes and Commission regulations.

C) The General Assembly should exempt municipal electric utilities and electric cooperatives from requirements to support the CSP consolidated billing option. This exemption should continue for each municipal or cooperative until:

- **Any such municipal or cooperative, or its affiliate, offers competitive electric energy supply to retail customers in the service territory of any other Virginia incumbent utility. The competitive activities of power supply organizations, or their affiliates, should not be construed to represent competitive activity relative to individual member municipal or cooperative distribution utilities.**
- **Alternatively, a municipal or cooperative distribution utility that pursues such competitive activity may maintain its exemption by application to the Commission demonstrating good cause for relief.**

Similar to actions taken in many other states, cooperatives and municipals should be exempted from a requirement to support the CSP consolidated billing option at the current time due to the unique circumstances of these utilities. Cooperatives and municipals should, however, be permitted to "opt in" if they so desire. Such circumstances include considerations of customer control over utility operations through member ownership and elected boards of directors or through publicly elected representatives, limited resource availability, and the potential cumulative operational and cost impact on these relatively small utilities and their customers resulting from the numerous changes required to accommodate industry restructuring. The General Assembly signaled its sensitivity to the unique circumstances of these utilities and its receptiveness to special treatment of the cooperatives and municipals, both within § 56-581.1 and other sections of the Act. For example, municipal utilities are afforded an “opt in” provision with respect to participation in electric restructuring, generally, and the cooperatives are provided with the unique right

and responsibility to serve as default service providers within their service territories, subject to certain conditions. It should be noted that the municipals did not participate in the Commission proceeding on billing and metering.

An exemption from requirements to support CSP consolidated billing that is conditioned upon a restriction in the competitive activities of the cooperative or municipal may foster movement toward statewide uniformity. The Commission shares the concerns expressed by the Office of the Attorney General that variation among service territories might hamper the development of statewide competition, especially in the service territories of municipals and cooperatives. Non-uniformity makes it difficult for suppliers to deploy standard operating practices and service packages across the State. Marketers emphasize repeatedly the importance of uniform rules and business practices. Logically, a cooperative or municipal that has resources available to pursue the benefits of competition outside its service territory should have resources available to ensure a comparable competitive playing field within its territory. However, for purposes of addressing unique situations, municipals or cooperatives should have an opportunity, through application to the Commission demonstrating good cause, to maintain an exemption while engaging in certain competitive activities.

D) The General Assembly should authorize and direct the Commission to develop and implement such regulations as the Commission deems necessary to implement this plan in a manner that facilitates the development of effective competition in electric service for all customer classes and ensures reasonable levels of billing accuracy, timeliness, and quality, and adequate consumer readiness and protection.

Regulations and licensing requirements must be developed to assign responsibilities, establish conditions, and govern coordination among retail service providers to protect the integrity of the billing process. Restructuring changes, which have significant consumer impacts, require the careful consideration and development of Commission regulations and consumer education materials to ensure a smooth transition. The Commission believes that the potential consumer readiness and billing integrity risks associated with the recommended authorization of CSPs to provide billing services can be adequately mitigated through such measures.

Assigned responsibilities would be subject to general conditions and limitations to limit the potential cost impact and confusion that could arise from transactional complexity. Certainly, LDCs and CSPs may negotiate mutually acceptable, non-discriminatory agreements exceeding minimal requirements. However, at the present time, the Commission anticipates that basic responsibilities and conditions would include:

- **CSPs shall offer one or more of the three authorized billing options and secure affirmative agreement concerning them prior to enrolling a retail customer.**
- **CSPs shall coordinate the provision of the customer-selected billing option with the LDC and any other retail electric service providers.**
- **LDCs shall conduct billing activities in accordance with the customer-selected option at the request of the CSP, subject to any exemption otherwise applicable to any such LDCs.**
- **LDCs shall be required to support consolidated billing options under a “bill-ready” protocol.⁸**
- **LDCs shall not be required to provide LDC consolidated billing for any retail account that receives services from more than one CSP and more than one aggregator.**
- **LDCs shall not be required to prorate LDC billing charges for one retail account to more than one CSP for purposes of CSP consolidated billing.**
- **LDCs and CSPs shall not be required to purchase accounts receivable in conjunction with consolidated billing options, but may negotiate such arrangements.**
- **LDCs and CSPs may “out-source” billing services by way of contract with wholesale providers of billing services, but shall nevertheless retain ultimate legal responsibility for compliance with relevant Virginia statutes and Commission regulations.**
- **Except as authorized by the Commission, LDCs shall not provide retail billing services to an affiliated CSP, unless the same such services are**

