

Commonwealth of Virginia

State Corporation Commission

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

And the Governor of the Commonwealth of Virginia



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

Pursuant to Section 56-596 of the Code of Virginia

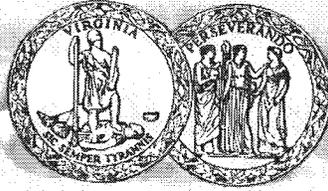
September 1, 2007

THEODORE V. MORRISON, JR.
CHAIRMAN

MARK C. CHRISTIE
COMMISSIONER

JUDITH WILLIAMS JAGDMANN
COMMISSIONER

COMMONWEALTH OF VIRGINIA



JOEL H. PECK
CLERK OF THE COMMISSION
P.O. BOX 1197
RICHMOND, VIRGINIA 23218-119

STATE CORPORATION COMMISSION

September 1, 2007

TO: The Honorable Timothy Kaine
Governor, Commonwealth of Virginia

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

The State Corporation Commission is pleased to transmit its report regarding the advancement of competition in Virginia as required by Section 56-596 of the Virginia Electric Utility Restructuring Act. Passage of Senate Bill 1416 during the 2007 session of the General Assembly modifies Virginia's transition to retail competition and is reflected in the reduced scope and scale of this report.

Respectfully submitted,

Handwritten signature of Theodore V. Morrison, Jr. in cursive script.

Theodore V. Morrison, Jr.
Commission Chairman

Handwritten signature of Mark C. Christie in cursive script.

Mark C. Christie
Commissioner

Handwritten signature of Judith Williams Jagdmann in cursive script.

Judith Williams Jagdmann
Commissioner

<i>INTRODUCTION</i>	1
<i>ACTIVITY RELATED TO RETAIL ACCESS</i>	4
<u>Full Retail Access</u>	4
<u>Suppliers/Aggregators</u>	4
<u>Marketing and Customer Participation</u>	7
<i>FUNCTIONAL UNBUNDLING AND WIRES CHARGES</i>	9
<i>CONSUMER EDUCATION</i>	11
<i>SIGNIFICANT DEVELOPMENTS</i>	12
<u>Rules Governing Retail Access</u>	12
<u>Minimum Stay</u>	13
<u>Distributed Generation and Net Metering</u>	13
<u>Business Practices</u>	16
<u>Generation and Transmission Additions</u>	17
<u>RTE Development and Competitive Conditions</u>	21
<u>Significant RTO-Related Dockets at FERC</u>	28
<u>Earnings of Virginia Investor-Owned Electric Utilities</u>	35
<u>Regulatory Proceedings</u>	36
<u>Stranded Costs</u>	44
<u>Financial Profile of Virginia’s Electric Utilities</u>	44
<i>APPENDIX A</i>	46

INTRODUCTION

Since the year 2001, the Virginia State Corporation Commission (“SCC” or “Commission”) has reported annually to the Governor and General Assembly regarding the status of electric industry competition in Virginia. The report also included information regarding wholesale and retail market conditions in states and regions thought to be relevant to Virginia’s transition to retail choice. The report included a chronology and summary detailing the progress of competition and activities of interest during the past twelve months. Although passage of S.B. 1416 in the 2007 legislative session modifies the Commonwealth’s transition to retail competition and establishes new regulatory requirements, this report is tendered by the Commission in compliance with § 56-596 of the 1999 Restructuring Act.

During the past year, the SCC continued the scheduled implementation of the 1999 Restructuring Act as required by statute¹. The Commission notes that, under S.B. 1416, mass market retail competition is scheduled to end on December 31, 2008. As such, this year’s report is significantly reduced in scope and scale. We also note that S.B. 1416 allows for retail choice beyond 2008 for large commercial and industrial customers and for certain aggregated load. We expect that, should this report continue to be statutorily required into the future, shopping activities for these customers, as permitted by S.B. 1416, will constitute the most of the content of such future reports.

As had been the case for several years, by July 1, 2007, the majority of the Commonwealth’s 3.2 million electricity customers had the right to choose an alternative supplier of electricity. In compliance with the 1999 Restructuring Act, all electricity customers

¹ Provisions of the 1999 Electric Utility Restructuring Act that exempt the generation of electric energy from regulation, prohibit public service corporations from exercising the power of eminent domain to acquire property for generation facilities, authorize the collection of wires charges, and authorize competition for metering and billing services are repealed.

of Virginia’s investor-owned utilities and electric cooperatives were eligible to switch to a competitive supplier except for about 29,900 customers in the southwestern part of the Commonwealth² and approximately 7,880 customers served by Powell Valley Electric Cooperative.

Virginia remains in a similar situation as the past several years in that there have not been any new competitive offers to provide electricity supply. Similar to other states that offer retail access, competitive activity remains stagnant in Virginia. One supplier continues to serve a small portion of Dominion Virginia Power (“Virginia Power” or “DVP”) customers in northern Virginia with a limited renewable resource and another supplier serves four large Delmarva customers. Staff is not aware of any other electricity supply offers.

We also note that the SCC, both by itself and as a member of the Organization of PJM States, Inc. (“OPSI”), continued to participate in various proceedings before the Federal Energy Regulatory Commission (“FERC”) this past year. While Virginia’s return to a form of cost-of-service regulation may alter the impact of PJM Interconnection, LLC (“PJM”)³ electricity market outcomes on Virginia’s homes and businesses, PJM markets and processes are still important to the Commonwealth’s energy future. For example, Virginia’s electric cooperatives and municipal utilities and their retail customers still face significant exposure to PJM wholesale market electricity prices. Also, Dominion Virginia Power currently purchases about

² Amending legislation passed by the 2003 Session of the General Assembly as House Bill 2637 to § 56-580 of the Code of Virginia, suspended application of the 1999 Restructuring Act to Kentucky Utilities operating in the Commonwealth as Old Dominion Power Company until such time as the utility provides retail electric services in any other service territory in any jurisdiction to customers who have the right to receive competitive retail electric energy.

³ PJM Interconnection, LLC is a regional transmission organization in the mid-Atlantic area comprised of all or part of 13 states: Delaware, Illinois, Indiana, Kentucky, Maryland, Michigan, New Jersey, North Carolina, Ohio, Pennsylvania, Tennessee, Virginia, West Virginia, and the District of Columbia. PJM ensures the reliable operation of the electric power supply system, facilitates an effective wholesale electricity market, and manages a long-term regional electric transmission planning process to maintain grid reliability and relieve congestion. Additional information is available at: <http://www.pjm.com>.

1700 MW of capacity and some associated energy in PJM administered wholesale markets and other Virginia utilities continue their participation in PJM markets as well.

On September 12, 2006, the Commissioners of the SCC wrote to the Governor and the General Assembly stating that “we cannot represent to you with confidence that the PJM-administered wholesale electric market is, in fact, competitive, nor can we represent to you that it is transparent.” We note here that events before FERC this past year demonstrate that this longstanding concern regarding PJM and its market monitoring function has been well founded. The issue of alleged improper PJM management interference with the PJM market monitor in the performance of his duties is discussed at length in this report. Proceedings regarding this matter continue before FERC as this report is finalized.

ACTIVITY RELATED TO RETAIL ACCESS

This section provides a review of activity during the past 12 months to further develop retail access in Virginia. In addition to supplying details on the number of customers who switched energy providers, there will also be discussions of the licensing of suppliers and aggregators and marketing activity.

Full Retail Access

Full retail access was available to practically all Virginia electricity consumers on January 1, 2004. Allegheny Power (“AP” or “APS”)⁴, Appalachian Power Company (“APCo”) and Delmarva Power & Light (“Delmarva”) implemented full customer choice within their respective Virginia service territories on January 1, 2002. To date, no competitive service provider (“CSP”) has registered with AP or APCo or any electric cooperative to provide service within their respective Virginia service territories. One CSP is fully registered with Delmarva.

Since January 1, 2003, six CSPs and five aggregators have registered with DVP to provide service within its Virginia territory. Only one CSP, Pepco Energy Services (“PES”), currently serves 1,280 residential customers and 18 commercial customers as of August 1, 2007.

Suppliers/Aggregators

The Commission is responsible under §§ 56-587 and 56-588 for licensing suppliers and aggregators interested in participating in the retail access programs in Virginia. These requirements remain in place after July 1, 2007. The Commission Staff (“Staff”) has established a streamlined mechanism for processing license applications⁵ and has an internal

⁴ Doing business in Virginia as the Potomac Edison Company (“PE”).

