ATTACHMENT I

Submitted on behalf of the following:
Virginia Committee for Fair Utility Rates, Old Dominion Committee for Fair Utility Rates, TXI/Chaparral (Virginia) Inc., VML/VACo APCo Steering Committee, Virginia Citizens Consumer Council, Washington Gas Energy Services, Strategic Energy, Constellation New Energy, and Pepco Energy Services

- Section 56-595.C (iii) of Virginia's Electric Utility Restructuring Act ("Act") provides that the members of the Legislative Transition Task Force ("LTTF") " ... shall: ... monitor ... whether the recovery of stranded costs, as provided in § 56-584, has resulted or is likely to result in the overrecovery or underrecovery of just and reasonable net stranded costs.

- To monitor an "over-recovery" or "under-recovery," the LTTF must determine and compare two amounts: first, the amount that has been, or will be, available for recovery of just and reasonable net stranded costs, and, second, the amount of just and reasonable net stranded costs.

- Section 56-584 of the Act provides for two sources of revenue for the recovery of just and reasonable net stranded costs -- capped rates and wires charges.

- Thus, the amount that has been, or will be, available for recovery of such costs is the revenue collected from wires charges and capped rates. Because the incumbent utility must collect sufficient revenue to recover its costs of providing service, the revenue available for the recovery of just and reasonable net stranded costs is the revenue from capped rates and wires charges in excess of the revenue needed by the utility to recover its costs of providing service (*i.e.*, the utility's revenues in excess of its "revenue requirement").

- The following approach recognizes both sides of the inquiry required of the LTTF – *i.e.*, (i) the amount of just and reasonable net stranded costs and (ii) the amount available for recovery of such costs through wires charges and capped rates.

  > To calculate just and reasonable net stranded costs compare asset values based on the net present value of the difference between the revenues that arise from remaining in a regulated market (cost plus a fair return) and the revenues that arise in a competitive market (over the life of the assets). From this amount subtract revenues via capped rates (to the extent capped rates exceed actual and likely costs including a fair return) and wires charges to determine the over- or under-recovery of just and reasonable net stranded costs.

- The above approach represents an acceptable, administrative methodology for the calculation of both just and reasonable net stranded costs and their recovery under the Act. By reference to the "regulated market (cost plus a fair return)," the methodology incorporates traditional ratemaking concepts in a regulated environment, including consideration of a utility's regulated cost of service used in setting "just and reasonable" rates, and including concepts of "prudence," mitigation, verification, and the "netting" of stranded costs and margins. The methodology properly requires consideration of the useful life of assets.

- As is true of any administrative method of determining stranded costs, the above approach involves estimates based on long-term revenue and cost projections. Such estimates are data-intensive and highly sensitive to the underlying assumptions and models used in making them. Long-term projections, however, are almost always used, implicitly or explicitly, in valuing assets for commercial purposes. Reasonable forecasts of items affecting such calculations and the development of estimates under reasonable scenarios would be required.

- Incumbent electric utilities must make annual informational filings ("AIFs") that include specified financial information with the State Corporation Commission. The Commission reviews such

AIFs for compliance with Commission requirements for accounting and ratemaking treatment of costs and revenues. As approved by the Commission, AIFs would provide an acceptable basis for calculating a utility's historical cost of providing service and any revenues in excess of those costs that may be available for recovering stranded costs.

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