⁸ Under a "bill-ready" protocol, each retail service provider calculates its own billing charges for each customer and sends this information electronically to the party preparing the consolidated bill for incorporation in allotted space on the bill. An alternative methodology is the "rate-ready" protocol in which the party preparing the consolidated bill is provided the rate structures and calculates the billing charges of each retail service provider for inclusion on the bill. Accommodation of the potential variety and complexity of CSP rate structures under a "rate-ready" protocol could require significant system development cost, limiting its practicality as the standard protocol. The "bill-ready" protocol appears to be the preferred standard in uniform business practices being developed at the national level.

offered to all other CSPs under terms and conditions that are no less favorable than those offered to the affiliated CSP.

Regulations must also be established to govern specific requirements and procedures relative to the billing process, including critical coordination issues. For example, the Commission is directed by § 56-592 of the Act to establish minimum bill format and content requirements, limitations on customer deposits, and complaint resolution procedures. However, several other billing-related issues also must be considered including: licensing qualifications and supplier creditworthiness; marketing disclosure requirements; enrollment, switching, and supplier default; estimating and billing adjustments; minimum payment period; arrearages, partial payments, special payment arrangements, late fees, and collection and disconnection policy; budget billing and payment options; record retention; protocols for data exchange; performance standards and penalties; and LDC cost recovery.

Irrespective of General Assembly action on retail electric billing service, a review and modification of the interim retail pilot program rules must be initiated immediately to establish final regulations for the beginning of the transition period on January 1, 2002. Accordingly, the Commission is establishing a work group, representing interested parties, to assist the Staff in conducting this review and developing recommendations. This work group will also focus on the development of regulations to implement General Assembly enactment of any legislation relative to retail electric billing.

Virginia's Consumer Education Program would incorporate information relative to CSP responsibility for coordinating billing arrangements, basic billing options that may be offered, and consumer protection measures. The Commission believes that such efforts, along with carefully crafted regulations, can reasonably ensure consumer readiness. The implementation of retail choice in Virginia may result in many new options to consumers; however, choices involving billing options are neither technically complex nor a new experience for most customers. Authorization of CSP billing is probably no more confusing than requiring or allowing the former monopoly service provider to continue billing for services now rendered by the new customer-selected provider. In fact, most customers would undoubtedly expect to discuss and agree to billing and payment arrangements with the provider of the retail service they are actively procuring. By assigning direct and specific responsibility to one party, the CSP, to offer and coordinate billing arrangements, confusion would be minimized among consumers. Consumer understanding would be enhanced further by requiring the specific disclosure of billing options and applicable charges, and an affirmative agreement by the customer prior to enrollment.

- E) **The General Assembly should authorize the Commission, upon application by an incumbent electric utility, to delay any element of the retail billing services plan for the period of time necessary, but no longer than one year, to resolve issues arising from considerations of billing accuracy, timeliness, quality, consumer readiness, or adverse effects on the development of competition in electric service. The Commission should report any such delays and the underlying reasons to the LTTF within a reasonable time.**

Due to the critical importance of maintaining the integrity of the billing process and the inherent complexities associated with the restructuring of such services, the Commission believes it would be prudent to provide for a degree of flexibility that allows response to unexpected developments. The Commission's proposal is similar to § 56-577 B as regards the schedule for transition to retail competition.

- F) **The General Assembly should amend the code of Virginia (§§ 58.1-2901 and 58.1-3814) to authorize and require CSPs issuing consolidated bills to retail consumers to bill, collect and remit state and local taxes that are assessed on the energy consumption of those consumers.**

Several incumbent utilities indicate that a requirement for LDCs to collect state and local taxes under billing options in which the LDC is not issuing a bill directly to the retail customer is inefficient and unreasonable. The Commission recommends that CSPs be assigned the responsibility for billing, collecting, and remitting such taxes under the CSP consolidated billing option. At the present time, LDCs should continue to collect such taxes under the separate billing option and the LDC consolidated billing option.