⁵ Guidelines to become licensed as a competitive service provider or aggregator are available on the SCC’s website at: <http://www.vaenergychoice.org/suppliers/licensesteps.asp>.

deadline of 45 days from the receipt of a complete application to the issuance of a license. Thus far, that deadline has been met for all applications. Currently, twenty-seven electric and natural gas CSPs and aggregators are licensed by the Commission to participate in full retail access. A current list of licensed suppliers can be found at the end of this section.

In order to participate in a local distribution company's ("LDC") retail choice program, a CSP must also complete a registration process with the utility. Electronic Data Interchange ("EDI")⁶ 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.

Currently, six CSPs (Dominion Retail, Pepco Energy Services, Washington Gas Energy Services, Commerce Energy, ECONergy Energy Company and Integrys Energy Services) are fully registered with DVP. Two additional CSPs are in the process of registering with DVP; Liberty Power Delaware and Liberty Power Holdings. Additionally, five aggregators are fully registered with DVP (American PowerNet Management, Independent Energy Consultants, Intel-Audits, Integrys Energy Services, and the City of Fairfax).

One supplier, Washington Gas Energy Services ("WGES"), is fully registered with Delmarva. The other electric utilities do not have any registered suppliers at this time to serve customers in Virginia.

⁶ EDI standards and guidelines are established by the Virginia Electronic Data Transfer Working Group ("VAEDT"). Further information may be found at <http://www.vaedt.org>.

**Licensed Competitive Service Provider/Aggregator
as of August 1, 2007**

Company Name	Customer Class(es)	LDC Service Territories in which CSP registered	Services Provided
Pepco Energy Services	R, C, I	DVP, WG, SG, CGV	Natural gas, electric and aggregation (E&G)
Dominion Retail, Inc.	R, C,I	DVP, WG	Natural gas, electric and aggregation (E&G)
Washington Gas Energy Svcs	R, C, I	DPL, DVP WG, SG, CGV	Electric & natural gas
Hess Corporation	C, I	WG, SG	Electric, natural gas and aggregation (E&G)
Bollinger Energy Corporation	C, I	WG, CGV	Natural gas
Tiger Natural Gas, Inc.	R, C, I	WG, SG, CGV	Natural gas
NOVEC Energy Solutions, Inc	R, C, I	WG, SG, CGV	Electric, natural gas and aggregation (E&G)
Utility Resource Solutions, LP	R, C, I		Natural gas
Old Mill Power Company	R, C, I		Electric, natural gas and aggregation (E&G)
Metromedia Energy, Inc.	C, I	WG	Natural gas
Stand Energy Corporation	C, I	WG	Natural gas
Intel-Audits, Inc.	C, I	DVP	Aggregation (E)
AOBA Alliance, Inc.	C		Aggregation (E&G)
UGI Energy Services, Inc.	C, I	WG	Natural gas
Constellation NewEnergy, Inc.	C,I	WG, SG	Electric, natural gas and aggregation (E&G)
City of Fairfax	R	DVP	Aggregation (E)
Integrus Energy Services., Inc.	R, C, I	DVP	Electric & Aggregation (E)
American PowerNet Management, LP	C,I	DVP	Aggregation (E&G)
JP Communications Group	R,C		Aggregation (E)
ECONnergy Energy Co., Inc.	R,C	DVP, WG	Natural Gas & Electric
Independent Energy Consultants, Inc.	R,C,I	DVP	Aggregation (E &G)
Commerce Energy	R,C,I	DVP	Electric and natural gas
Delta Energy LLC	C,I		Natural gas and aggregation (G)
Renaissance Energy, LLC	C,I		Electric and natural gas aggregation
New Era Energy, Inc.	R, C, I		Aggregation (E)
Liberty Power Delaware, LLC	C, I		Electric
Liberty Power Holdings, LLC	C, I		Electric

Customer Type: “R” residential; “C” commercial; “I” industrial

LDC Service Territories:

AEP-VA = AEP Virginia
 AP = Allegheny Power
 DVP = Dominion Virginia Power
 DPL = Delmarva Power & Light

CGV = Columbia Gas of VA
 WG = Washington Gas
 SG = Shenandoah Gas (division of WG)

Marketing and Customer Participation

For several years, the only significant marketing activity that has taken place in any electricity retail access program is in DVP's service territory with Pepco Energy Services providing "green power" to residential customers in Northern Virginia. The renewable generation source is biomass, consisting of landfill gas from a source in central Virginia. The offer consists of 51% renewable energy offered at a premium above DVP's price-to-compare. As of August 1, 2007, 1,280 residential and 18 commercial customers are enrolled with PES. No industrial customer has yet chosen a competitive electricity service provider.

With increased prices in 2006, Delmarva experienced its first switching activity with WGES enrolling four large commercial customers in Virginia. This followed Delmarva's request to increase its fuel factor by almost 50% in 2006 for its Virginia customers on the Eastern Shore. However, the Commission Order of June 19, 2006 in Case PUE-2006-00033, permitted an increase of about 25%, still a significant increase to customers. Disputes involving the agreement signed by Delmarva and Staff, and approved by the Commission, that speak to allowable pricing for Delmarva customers in light of that utility being permitted to divest the generation that had served Delmarva customers for decades continue and are discussed later in this Report. It should be noted that Delmarva has recently proposed a sale of its electric distribution franchise in Virginia to A & N Electric Cooperative.

The following table provides the number of electricity customers in the Virginia LDC territories that are currently eligible to shop for a CSP and how many are enrolled with a CSP as of August 1, 2007.

Company	# of Eligible Residential Customers*	# of Eligible Nonresidential Customers*	# of Residential Customers Currently Served By a CSP	# of Non-Residential Customers Currently Served By a CSP
DVP	1,973,430	209,121	1,280	18
AEP-VA	436,818	70,358	0	0
AP	83,369	14,324	0	0
DPL	18,972	3,269	0	4
NOVEC	124,469	8,769	0	0
REC	89,436	4,741	0	0
SVEC	31,444	5,558	0	0
CEC	8,742	1,658	0	0
A&N	10,332	787	0	0
BARC	11,650	581	0	0
CVEC	29,571	2,950	0	0
CBEC	5,750	603	0	0
MEC	28,915	1,770	0	0
NNEC	16,601	1,136	0	0
PGEC	9,440	1,073	0	0
SSEC	50,005	2,211	0	0
TOTAL	2,928,944	328,909	1,280	22

* Customer numbers as of December 31, 2006, reflecting those under the 1999 Restructuring Act. Passage of S.B. 1416 limits eligibility to large commercial and industrial customers of 5 MW or greater, effective on January 1, 2009.

FUNCTIONAL UNBUNDLING AND WIRES CHARGES

This section of the report will describe the steps involved with setting the price for energy while rate caps are in effect. Under current law, after the termination of capped rates at the end of 2008, retail choice ends for the vast majority of electric customers. As such, the procedures set forth below in this section are mainly in effect through the end of 2008. Given the economic realities of the competitive retail electricity market, no competitive activity for mass market customers is expected through the end of the capped rate period.

Section 56-590 of the 1999 Restructuring Act required Virginia's incumbent electric utilities to file plans detailing the proposed separation of the incumbents' generation, retail transmission and distribution functions and associated costs. The cases provided the companies an opportunity to file proposed retail access tariffs applicable to customers and third-party suppliers. As part of these cases, the Commission also "unbundled" the companies' retail rates for purposes of establishing wires charges.

Rate unbundling in these cases consisted of separating the utilities' bundled rates,⁷ for retail electricity service into separate components to reflect distribution, transmission and generation charges. Transmission charges were also unbundled into base and ancillary services. The companies' retail access tariffs addressed and defined the operational relationship between the utilities and competitive service providers in the provision of competitive generation service within the incumbents' respective service territories. These tariffs, among other things, addressed CSP creditworthiness requirements, noncompliance and default, load forecasting and scheduling procedures, and CSP billing. Each of the functional unbundling cases was discussed in previous Commission Reports and will not be restated here.

⁷ A bundled rate is a single rate for electricity comprised of all service elements: generation, transmission and distribution.

As was the case last year, the wires charges for this past year were also determined to be zero. Additionally, the 1999 Restructuring Act established June 30, 2007 as the termination date of any wires charges collection.

CONSUMER EDUCATION

No significant changes to the Virginia Energy Choice (“VEC”) consumer education program were implemented in the past year. The scope of the program is limited to maintaining a toll-free information line and website that give consumers basic facts on the energy market in Virginia. The VEC toll-free information line (1-877-YES-2004) is supported by an automated system that gives callers the choice of listening to a brief recording, leaving address information to receive education materials, or leaving a message for SCC Staff. The VEC website (www.vaenergychoice.org) provides a means for web visitors to read information on the changes to the energy market in Virginia, print information sheets, or request consumer materials be mailed to them.

Pending the outcome and response to the Commission’s Report to the Governor to comply with the directives of the Third Enactment Clause passed as part of S.B. 1416,⁸ the SCC currently expects to maintain the consumer education program at the existing modest level and provide for necessary updates to education materials regarding energy conservation and efficiency.

⁸ The SCC is directed to establish a proceeding to: (i) determine whether the ten percent electric energy consumption reduction goal can be achieved cost-effectively through the operation of such programs, and if not, determine the appropriate goal for the year 2022 relative to base year of 2006, (ii) identify the mix of programs that should be implemented in the Commonwealth to cost-effectively achieve the defined electric energy consumption reduction goal by 2022, including but not limited to demand side management, conservation, energy efficiency, load management, real-time pricing, and consumer education, (iii) develop a plan for the development and implementation of recommended programs, with incentives and alternative means of compliance to achieve such goals, (iv) determine the entity or entities that could most efficiently deploy and administer various elements of the plan, and (v) estimate the cost of attaining the energy consumption reduction goal. The SCC established Case No. PUE-2007-00049 to respond to these directives.

SIGNIFICANT DEVELOPMENTS

This section details activities formerly directed towards the establishment of the framework to facilitate effective competition. These activities have generally been terminated by the passage of S.B. 1416 during the 2007 legislative session.

Rules Governing Retail Access

The 1999 Restructuring Act directed the SCC to promulgate regulations to guide the transition⁹ to retail choice for energy services. The Rules Governing Retail Access to Competitive Energy Services (“Retail Access Rules” or “Rules”) adopted by Commission Order in Case No. PUE-2001-00013,¹⁰ currently consist of 12 sections in Chapter 312 (20 VAC 5-312-10 et seq.) of Title 20 of the Virginia Administrative Code and pertain to various relationships among the local distribution companies, competitive service providers and retail customers.

The Commission’s Staff continues to monitor and evaluate the development of the energy marketplace, including our experiences in Virginia, and recommend further adjustments to such Rules, if necessary. Future legislative or Commission decisions may also affect the developing energy marketplace. It is expected that the Retail Access Rules will be revised and amended as needed to reflect the requirements of S.B. 1416.

⁹ The rules were to be developed for both a competitive electricity market and a competitive natural gas market. Our focus in this report is the electricity market.

¹⁰ The Rules Governing Retail Access to Competitive Energy Services are available on the Commission’s website at: <http://www.scc.virginia.gov/division/restruct/rules.htm> .

Minimum Stay

For retail choice allowable after December 31, 2008, S.B. 1416 contains requirements regarding customer return to regulated service and how that return impacts the general body of ratepayers. The current Retail Access Rules permit the local distribution companies, under certain circumstances, to require large commercial and industrial customers who return to capped rate service to remain a customer of the LDC for a minimum period of 12 months.¹¹ The 1999 Restructuring Act as amended by the 2004 Session of the General Assembly as Senate Bill 651, directs the Commission to promulgate rules and regulations and adopt certain market-based pricing methodologies, governing the circumstances applicable to customers seeking to return to regulated service. These issues remain with S.B. 1416.

Distributed Generation and Net Metering

Distributed generation involves moving the generation of electricity away from large central units to smaller units located closer to the point of consumption. In accordance with §56-578 of the 1999 Restructuring Act, the Commission instructed the Staff to work with interested parties to develop proposed interconnection standards for distributed generation. The 1999 Restructuring Act specifies that the interconnection standards “shall not be inconsistent with nationally recognized standards acceptable to the Commission.”

Following several work group meetings and assistance of interested stakeholders, Staff drafted proposed interconnection standards for Virginia. The National Association of Regulatory Utility Commissioners (“NARUC”) has since adopted a set of distributed generation rules that states are encouraged to adopt. The Institute for Electrical and Electronic

¹¹ Retail Access Rule 20 VAC 5-312-80 Q

Engineers (“IEEE”) completed its work on establishing a national standard for distributed generation interconnections (“IEEE-1547”).

On August 8, 2005, the U.S. Congress enacted the Energy Policy Act of 2005, P.L. 109-58, 119 Stat. 594 (the "Energy Policy Act"), to develop, among other things, a new federal standard under the Public Utilities Regulatory Policy Act (“PURPA”) that would, if adopted by respective states, require each electric utility to make available, upon request, interconnection service to any customer that the utility serves. Section 1254 of the Energy Policy Act amends § 111¹² (d) of PURPA, 16 U.S.C. § 2621(d), by adding the following standard for consideration:

- (15) INTERCONNECTION - (A) In this paragraph, the term 'interconnection service' means service to an electric consumer by which an on-site generating facility on the premises of the electric consumer is connected to the local distribution facilities.
- (B)(i) Each electric utility shall make available, on request, interconnection service to any electric consumer that the electric utility serves.
- (ii) Interconnection services shall be made available under clause (i) based on the standards developed by the Institute of Electrical and Electronics Engineers entitled 'IEEE Standard 1547 for Interconnecting Distributed Resources with Electric Power Systems' (or successor standards).
- (C)(i) Electric utilities shall establish agreements and procedures providing that the interconnection services made available under subparagraph (B) promote current best practices of interconnection for distributed generation, including practices stipulated in model codes adopted by associations of State regulatory agencies.
- (ii) Any agreements and procedures established under clause (i) shall be just and reasonable and not unduly discriminatory or preferential.

Section 1254(b) of the Energy Policy Act requires each state regulatory authority to consider whether or not the interconnection standard would be appropriate for implementation. However, a state regulatory authority is not required to consider and determine whether or not

¹² Section 111 of the Public Utility Regulatory Policies Act of 1978, 16 U.S.C. § 2601et seq. ("PURPA"), requires each state regulatory authority, with respect to each electric utility for which it has ratemaking authority, to consider certain federal standards established by PURPA for electric utilities within its jurisdiction. Each such state regulatory authority is required to determine whether or not it is appropriate, to the extent consistent with otherwise applicable state law, to implement these standards.

such standard is appropriate to be implemented if, prior to the August 8, 2005, enactment of the statute: (1) the state implemented the standard or a comparable one; (2) the state regulatory authority conducted a proceeding to consider implementation of the standard or a comparable one; or (3) the state legislature voted on the implementation of the standard or a comparable one.

By Order dated August 8, 2006, entered in Case No. PUE-2006-00064, the Commission determined that the federal interconnection standards of the Energy Policy Act were not appropriate for the Commonwealth. The Commission further determined to establish a docket to develop such standards consistent with § 56-578 of the 1999 Restructuring Act and nationally recognized standards, are just and reasonable, and are not discriminatory or preferential.

Chapter 470 of the 2006 Acts of the Virginia General Assembly amended the net metering provisions of the Code of Virginia, Section 56-594 of the 1999 Restructuring Act to revise the definition of eligible customer-generator. As amended, eligible customer-generator means a customer that owns and operates, or contracts with other persons to own, operate, or both, an electrical generating facility that: (i) has a capacity of not more than 10 kilowatts for residential customers and 500 kilowatts for nonresidential customers; (ii) uses as its total source of fuel renewable energy, as defined in § 56-576; (iii) is located on the customer's premises and is connected to the customer's wiring on the customer's side of its interconnection with the distributor; (iv) is interconnected and operated in parallel with an electric company's transmission and distribution facilities; and (v) is intended primarily to offset all or part of the customer's own electricity requirements.