- G) **The General Assembly should clarify which costs related to competitive billing services established pursuant to § 56-581.1 should be recoverable by incumbent utilities. The General Assembly should further clarify Commission authority to calculate such costs and determine the most appropriate method of cost recovery.**

The General Assembly should specify the costs recoverable by incumbent utilities in addition to costs recovered through capped rates. Section 56-581.1 D of the Act, in part, states:

Upon enactment of legislation making competitive metering services, billing services, or both, an incumbent electric utility shall undertake such coordination, with persons licensed to provide such service, as the Commission deems reasonably necessary to the development of such

competition, *provided that the reasonable costs of such coordination are recovered by such utility* [emphasis added].

Electric industry restructuring results in certain transition costs for incumbent utilities. Utilities have made or must make changes to billing and other customer information systems simply to accommodate the various transactions required by the Restructuring Act's current provisions. Capped rates and wires charges (as provided by §§ 56-582 and 56-583 of the Act) enable utilities to recover their stranded costs; the Act currently makes no express provision for the recovery of transition costs. Section 56-581.1 D of the Act does, however, authorize utilities to recover costs associated with the implementation of competitive billing and metering services, as the same may be authorized by the General Assembly.

Questions have arisen concerning the appropriate application of this cost recovery provision. Specifically, during the Commission's proceeding concerning retail electric billing and metering services, one party asserted that utility costs such as customer enrollment and switching, load profiling, and transfer of consumption data to CSPs were within the scope of utility cost recovery intended by § 56-581.1 D. However, it would seem that such costs would be incurred by the utilities in the course of their necessary interactions with CSPs, regardless of whether the General Assembly adopts competitive billing or metering legislation. The Commission would, therefore, likely draw distinctions between costs (including billing or metering costs) that would be incurred by utilities in any event as part of restructuring under the Act, and those costs directly associated with the implementation of billing or metering competition. Nevertheless, the General Assembly should consider clarifying this issue in any legislation adopting the Commission recommendations herein.

The General Assembly should provide clear authority for the Commission to calculate additional billing and metering costs, as specified by the General Assembly, and determine the most appropriate method for recovering such costs. Section 56-581.1 F of the Act states:

Upon enactment of legislation making competitive a service presently provided by an incumbent electric utility, the Commission shall adjust the rates for any noncompetitive services provided by such utility so that such rates do not reflect costs associated with or properly allocable to the service made subject to competition.

The Commission is concerned that such language could restrict flexibility with respect to determining the most appropriate methods of cost unbundling and recovery. For

example, it is not entirely clear whether Section 56-581.1 F of the Act would allow the Commission to consider LDC supplier tariffs⁹ as an alternative cost recovery approach to adjusting retail distribution rates. It is impossible to determine the most appropriate cost recovery approach prior to determining the nature and character of costs to be recovered, including the size and timing of such expenses. It is possible that the methodology should vary among utilities. Therefore, it is desirable to maintain the flexibility to consider alternative approaches at the time the factual circumstances become evident.

⁹ Under supplier tariffs, the LDC would charge (or credit) CSPs directly for billing support costs (or savings).

IV. Recommendation for Retail Electric Metering Service

Comments submitted in the retail billing and metering proceeding demonstrate that the restructuring of retail electric metering service is complex and controversial. Such policy deliberation is impacted by issues of technology, economics, reliability, logistics, safety, and customer diversity -- both in terms of consumption and sophistication. As a result, the positions advanced by interested parties vary widely. For example:

- While not offering detailed proposals, the Industrials and the Office of the Attorney General believe that retail metering service should be made competitive as soon as practicable.
- AEP proposes making metering a competitive service available to all Virginia customers taking retail electric energy service from CSPs effective 1/1/02, including the provision of the electric meter (sale or rental) and physical metering services by licensed meter service providers (MSPs) and the provision of meter information services by licensed meter data management agents (MDMAs). AEP suggests that such an open market structure would best encourage the development of competition and promote innovation.
- Utility.com, an energy marketer serving residential and small commercial customers, believes retail metering should be made a competitive service only for larger customers. Policies should be implemented that encourage LDCs to provide advanced metering¹⁰ to small commercial and residential customers, since competitive metering is not economically feasible for most of these customers at the present time.
- Automated Energy, Inc., representing the National Energy Marketers Association, proposes that all LDCs should be required to make meter pulse outputs available to all customers immediately and that meter information services should be made competitive. Competitive physical metering services should be implemented gradually with availability to each customer at the time the LDC has recovered the cost of the customer's currently installed meter.
- Virginia Power, APS, Delmarva Power, the cooperatives, and the Commission Staff advise against taking legislative action at the present time. Alternatively, these parties proposed that the Commission establish a metering work group to continue studying the complex issues surrounding the restructuring of metering service and to monitor

¹⁰ Advanced metering generally refers to metering configurations that capture consumption data for time intervals consistent with the pricing interval of the wholesale power market (e.g., hourly, also frequently referred to as interval metering) and that access communication systems (e.g., radio, telephone, cable, etc.) for the frequent automated transmittal of that data to remote locations.

competitive metering market development in those states that have implemented such competition

Without additional study, the Commission is unable to recommend an optimal competitive market structure for the provision of retail electric metering service.

A) The General Assembly should defer legislative action concerning retail electric metering service. The Commission recommends the continued study of metering issues.

There is very little market development in those states that have adopted competitive metering. Thus, there exists little guidance for determining how best to proceed in Virginia. This limited market activity is understandable since many of these states are just finalizing, or have just recently finalized, implementation. In California, the state with the most experience, competitive metering was implemented for customers 20 kW and above on January 1, 1998, and for all customers January 1, 1999. However, as both Virginia Power and Utility.com report there has been very little market participation, even by large customers, and virtually no activity with respect to residential and small commercial customers. Utility.com reports a similar lack of participation by smaller customers in the United Kingdom where competitive metering was implemented in 1994 for large customers and extended to all customers in 1998. In short, there are simply no developed and successful competitive retail electric metering markets at the present time.

With respect to residential and small commercial consumers, substantial questions exist as to whether competitive metering can deliver benefits at the current time. Incumbent utilities providing basic metering service enjoy significant economies of scale. The hourly capture of consumption data through advanced metering, as might be provided by the competitive market, conceptually would enable a customer to receive an improved market pricing signal,¹¹ alter demand and reduce total energy costs. However, advance metering as provided by the competitive market on a

¹¹ Interval (or hourly) consumption data is necessary to provide a price signal because the financial settlement among suppliers in the hourly wholesale market is based upon metered customer consumption data. Absent hourly consumption data, customers are assigned a load profile, reflecting the average usage pattern for their customer class, which is used to distribute each customer's monthly usage over the hours of the month. Regardless of whether a customer's actual usage pattern is more or less favorable, the assumed usage pattern determines the supplier's hourly power supply responsibilities and associated cost. Such an arrangement prevents the supplier from realizing any wholesale power supply savings from more efficient customer consumption patterns, and eliminates all incentives for the supplier to provide a time-sensitive price signal to its customers. On the other hand, if hourly consumption data is available, the supplier realizes lower power supply cost when a customer's usage is more efficient. Therefore, the supplier has incentives to provide a price signal to encourage more efficient energy usage.

customer-by-customer basis, is currently very expensive relative to the potential energy savings of small consumers. In essence, competitive metering choices for small consumers may not be economically feasible choices in many instances at the present time, although technology continues to advance and costs are declining. Utility.com, a marketer serving residential and small commercial consumers expressed these same concerns relative to competitive metering for smaller consumers. It should also be noted that much controversy exists as to whether most small consumers have the ability or desire to effectively manage energy usage in response to price signals.

Certainly, an appropriate question is whether any harm would result from allowing competitive metering for small customers that wish to participate in such a market. Relative to this question, technical metering issues were raised at the public hearing with respect to changing technology, the lack of standardization, and potential incompatibility with utility systems. It was suggested that these issues pose risks for smaller, less sophisticated consumers. At the same time, it was reported that progress is being made on these issues, but that a reasonable resolution will require additional time. While the full implications of these issues on competitive metering for smaller customers is not totally clear at present, the Commission concludes that further investigation of these technical issues is necessary prior to implementing competitive metering.