In response to this statutory change, by Order dated June 23, 2006, the Commission initiated Case No. PUE-2006-00073. In its June 23, 2006 Order, the Commission noted that

the current Net Energy Metering Rules¹³ must be revised first to reflect an expansion of the definition of eligible customer-generator such that it will include not only a customer who owns and operates an electrical generating facility, but also one who contracts with other persons to own, operate, or both, the electrical generating facility. In addition, the Commission noted that the Net Energy Metering Rules must also be revised to reflect the expansion of the types of permissible fuels for the electrical generating facility. In addition to previously permitted solar, wind, and hydro energy sources, energy from waste, wave motion, tides, and geothermal power are now permissible fuels. It is also now required that not only must the generator be located on the customer's premises, but must also be connected to the customer's wiring on the customer's side of its interconnection with the distributor.

In its Order of September 25, 2006, the Commission adopted the Regulations Governing Net Metering in Case No. PUE-2006-00073. All electric utilities subsequently submitted revised tariffs necessary to implement the Net Metering Rules.

Business Practices

The North American Energy Standards Board (“NAESB”) serves to develop and promote standards leading to a seamless marketplace for wholesale, and retail, natural gas and electricity.¹⁴ NAESB is accredited as a standards-setting body from the American National Standards Institute, charged by the FERC to develop business practices for use by market participants while moving toward a more uniform marketplace. NAESB ensures that its implementation standards and business practices will receive and utilize the input of all

¹³ In May of 2000, the Commission issued rules governing net energy metering promulgated pursuant to § 56-594 of the 1999 Restructuring Act. The net metering rules establish interconnection guidelines and tariffs under which an electric customer may interconnect a small wind, hydro or solar generating facility to the grid. The rules may be found at: <http://www.scc.virginia.gov/caseinfo/pue/e990788.htm> .

¹⁴ Additional information regarding the NAESB may be found at: <http://www.naesb.org> .

industry sectors through its open membership and balanced voting processes. This process continues to pursue the development of national standards regarding electronic protocols for regions to converge to the same EDI standards and consistent business rules to better promote a robust competitive energy market.

Staff continues to monitor activities of each quadrant and the various subcommittees to establish standards and business practices. Staff is particularly monitoring the NAESB efforts regarding business practices centered around demand-side management, conservation and energy efficiency. Staff also participates with NAESB's monthly conference calls to update regulators and continues to serve on the Advisory Council to NAESB.

Generation and Transmission Additions

Since 1998, eleven generating plants have been built and placed into commercial operation within the Commonwealth, adding 4,150 megawatts ("MW") to existing generation facilities physically located in Virginia.¹⁵ Approval of six additional facilities was granted by this Commission with capacities totaling 3,865 MW. None of these projects have yet been developed. One project requested and received Commission approval to renew its certificate in June 2007. Currently, three applications are pending before this Commission for a 39 MW wind turbine facility, a 300 MW combustion turbine extension, and a 585 MW circulating fluidized bed coal facility. Another project is planning to be built in West Virginia to help serve customers in southwest Virginia. The table at the end of this section provides further detail regarding the applications.

Virginia utilities have also expanded their transmission facilities. Construction of AEP's 765-kV electric transmission line in southwestern Virginia was completed and energized

¹⁵ These new plants are comprised of three Dominion generating stations, two ODEC facilities, and six independent power plants, representing 1,500 MW, 940 MW, and 1,710 MW, respectively.

on June 25, 2006. Certificates for three short transmission lines were completed and energized during the past year, four projects received approval and are under construction, and five certificate applications are currently pending before the Commission. Additionally, several new natural gas pipelines are now in service or have been approved.

As a result of PJM's Regional Transmission Expansion Planning process focusing on 2011 needs, PJM has approved two proposed 500 or above bulk transmission projects as the best solutions for addressing regional transmission reliability concerns (including Northern Virginia) by improving west-to-east power flows. These include an APS 500kV transmission line project from 502 Junction in Pennsylvania to Mt. Storm, West Virginia and a joint APS/DVP 100-mile 500 kV transmission line from Mt. Storm to Loudoun County in Virginia. Pursuant to a recent FERC order that is subject to further litigation, the cost of these lines will be allocated a proportionate share to all load in PJM including Virginia. PJM has also approved two DVP proposed projects, a 56-mile 500 kV Carson to Suffolk line and a 26-mile 230 kV Suffolk to Fentress line, to address reliability concerns in Eastern Virginia.

It should be noted that AEP recently proposed a new 765 kV transmission line stretching from West Virginia to New Jersey. AEP states that the proposed line is designed to relieve transmission congestion and enhance west-to-east power flows and reliability. However, PJM has not evaluated this proposal or its potential impacts with respect to the approved APS and DVP transmission projects discussed above.

Dominion Resources is studying the possible construction of up to two more nuclear generating units at DVP's North Anna Power Station. In 2003, the Company filed an application with the Nuclear Regulatory Commission ("NRC") for an early site permit. An NRC decision on the application is expected during 2007.

Summary of Construction Activity in Virginia
As of August 1, 2007

<u>Company/Facility</u>	<u>Size</u>	<u>Location</u>	<u>Docket</u>	<u>Fuel</u>	<u>C.O.D.*</u>	<u>Hearing</u>	<u>Order</u>
<u>New power plants in operation</u>							
Commonwealth Chesapeake	300 MW	Accomack County	PUE960224	3-OilCT	sum 01	1/23/97	8/5/98
Dominion Virginia Power	600 MW	Fauquier County Remington	PUE980462	4-GasCT	sum 00	1/05/99	5/14/99
Wolf Hills Energy, LLC	250 MW	Washington County Bristol	PUE990785	5-GasCT	sum 01	4/27/00	5/2/00
Dominion Virginia Power	360 MW	Caroline County Ladysmith	PUE000009	2-GasCT	sum 01	5/23/00	10/10/00
Doswell Limited Partnership	171 MW	Hanover County Doswell	PUE000092	1-GasCT	sum 01	6/13/00	6/15/00
Allegheny Energy Supply	88 MW	Buchanan County	PUE010657	2-C/GCT	Jun 02	none	6/25/02
Dominion Virginia Power-Possum	540 MW	Prince William County PP	PUE000343	convert/GasCC	May 03	1/16/01	3/12/01
Louisa Generation, LLC (ODEC)	472 MW	Louisa County BoswillTavrn	PUE010303	5-Gas CT	Jun 03	11/14/01	7/17/02
Tenaska Virginia Partners I, LP	885 MW	Fluvanna County	PUE010039	Gas CC	May 04	3/13/02	4/19/02
INGENCO Wholesale Power, LLC	16 MW	Chesterfield County	PUE-2003-00538	48-LFGas	Jun 04	none	4/12/04
Marsh Run Generation, LLC (ODEC)	468 MW	Fauquier County	PUE020003	3-GasCT	Sep 04	5/21/02	11/6/02
	4,150 MW						
<u>Power plants granted SCC certificates</u>							
Competitive Power Ventures (8/31/01/2/02)	520 MW	Fluvanna County	PUE010477	Gas CC	spr 06	1/9/02	SCC app 10/7/02
Tenaska Virginia Partners II, LP (8/15/01)	900 MW	Buckingham County	PUE010429	Gas CC	n/a	5/28/02	SCC app 1/9/03
CPV Warren, LLC (2/14/02)	520 MW	Warren County	PUE020075	2-GasCC	spr 05	7/24/02	SCC app 3/13/03
CPV Warren, LLC (3/07 renewal)	520 MW	Warren County	PUE-2007-00018	2-GasCC	spr 05	7/24/02	SCC app 6/20/07
Chickahominy Power, LLC (1/4/02)	665 MW	Charles City County	PUE010659	Gas CT	n/a	5/1/02	SCC app 3/12/04
James City Energy Park, LLC (3/8/02)	580 MW	James City County	PUE-2002-00150	2-GasCC	win 05	9/18/02	SCC app 3/12/04
	3,865 MW						
<u>New power plants that have applied for an SCC certificate</u>							
Highland New Wind Development	39 MW	Highland County	PUE-2005-00101	19-wind	fall 07	7/17/07	pending
Dominion Virginia Power	300 MW	Caroline County	PUE-2007-00032	2-dualCT	fall 08		pending
Dominion Virginia Power	585 MW	Wise County	PUE-2007-00066	CFBCoal	sum12		pending
Appalachian Power Company-Financing	(629 MW)	Mason County, WV	PUE-2007-00068	IGCC	sum12		pending
	924 MW						