As regards larger consumers, who currently do not have advanced or interval meters and who can respond to price signals, significant benefits may accrue from a competitive metering market. However, resolution of complex detailed technical issues is still required to determine the best competitive structure for Virginia and to ensure metering integrity. Consumption data is the foundation for financial settlements of all market participants. A significant breach of metering integrity could seriously damage or undermine the restructuring effort. While billing errors can be corrected through rebilling or account adjustments, incorrect metering data may not be so easily discovered or corrected. Therefore, it is critically important that a decision to restructure retail electric metering be accompanied by a reasonable level of confidence that such integrity can be maintained.

The Commission has directed its Staff to continue the investigation of retail electric metering service, including consultation with interested parties and/or the establishment of a metering work group at the appropriate time to assist the Staff in developing proposals to the Commission. The most crucial metering issue, with respect to enhancing the development of a competitive energy supply market, relates to the availability and accessibility of consumption data by CSPs and customers. Consequently, the continued study of retail electric metering should maintain a focus on

this meter data aspect. The immediate importance or benefits of competitive physical metering services and customer meter ownership with respect to the development of a competitive energy market may be less critical.

- B) Should the General Assembly desire to enable transition to retail electric metering services, it could authorize the Commission to approve incumbent utility competitive metering service plans upon findings that such plans satisfy the eight statutory criteria established in § 56-581.1 of the Act.**

VI. Summary and Conclusion

This report has presented the Commission's recommendation and draft plan for retail electric billing and metering services pursuant to § 56-581.1 of the Act. The Commission proposes restructuring the provision of electric billing service to accommodate and enhance Virginia's competitive electricity market. Specifically, the Commission recommends authorizing CSPs to offer and coordinate the provision of billing service to retail customers under three billing options. These options include separate billing by each retail service provider, LDC consolidated billing, and CSP consolidated billing. The Commission recommends that the separate billing and LDC consolidated billing options be implemented January 1, 2002, concurrent with the beginning of the transition period, and that the CSP consolidated billing option be implemented no later than January 1, 2003. The majority of parties participating in the retail billing and metering proceeding appear to agree generally with the three billing options recommended by the Commission. The Commission's recommendation also is generally consistent with the basic billing structure and options that have been adopted by the majority of states implementing industry restructuring.

In view of the complexities and resulting uncertainties surrounding competitive metering, including the limited market activity nationwide, the Commission believes that legislative action to restructure retail electric metering service should be deferred. The Commission recommends the continued study of the multitude of complex and controversial issues highlighted in the Commission's billing and metering proceeding. Such investigation will include monitoring the development of competitive metering markets in other states that have adopted competitive structures. Whether and how such markets develop may provide valuable information for Virginia's determination on how best to proceed with respect to appropriate market structure, customer availability, and implementation dates. In accordance with § 56-581.1 C of the Act, the Commission will continue to report annually on the progress of its investigation and include appropriate recommendations in such report.

APPENDIX A

SECTION 56-581.1 OF THE CODE OF VIRGINIA

SECTION 56-581.1 OF THE CODE OF VIRGINIA¹

Authority to Make Services Competitive

A. On or before January 1, 2001, the Commission shall recommend to the Legislative Transition Task Force whether metering services, billing services, or both, for which competition has not been otherwise authorized by law, may be provided by persons licensed to provide such services. The Commission's recommendation under this subsection as to the appropriateness of and date of commencement of competition (i) shall include a draft plan for implementation of competition for metering services and billing services and (ii) may vary by service, type of seller, region, incumbent electric utility, and customer group. Such recommendation and draft plan, which shall be developed after notice and an opportunity for hearing, shall:

1. Be consistent with the goal of facilitating the development of effective competition in electric service for all customer classes;
2. Take into account the readiness of customers and suppliers to buy and sell such services;
3. Take into account the technological feasibility of furnishing any such services on a competitive basis;
4. Take into account whether reasonable steps have been or will be taken to educate and prepare customers for the implementation of competition for any such services;
5. Not jeopardize the safety, reliability or quality of electric service;
6. Consider the degree of control exerted over utility operations by utility customers;
7. Not adversely affect the ability of an incumbent electric utility authorized or obligated to provide electric service to customers who do not buy such services from competitors to provide electric service to such customers at reasonable rates; and
8. Give due consideration to the potential effects of such determinations on utility tax collection by state and local governments in the Commonwealth.

B. Competition for metering services, billing services, or both, may be implemented concurrently or pursuant to separate schedules as determined by the General Assembly.

¹ Chapter 23 (Virginia Electric Utility Restructuring Act), amending Title 56 of the Code of Virginia.

C. If, on or before January 1, 2001, the Commission has not recommended that competition is appropriate for (i) metering services, (ii) billing services, or (iii) any portion of either service, the Commission shall continue to consider such matters and report thereon to the Legislative Transition Task Force no less frequently than annually until such services are made competitive.

D. Upon enactment of legislation making competitive metering services, billing services, or both, an incumbent electric utility shall undertake such coordination, with persons licensed to provide such service, as the Commission deems reasonably necessary to the development of such competition, provided that the reasonable costs of such coordination are recovered by such utility. The foregoing shall apply to an affiliate of an incumbent electric utility if such affiliate controls a resource that is necessary to the coordination required of the incumbent electric utility by this subsection.

E. Any person seeking to sell, offering to sell, or selling competitive metering services, competitive billing services, or both, shall be subject to the licensure requirements of § 56-587.

F. Upon enactment of legislation making competitive a service presently provided by an incumbent electric utility, the Commission shall adjust the rates for any noncompetitive services provided by such utility so that such rates do not reflect costs associated with or properly allocable to the service made subject to competition.

APPENDIX B

CASE NO PUE000346
Draft Plan for Retail Electric
Metering & Billing Services

CASE RECORD LIST OF DOCUMENTS

B-1

Case Record List of Documents

Case Number

PUE000346

Draft Plan for Retail Electric Metering & Billing Services

<u>Date Filed</u>	<u>Filer Name</u>	<u>Document</u>
07/12/00	Commission	Order Prescribing Notice and Inviting Comments
08/24/00	National Energy Marketers	Comments/Testimony of Craig G. Goodman
08/25/00	Utility.Com	Comments
08/25/00	Edison Electric Institute	Comments
08/25/00	Automated Energy Inc.	Comments/Testimony of Cody L. Graves
08/25/00	RGC Resources Inc.	Comments
08/25/00	LG&E Energy	Comments
08/25/00	Virginia Electric & Power	Comments and Request Hearing
08/25/00	Commission	Order Granting Motion
08/25/00	Schlumberger RMS	Comments
08/25/00	Commission	Order Granting Motion
08/25/00	Office of Attorney General	Comments
08/25/00	Virginia Committee for Fair Utility Rates	Comments
08/25/00	Delmarva Power & Light Co.	Comments
08/25/00	Virginia Electric Cooperatives	Comments
09/01/00	Potomac Edison Company	Comments

<u>DCC #</u>	<u>Date Filed</u>	B-2 <u>Filer Name</u>	<u>Document</u>
000910032	09/01/00	AEP-Virginia	Comments
000910300	09/13/00	Commission	Order Setting Hearing
001020086	10/10/00	Commission	Order Granting Motion
001020181	10/12/00	Commission Staff	Testimony of Thomas E. Lamm- Division of Energy Regulation
001050103	10/25/00	Powerspring	Comments
001050105	10/25/00	Potomac Edison Company	Testimony of Cindy A. Menhorn
001050158	10/25/00	Office of the Attorney General	Comments
001050159	10/25/00	AEP-Virginia	Testimony of Thomas J. Ringenbach
001050160	10/25/00	Virginia Electric & Power Co.	Testimonies of David F. Koogler and Mary C. Doswell
001050168	10/25/00	Edison Electric Institute	Comments
001050169	10/25/00	Virginia Electric Cooperatives	Testimony of Kent D. Farmer
001050174	10/25/00	Delmarva Power & Light Co.	Comments
001120080	11/09/00	Commission	Case Appearance Sheet and Forms
001130028	11/21/00	Commission	Transcript of Hearing 11/01/00
001130029	11/21/00	Commission	Transcript of Hearing 11/02/00