*Commercial Operation Date

<i>Company/Facility</i>	<i>Size</i>	<i>Location</i>	<i>Docket</i>	<i>C.O.D.</i>	<i>Order</i>
<u>Transmission lines</u>					
DVP	230 kV- 4 mi	Loudoun	PUE010154	12/07	6/27/02 approved, under construction
DVP	230kV – 8 mi	Loudoun	PUE-2002-00702	12/08	10/8/04 approved, under construction
DVP	230kV – 7 mi	Norfolk	PUE-2004-00139	11/07	8/29/05 approved, under construction
DVP	230kV- 16 mi	Loudoun	PUE-2005-00018	6/08	pending
DVP	230kV – 16 mi	Fauquier & Prince William	PUE-2006-00048	5/09	11/13/06 approved, under construction
DVP	230kV - 5mi	Stafford	PUE-2006-00091	6/09	pending
DVP	500/230kV-82 mi	Dinwiddie-Suffolk	PUE-2007-00050	6/11	pending
DVP	500kV	Meadowbrook-Loudoun	PUE-2007-00031	6/11	pending
TrailCo	500kV	Mt Storm-Meadowbrook	PUE-2007-00033	6/11	pending
<u>Natural gas pipelines</u>					
DVP	20” – 14 mi	Prince William County	PUE000741	2003	SCC app 11/5/01, in-service 7/03
Duke Energy Patriot Extension	24”-95 mi	Wythe to Rockingham Cty	FERC	2004	FERC app 11/20/02, in service 2/04
Dominion Transmission Greenbrier	30”-279 mi	Charleston to Rockingham	FERC	2007	FERC app 4/9/03, extended 2 years
Saltville Gas Storage Co., LLC	24”-7 mi	Saltville / Chilhowie	PUE010585	2003	SCC approved 1/22/03, in-service 8/03
Tenaska VA II Partners, LP	20”-14 mi	Buckingham County	PUE010429(ref)	n/a	n/a
Cove Point East Pipeline capacity expansion	87 mi	Maryland to Loudoun	FERC	2008	pending FERC approval
Cove Point LNG terminal capacity expansion	9.6BCF storage	Cove Point, Maryland	FERC	2008	pending FERC approval
<u>Regional Transmission Organization membership</u>					
AP (PJM West)	PUE-2000-00736	Order of 10/8/04 approving transfer of operation of transmission facilities to PJM West, implemented 3/1/02.			
Conectiv (PJM East)	PUE-2001-00353	Order of 5/20/04 recognizes current membership in PJM since 3/97 satisfies RTE Rules.			
KU (MISO)	PUE-2000-00569	EXEMPT 2003 via §56-580 G, Withdrawal from MISO effective September 1, 2006.			
AEP (PJM West)	PUE-2000-00550	Order of 8/30/04 approving transfer of operation of transmission facilities to PJM West, implemented 10/1/04.			
DVP (PJM South)	PUE-2000-00551	Order of 11/10/04 approving transfer of operation of transmission facilities to PJM, implemented 5/1/05.			

RTE Development and Competitive Conditions

Section 56-579 G of the 1999 Restructuring Act requires the Commission to report annually “its assessment of the success in the practices and policies of the regional transmission entities (“RTE”) facilitating the orderly development of competition in the Commonwealth.” Earlier reports focused on the development of RTEs. In the 2006 report we noted that all of Virginia’s investor-owned electric utilities had shifted management of their transmission facilities to an RTE. APCo, Allegheny Power, Delmarva and Dominion are currently participating in PJM.¹⁶ Kentucky Utilities withdrew its four and a half year membership from the Midwest Independent Transmission System Operator (“MISO”) on September 1, 2006. This report will discuss further developments in RTE participation and the impacts of RTE operations on the development of competition.

Kentucky Utilities

Kentucky Utilities (“KU”) doing business in Virginia as the Old Dominion Power Company transferred control of its transmission facilities to MISO on February 1, 2002. On October 7, 2005, KU filed an application with the FERC and the Kentucky Public Service Commission for approval of withdrawal from MISO. In its application, KU raised concerns regarding significant cost issues associated with its continued participation in MISO. Many of these concerns were associated with the design and operation of MISO’s energy market. KU believed that participation in the MISO energy market had resulted in the suboptimal economic dispatch of its generating units, which had a detrimental impact on its fuel expenses. In short, KU argued that withdrawal from MISO would result in a significant net economic benefit for

¹⁶ Delmarva has participated in PJM since PJM’s inception decades prior to passage of the Restructuring Act. PJM accepted control of Allegheny’s transmission facilities on April 1, 2002, AEP’s on October 1, 2004, and Virginia Power’s on May 1, 2005.

the company and its customers. On March 17, 2006, the FERC conditionally approved withdrawal of KU from MISO. The Kentucky Commission approved KU's withdrawal from MISO on May 31, 2006. KU withdrew from MISO's on September 1, 2006. At that same time, KU contracted with the Tennessee Valley Authority to act as its reliability coordinator and with the Southwest Power Pool to act as its open access transmission tariff administrator. It should be noted that § 56-580 G relieves KU of any obligation to be in an RTO pursuant to Virginia law.

Competitive implications of PJM and the PJM markets

As a result of requirements set forth in the 1999 Virginia Electric Utility Restructuring Act, Virginia's largest electric utilities have now been integrated into PJM for at least two years. Consequently, the Commission Staff has now begun to gather and review data to facilitate a better understanding of the implications of PJM membership on the development of competition and to assess the competitiveness of the electric utility industry in the Commonwealth. This task remains extremely difficult given the sheer volume of PJM's operating rules and the complexities associated with the transmission grid. Although S.B. 1416 draws the Commission's attention towards policies and tasks made by and for Virginia, PJM market outcomes remain important for Virginia's electric consumers. Virginia utilities will continue to participate in PJM markets and processes in substantial ways. For example, Virginia's electric cooperatives and municipal utilities and their retail customers still face significant exposure to PJM wholesale market electricity prices. Also, Dominion Virginia Power currently purchases approximately 1700 MW of capacity and some associated energy in PJM administered wholesale markets as well. From the purchase and sale of electrical

capacity and energy to the participation in PJM demand response programs to the proposed construction of major bulk transmission lines, PJM matters to Virginia.

The past year produced revelations relevant to several longstanding concerns of the Commission and its Staff. Specifically, the Commission has repeatedly stated to both PJM and FERC its belief that PJM's Market Monitoring Units ("MMU") simply cannot be both simultaneously independent and internal as claimed by PJM. The Commission, both individually and as part of OPSI¹⁷, has participated in several FERC proceedings advocating a change in PJM's corporate structure that would have the MMU cease reporting to PJM management in favor of alternative reporting arrangements that would, hopefully, foster greater MMU independence from PJM management.

On April 5, 2007, PJM Market Monitor Dr. Joe Bowring stated in public testimony before FERC that PJM management was inappropriately interfering with his activities as market monitor. According to Dr. Bowring, PJM ordered the market monitor to, among other things, change the language in the 2006 State of the Market Report and refrain from reporting to FERC an instance of generator market power abuse as determined by the MMU. In response to Dr. Bowring's allegations, on April 23, 2007, the Commission, both individually and as part of OPSI, filed a complaint at FERC alleging that PJM violated its own tariff by inappropriately interfering with the operations of the PJM MMU. This litigation is currently pending at FERC in docket EL07-56-000 and EL07-58-000 and is further discussed elsewhere in this report.

¹⁷ "OPSI" is the Organization of PJM States, Inc., established March 13, 2005. The members are the: Delaware Public Service Commission; District of Columbia Public Service Commission; Illinois Commerce Commission; Indiana Utility Regulatory Commission; Kentucky Public Service Commission; Maryland Public Service Commission; Michigan Public Service Commission; New Jersey Board of Public Utilities; North Carolina Utilities Commission; Public Utilities Commission of Ohio; Pennsylvania Public Utility Commission; Tennessee Regulatory Authority; Virginia State Corporation Commission; and the Public Service Commission of West Virginia.

The above-mentioned litigation is just the latest example of the Commission's involvement in FERC matters relating to the PJM market monitoring issue. In addition to these efforts, Staff collected certain information, reviewed post-RTE integration reports submitted by the utilities and PJM, and reviewed PJM's State of the Market Report. Additionally, the Staff is seeking Virginia specific information regarding certain indicators of market concentration and competitive conditions. The Staff has also sought additional information needed to assess the various bidding strategies of generators participating in the PJM energy markets. While the Staff has obtained some of the requested information, it continues to pursue additional data from PJM. Again it is important to note that, given the seriousness of the pending litigation at FERC, the Commission and Staff have questions about prior data submissions, or lack of such submissions, provided by PJM or the PJM MMU in response to numerous Staff data requests over the past few years. Staff views several of these requests as still pending and is working with PJM and the PJM MMU to independently evaluate PJM's wholesale market operations as those operations will continue to impact Virginia.