APPENDIX C

RECOMMENDATION AND DRAFT PLAN

RETAIL ELECTRIC BILLING AND METERING SERVICES

RECOMMENDATION AND DRAFT PLAN

RETAIL ELECTRIC BILLING SERVICE

- 1) Authorize licensed CSPs and Aggregators to bill all retail customers directly for services rendered (separate billing option) effective January 1, 2002, subject to the conditions, regulations, and licensing requirements established by the Commission.**
- 2) Authorize licensed CSPs to offer a consolidated billing service to all retail customers, subject to the conditions, regulations, and licensing requirements established by the Commission, with two options:**
 - LDC consolidated billing option effective January 1, 2002; and**
 - CSP consolidated billing option effective no later than January 1, 2003.**
- 3) Exempt municipal electric utilities and electric cooperatives from requirements to support the CSP consolidated billing option. The exemption would remain in effect for each municipal or cooperative until:**
 - Any such municipal or cooperative, or its affiliate, offers competitive electric energy supply to retail customers in the service territory of any other Virginia incumbent utility. The competitive activities of power supply organizations, or their affiliates, should not be construed to represent competitive activity relative to individual member municipal or cooperative distribution utilities.**
 - Alternatively, a municipal or cooperative distribution utility that pursues such competitive activity may maintain its exemption by application to the Commission demonstrating good cause for relief.**
- 4) Authorize and direct the Commission to develop and implement such regulations as the Commission deems necessary to implement this plan in a manner that facilitates the development of effective competition in electric service for all customer classes and ensures reasonable levels of billing accuracy, timeliness, and quality, and adequate consumer readiness and protection.**

The Commission anticipates that basic responsibilities and conditions would include the following:

- **CSPs shall offer one or more of the three authorized billing options and secure affirmative agreement concerning them prior to enrolling a retail customer.**
- **CSPs shall coordinate the provision of the customer-selected billing option with the LDC and any other retail electric service providers.**
- **LDCs shall conduct billing activities in accordance with the customer-selected option at the request of the CSP, subject to any exemption otherwise applicable to any such LDCs.**
- **LDCs shall be required to support consolidated billing options under a “bill-ready” protocol.**
- **LDCs shall not be required to provide LDC consolidated billing for any retail account that receives services from more than one CSP and more than one aggregator.**
- **LDCs shall not be required to prorate LDC billing charges for one retail account to more than one CSP for purposes of CSP consolidated billing.**
- **LDCs and CSPs shall not be required to purchase accounts receivable in conjunction with consolidated billing options, but may negotiate such arrangements.**
- **LDCs and CSPs may “out-source” billing services by way of contract with wholesale providers of billing services, but shall nevertheless retain ultimate legal responsibility for compliance with relevant Virginia statutes and Commission regulations.**
- **Except as authorized by the Commission, LDCs shall not provide retail billing services to an affiliated CSP, unless the same such services are offered to all other CSPs under terms and conditions that are no less favorable than those offered to the affiliated CSP.**

The Commission would modify Virginia’s Consumer Education Program to incorporate information relative to CSP responsibility for coordinating billing arrangements, basic billing options that may be offered, and consumer protection measures.

- E) Authorize the Commission, upon application by an incumbent electric utility, to delay any element of the retail billing services plan for the period of time necessary, but no longer than one year, to resolve issues arising from**

considerations of billing accuracy, timeliness, quality, consumer readiness, or adverse effects on the development of competition in electric service. The Commission would report any such delays and the underlying reasons to the LTTF within a reasonable time.

- F) Amend the code of Virginia (§§ 58.1-2901 and 58.1-3814) to authorize and require CSPs issuing consolidated bills to retail consumers to bill, collect and remit state and local taxes that are assessed on the energy consumption of those consumers.**

- G) Clarify which costs related to competitive billing services established pursuant to § 56-581.1 should be recoverable by incumbent utilities and clarify Commission authority to calculate such costs and determine the most appropriate method of cost recovery.**

RETAIL ELECTRIC METERING SERVICE

- 1) The General Assembly should defer legislative action concerning retail electric metering service. The Commission recommends the continued study of metering issues.**

- 2) Should the General Assembly desire to enable transition to retail electric metering services, it could authorize the Commission to approve incumbent utility competitive metering service plans upon findings that such plans satisfy the eight statutory criteria established in § 56-581.1 of the Act.**