In the absence of adequate PJM responses to requests for information, the Staff continues to review other available information in conjunction with its assessment of the effectiveness of the PJM markets in Virginia. The following discussion represents some of the Staff's preliminary observations derived from that assessment.

Prices associated with PJM's energy markets are based on a system of locational marginal prices ("LMP"), where the price for a given time increment is based on the generator's offer to sell electricity submitted by the last unit needed to operate during that time period, as selected through a competitive auction. All units selected during this time interval receive the same payment based on the last selected bid, i.e. the market clearing price. Since

the various components of the transmission system have differing levels of capacity, PJM has to control flows across its system so that no single transmission element becomes overloaded. PJM controls transmission flows by dispatching generating units based on the bids of the units and physical conditions. The results of this dispatch are the basis for LMPs throughout the PJM region. LMPs within PJM are typically not uniform for each time interval since the PJM grid cannot always reliably accommodate a free flow of power throughout the entire PJM footprint.

During these constrained periods, market clearing prices begin to separate throughout PJM to reflect the accessibility of load to generation or conversely of generation to load. In effect, the LMP system recognizes that PJM's electricity market segments into smaller markets as the ability of the transmission grid to reliably accommodate economic transfers of power decreases. Unfortunately, transmission flows are a function of an ever-changing set of conditions that include but are not limited to generating unit availability and output, transmission configuration, and load levels. As such, the size of a particular electrical market is never static.

Generally, electrical markets separate and become smaller as the electrical system becomes more constrained. As markets grow smaller they become less competitive since the available universe of buyers and sellers shrink. During unconstrained periods there are many buyers and sellers. At the other extreme, when the system is very constrained, a relevant electrical market may consist of a single buyer or seller. In other words, the competitive playing field is often not level or balanced. The field typically becomes less balanced as the transmission system becomes more constrained. As such, the degree of separation in LMPs throughout PJM can provide insights with regard to the competitiveness of the electrical system for a given area.

While the degree of LMP price separation within PJM can provide insights as to the competitiveness of the segmented electrical markets, it should be noted that factors other than transmission constraints can contribute to the degree of price separation and that the degree of price separation is not an absolute indicator of competitiveness. The greatest difference in price between regions may not correspond with the time when the system is the most constrained due to other factors that may impact LMPs. For example, LMP price differences may be greater when the spread between fuel prices, i.e. between coal and gas prices, is higher even if dispatch and transmission flows are identical.

LMP prices can also be used as indicators of what competitive prices would be in the absence of regulation or price caps. The LMP market is in effect a spot market where the spot price of electricity is clearly defined. Once again, however, LMP prices should not be viewed as an absolute indicator of the market price of electricity. Competitive prices may also be derived through bilateral contracts or auctions. While not absolute, LMP is a good indicator of potential market prices since they may also form the basis for longer-term pricing arrangements. Such arrangements will likely reflect expectations of LMPs over the terms of those arrangements as well as the risk premiums or discounts that may be required as a result of risk aversion.

Given the insights that can be obtained from LMPs, the Staff has collected LMP information and analyzed that information in a number of ways. The following table shows the simple average day-ahead LMPs for various Virginia utility zones and the entire PJM footprint for the twelve month period ending June 30, 2007:

AEP	\$42.30 / MWh
APS	\$49.80 / MWh
Delmarva Power	\$56.44 / MWh
Dominion Power	\$56.94 / MWh
PJM	\$49.84 / MWh

As can be seen, the Delmarva and Dominion zones are the more expensive zones within Virginia. AEP is a less expensive zone. This simple comparison is consistent with other LMP comparisons, which consistently indicate that Dominion and Delmarva LMPs are typically among the highest in PJM.

The following table presents the load-weighted monthly average day-ahead LMPs for AEP, APS, Dominion Power, and the entire PJM footprint for the twelve months ending June, 30, 2007¹⁸. The load weighted LMP price is a better indicator of market prices in that the actual costs incurred to serve load will vary with the respective load and price for the varying time intervals. LMPs paid by loads vary hourly.

Average Monthly Load Weighted LMP

	<i>AEP</i>	<i>APS</i>	<i>Dom</i>	<i>PJM</i>
	/MWh	/MWh	/MWh	/MWh
Jul	\$52.54	\$66.86	\$ 78.69	\$66.12
Aug	\$57.07	\$71.98	\$ 94.42	\$75.51
Sep	\$33.48	\$35.57	\$ 39.07	\$36.99
Oct	\$38.64	\$39.92	\$ 41.15	\$40.60
Nov	\$36.85	\$46.39	\$ 39.64	\$42.40
Dec	\$36.72	\$39.31	\$ 45.62	\$41.54
Jan	\$38.16	\$44.01	\$ 51.03	\$44.24
Feb	\$58.35	\$71.54	\$ 77.10	\$68.02
Mar	\$42.38	\$54.84	\$ 63.85	\$53.83
Apr	\$48.34	\$56.59	\$ 65.34	\$56.22
May	\$37.72	\$43.18	\$ 49.58	\$43.68
Jun	\$48.67	\$62.65	\$ 71.37	\$60.63
12 Months	\$44.46	\$53.37	\$61.41	\$53.38

The Staff has also examined differences in hourly LMP prices for the Virginia Zones and PJM in an attempt to gain insights as to the degree of market segmentation impacting competition in the Commonwealth. During periods of congestion, prices will be higher or

¹⁸ PJM does not post the hourly loads for the Delmarva zone and the Staff could not calculate the load weighted LMP for that zone.

lower in the various zones depending on each zone's access to specific generating units. If a given zone has less access to low cost generation as a result of transmission congestion it will experience higher LMPs. Conversely, zones that have lower cost generation that would otherwise be dispatched in the absence of transmission congestion would see lower LMPs when the system is congested. For example, the average hourly LMP for the AEP zone exceeded the PJM-wide average LMP during 261 hours and was below the PJM-wide average LMP during 8,499 hours during the twelve months ending June, 2007. On the other hand, LMPs in the Dominion zone were lower during only 1,275 hours and higher than the PJM-wide average LMP during 7,485 hours for this same period. This indicates that the AEP zone generally has access to lower cost generation while the Dominion zone has far less access to cheaper generation.

Significant RTO-Related Dockets at FERC

Virginia's Restructuring Act directs the Commission to participate "to the fullest extent possible" in RTO-related dockets at the FERC (§ 56-579 C). The Commission is also directed by the 1999 Restructuring Act to provide an annual report to the CEUR concerning the Commission's assessment of RTOs relative to the development of competitive markets in Virginia (§ 56-579 F).

PJM's Reliability Pricing Model

On August 31, 2005, PJM filed under sections 205 and 206 of the Federal Power Act ("FPA") a proposal for a reliability pricing model ("RPM") to replace its then current capacity obligation rules. RPM is a proposal to fundamentally change the manner and dollar amount that generating units are compensated for making generating capacity available to participate in the PJM markets. PJM's RPM proposal addresses a key concern that competitive markets will

not ensure adequate generating capacity at reasonable cost to consumers. Accordingly, the goal of RPM is to incent the right amount of supply-side and demand-side infrastructure to ensure grid reliability and a target reserve margin. The proposed RPM is, in part, an administrative mechanism that will set generator payments at the intersection of an auction-based supply curve and an administratively determined demand curve. The annual auctions would solicit capacity offers for one year to four years into the future. The intersection of those points will occur at a point that yields an administratively determined level of capacity necessary to provide adequate reliability. This process is done separately for different sub-regions within PJM to take into account regional deliverability issues. The proposal also includes a reliability backstop feature that has PJM enter into long-term contracts for capacity if the capacity auction fails to produce a sufficient level of capacity necessary to meet PJM reliability requirements.

FERC docketed the matter as Nos. EL05-148 and ER05-1410. On April 20, 2006, FERC issued an “initial” order in this matter that found PJM’s existing capacity construct was unjust and unreasonable. No evidentiary hearing had been conducted.

The Commission stated that, like FERC, it is “well aware that there must be an adequate supply of generation for the near- and long-term future.” The Commission expressed concern with PJM's proposed RPM since that, to date, there has been no showing that PJM’s proposed capacity market redesign will, or can, provide additional generation at just and reasonable rates. The Commission advised FERC that RPM, as proposed, would increase the cost of generation to customers today and that proponents of RPM have not established that customers will receive more than an empty promise for their increased payments.

The Commission’s position is that PJM has not established that a capacity construct based on the proposed RPM will result in just and reasonable rates nor has PJM demonstrated

that its proposal will resolve resource adequacy problems. In addition, the Commission's position is that PJM has not established that the proposed RPM will move its market closer towards transparency and competitiveness and that, in fact, RPM may make these goals more elusive. The Commission closed its June 1, 2006 comments by re-stating its position that FERC should reject PJM's RPM filing.

By order of December 22, 2006, FERC accepted a settlement agreement in this docket subject to certain modifications. PJM has subsequently conducted two auctions under the procedures approved by FERC. This matter continues to be subject to litigation as not all stakeholders, including this Commission, are satisfied with the settlement or the results of the auctions.

Issues Related to PJM's Market Monitoring Function

The SCC and its staff have long been concerned with market monitoring issues at PJM.

OPSI¹⁹ has shared these concerns as well. Last year's Report, for example, stated:

Over the past year, the SCC and its staff sought to obtain data and information necessary to carry out the market monitoring that was envisioned by the General Assembly when the Act was first passed in 1999. To date, our staff's efforts to work with PJM have met with mixed results. Difficulties in obtaining vital data and information leaves the Virginia State Corporation Commission unable to independently warrant that PJM's competitive wholesale electricity markets are workably competitive.

PJM has long claimed that its Market Monitoring Unit was independent and free to referee the workings of PJM's competitive wholesale electricity market without interference from PJM stakeholders or PJM management. The SCC and, later, OPSI have questioned the ability of the MMU to be both simultaneously internal and independent given PJM's corporate

¹⁹ Please note that OPSI's current president is SCC Commissioner Mark C. Christie. His one-year term expires on December 31, 2007.

structure. This PJM corporate structure places the MMU under PJM management, leaving the PJM MMU dependant on PJM management for many types of corporate support. This support includes but is not limited to employment tenure for the market monitor and his employees, access to PJM generated data and MMU access to PJM operational employees. As mentioned earlier and described in greater detail below, the SCC's concerns were validated by public record statements of PJM market monitor Joe Bowring on April 5, 2007, during a FERC technical conference held in response to repeated stakeholder complaints regarding the independence of the PJM MMU. Information made available in FERC proceedings related to Dr. Bowring's claims of interference by PJM management indicate that PJM may have violated its own tariff as it relates to market monitoring.

Last year's report contained substantial discussion related to PJM's attempt to alter Attachment M of its FERC Open Access Transmission Tariff. Attachment M sets forth PJM's market monitoring plan and the protocols for PJM's Market Monitoring Unit. Briefly, on April 3, 2006, PJM filed under section 205 of the FPA to amend Attachment M of its tariff, which governs its market monitoring function. FERC opened Docket Nos. ER06-826-000 and ER06-826-001 to hear this matter. In an order dated July 14, 2006, FERC found that PJM's proposed changes generally conform with the general principles established by FERC's Policy on Market Monitoring ("Policy Statement"),²⁰ and that application of that policy to PJM is just and reasonable.

This FERC docket saw heavy participation by state commissions, consumer advocates and transmission dependant utilities (municipals and cooperatives). Other stakeholders also protested or intervened. The main issue for state commissions, including OPSI, as well as

²⁰ Market Monitoring in Regional Transmission Organizations and Independent System Operators, Policy Statement on Market Monitoring Units, 111 FERC ¶ 61,267 (2005).

consumer representatives and transmission dependent utilities was the independence of PJM's market monitoring unit. Specifically, these parties --- including the SCC --- sought to use this docket to make important changes in the relationship between PJM management and the PJM MMU. The Virginia State Corporation Commission, along with these other numerous interveners, advocated greater structural separation between PJM management and the PJM MMU. Alternative means to achieve this result were advanced by the parties. PJM did not propose any tariff revisions regarding the independence of the MMU and opposed any changes to its current structure as it relates to market monitoring.

On July 14, 2006, FERC issued an Order in Docket ER06-826-000 that generally accepted PJM's filing in that matter.²¹ The July 14 Order found that PJM's April 3 filing generally conformed with the general principles established by FERC's Policy on Market Monitoring and that application of that policy to PJM was just and reasonable.²² Further, regarding the crucial issue of MMU independence, the FERC stated:

Protestors whose [sic] seek changes regarding the independence of the MMU and its reporting obligations are making recommendations that are not raised in this filing and are therefore beyond the scope of this proceeding. We see no reason to institute a section 206 proceeding to address matters that are more global than the issues properly before us.²³

Several parties, including OPSI, sought rehearing of the July 14 Order. By order issued December 5, 2006, FERC denied all rehearing requests but stated its intention to initiate a review of its MMU policies more broadly by conducting a technical conference then planned for early 2007.²⁴ That technical conference was held April 5, 2007. It was at this technical

²¹ *PJM Interconnection, L.L.C.*, 116 FERC ¶61,038 (2006), (July 14 Order), at 1

²² July 14 Order, at 1.

²³ July 14 Order, at 9.

²⁴ *PJM Interconnection, L.L.C.*, 117 FERC ¶61,263 (2006), (December 5 Order), at 1.

conference that PJM MMU Bowring raised on-the-record allegations that PJM management was inappropriately interfering with the PJM MMU.

As a result of Dr. Bowring's April 5th testimony, OPSI filed on April 23, 2007, a complaint regarding actions by PJM that impair the independence and effectiveness of its MMU and that constitute violations of PJM Market Monitoring Plan contained in Attachment M to PJM's Open Access Transmission Tariff, as well as FERC's Orders and the Federal Power Act. PJM filed an Answer arguing that FERC should either dismiss the complaint or hold it in abeyance until PJM itself completes an "independent" investigation of the allegations giving rise to the Complaint. By Order issued May 18, 2007, FERC issued data requests to PJM and Joseph E. Bowring, Market Monitor for PJM, deferring action on OPSI's proposal for interim relief requested by OPSI until it receives the responses to such data requests.

PJM and Dr. Bowring submitted their initial data requests on June 12, 2007, wherein Dr. Bowring detailed multiple instances in which PJM sought to prevent the MMU from communicating candidly and freely with market participants and state commissions about matters of legitimate wholesale market design, exercise of market power, and other relevant issues, as required by tariff. PJM, on the other hand, asserted that it had not interfered with the market monitor's operation or independence, and that any appearance to the contrary was the result of standard internal PJM collaboration and peer review. PJM also asserted that any delay in release of MMU reports and opinions was the result of Dr. Bowring's failure to comply with PJM internal procedures.

On July 2, 2007, PJM filed a response to Dr. Bowring's affidavit and response to FERC's data requests, in which PJM stepped up its attacks on the market monitor, claiming that Dr. Bowring was misconstruing peer review and internal corporate management as interference, all in a campaign to obtain additional independence from PJM management. PJM

requested that FERC dismiss the complaints, finding that it had not violated its tariff and FERC mandates regarding RTO market monitoring. OPSI and Dr. Bowring each responded to PJM's July 2, 2007 filing, arguing that the evidence submitted to date indicates that PJM had in fact violated the terms of its tariff, and requesting that FERC set this matter for hearing.

On August 2, 2007, PJM, pursuant to Rule 602 of the Federal Energy Regulatory Commission's Rules of Practice and Procedure²⁵, filed a contested unilateral Offer of Settlement, purporting to resolve outstanding issues in these two consolidated complaints regarding PJM's ongoing pattern of interfering with the independence and judgment of its internal Market Monitoring Unit. OPSI opposed the proposed settlement. In a pleading filed on August 22, 2007, OPSI argued that FERC should reject PJM's Offer of Settlement, should immediately set this matter for hearing, and should grant the request for interim relief set forth in OPSI's initial complaint.

PJM's unilateral Offer of Settlement asserted that the current system is "not working," and proposed an external market monitoring unit, to be led initially by Dr. Bowring. This unit would operate under strict conditions set forth in PJM's tariff and the contract with the external MMU. PJM's offer is truly unilateral – OPSI has not agreed to PJM's proposal, nor have the other complainants in these consolidated dockets, nor has Dr. Bowring or any of the twenty-five interveners in these proceedings.

OPSI has taken the position that PJM's proposal is bad policy, fails to address PJM's historic violations of its tariff, and would permit PJM to continue interfering with the PJM market monitor. For these reasons, OPSI urged that FERC reject the proposed settlement. Nevertheless, OPSI has agreed to a series of meetings with PJM management²⁶ to further

²⁵ 18 C.F.R. § 385.602.

²⁶ Note that PJM announced that Executive Vice President and COO Audrey A. Zibelman would leave PJM in late June, 2007 for other opportunities and President and CEO Phillip G. Harris elected to retire on or about July 23, 2007. The PJM Board of Managers appointed Karl V. Pfirman interim President and CEO.

discuss market monitoring issues. OPSI seeks a deliberate process that includes all stakeholders' views even if such a process takes longer to resolve than PJM might prefer. Such a result would, in OPSI's opinion, be superior to a "settlement" imposed on the parties by FERC.

Earnings of Virginia Investor-Owned Electric Utilities

Each investor-owned utility operating in Virginia with annual revenues in excess of \$1,000,000, is required to make an Annual Informational Filing ("AIF") with the Commission. The purpose of these filings is to allow the Commission to, among other things, monitor the earnings generated by currently approved tariff rates. One section of the AIF, referred to as the Earning Test Analysis, assesses current earnings on a regulatory basis by making limited adjustments to the utility's financial records. Staff conducts a review of each filing and prepares a report to the Commission stating its findings. The following chart shows the calendar year 2001, 2002, 2003, 2004 and 2005 earnings of each investor-owned electric utility based on Staff's review of the earnings test analysis included in each company's AIF. The earnings reflect the bundled (generation, transmission and distribution) Virginia jurisdictional return on average common equity adjusted to a regulatory basis.

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Dominion Virginia Power	9.80%	23.31%	14.40%	15.52%	6.88%
Appalachian Power	9.52%	12.79%	13.96%	6.53%	7.44%
Potomac Edison	13.80%	15.12%	10.35%	14.09%	15.92%
Delmarva	6.47%	1.96%	4.33%	6.02%	8.04%
Kentucky Utilities ²⁷	10.76%	14.19%	13.43%	10.34%	8.08%

Each of the companies listed below filed financial data for calendar year 2006 during

²⁷ Staff did not review and adjust Kentucky Utilities reported Earnings Test results because the Company has no regulatory assets and the applicability of the Restructuring Act to Kentucky Utilities was suspended effective July 1, 2003.

the first half of 2007. Staff has not yet completed its review of the 2006 data. Unless otherwise noted, the following chart reflects bundled per books Virginia jurisdictional return on average common equity on a regulatory basis as included in each company's AIF.

	<u>2006</u>
Dominion Virginia Power	8.57%
Appalachian Power	8.05%
Potomac Edison ²⁸	10.55%
Delmarva	(9.76%)
Kentucky Utilities	5.33%

Investor-owned electric utilities subject to § 56-585.1 of the Code will not file AIFs based on 2007 operations. The Commission will initiate a rate proceeding for each of these utilities in the first six months of 2009 based on calendar year 2008 financial data. Beginning in 2011, each utility subject to § 56-585.1 of the Code will make biennial filings with the Commission.

Regulatory Proceedings

Appalachian Power

General Rate Case

On May 4, 2006, APCo filed an application²⁹ for a general rate increase pursuant to Chapter 10 of Title 56 and § 56-582 of the Code, and the Commission's Rules Governing Rate Increase Applications and Annual Informational Filings. APCo requested an annual base revenue increase of \$198.5 million to be effective June 3, 2006. Such proposed increase was based on a return on equity of 11.50%. The Commission issued its Order for Notice and Hearing and Suspending Rates on May 30, 2006, which, among other things, allowed the proposed rates to go into effect on an interim basis subject to refund on October 2, 2006.

²⁸ Reflects fuel expenses consistent with the Memorandum of Understanding adopted in Case No. PUE-2000-00280. Company reported an average return on common equity of 2.93%.

²⁹ Case No. PUE-2006-00065, *Application of Appalachian Power Company, For an increase in electric rates.*

On May 15, 2007, the Commission issued its Final Order in the case.³⁰ The Commission found a revenue increase of \$24.0 million to be just and reasonable and required refunds of interim rates that produced revenues in excess of that amount. Further, the Commission found a reasonable return on equity range to be 9.6%-10.6%, with rates being determined on 10.0%.

Adjustments to Capped Rates for Environmental and Reliability Costs

On July 1, 2005, APCo filed an application³¹ with the Commission for (i) an adjustment to its capped rates and (ii) approval of a methodology for making such rate adjustments in the future. The application requested approval of a rate surcharge, the “E&R Factor,” to recover post-July 1, 2004 incremental costs for environmental compliance, and transmission and distribution reliability (“environmental and reliability costs”) pursuant to § 56-582 B (vi) of the Code. APCo requested that its proposed surcharges be made effective August 1, 2005, on an interim basis subject to refund. The proposed 9.18% surcharge was designed to collect approximately \$62.1 million annually.

The Commission entered its Final Order in this proceeding on November 20, 2006, authorizing APCo to implement a E&R Factor designed to recover approximately \$21.3 million over a one year period beginning December 1, 2006. The Final Order also required APCo to track on a continuing basis (1) incremental E&R costs, and (2) all base rate and surcharge recoveries of incremental E&R costs.³² Costs are defined to include, but are not limited to, capital investments and expenses.

³⁰ On May 30, 2007, the Commission denied APCo’s May 25, 2007 petition for reconsideration.

³¹ Case No. PUE-2005-00056, *Application of Appalachian Power Company, For adjustment to capped electric rates pursuant to § 56-582 B (vi) of the Code of Virginia*.

³² An Order on Reconsideration was issued on June 22, 2007 clarifying cost and recovery tracking requirements.

On July 16, 2007, APCo filed an application³³ to revise the E&R Factor established in Case No. PUE-2005-00056, effective December 1, 2007. The new E&R Factor is designed to recover \$59.5 million of incremental E&R costs incurred during the period October 2005 through September 2006. On August 9, 2007, the Commission issued an Order for Notice and Hearing establishing a procedural schedule and setting the matter for hearing on November 5, 2007.

Rate adjustment factor to recover generation facility costs

On July 16, 2007, APCo filed an application³⁴ to recover financing costs associated with an Integrated Gasification Combined Cycle (“IGCC”) power plant being built in West Virginia. APCo proposes that the Commission approve a rate adjustment clause to be effective January 1, 2009. The Company requests that the Commission (1) approve its proposed rate adjustment clause, (2) find that construction of the proposed IGCC facility is reasonable and prudent, and (3) grant the Company other relief as necessary. The proposed rate adjustment clause is designed to recover the carrying costs on construction expenditures made from July 1, 2007 through December 2009. The Company proposes to track actual costs and recoveries and true-up any differences in subsequent years. The application projects that the revenue requirement to be recovered during 2009 is \$45.4 million. This is based on a return on equity of 14.0%. On August 9, 2007, the Commission issued an Order for Notice and Hearing which, among other things, establishes a procedural schedule, sets the case for hearing on February 12, 2008, and requires that APCo supplement its application to allow for a review of the costs

³³ Case No. PUE-2007-00069, *Application of Appalachian Power Company, For adjustment to capped electric rates pursuant to § 56-582 B (vi) of the Code of Virginia.*

³⁴ Case No. PUE-2007-00068, *Application of Appalachian Power Company, For a rate adjustment clause pursuant to § 56-585.1 A 6 of the Code of Virginia.*

expected to be incurred or file a memorandum explaining why such supplementation is not necessary.

Fuel case

On November 9, 2006, APCo filed an application³⁵, pursuant to § 56-249.6 of the Code, to increase its fuel factor from 1.785 cents/kWh to 2.030 cents/kWh, an increase of approximately 13.7%. The application proposed an effective date of January 1, 2007 for the proposed rates. By Order dated November 22, 2006, the Commission allowed the proposed rates to be put in effect, subject to refund, for service rendered on and after January 1, 2007. The Commission issued its Final Order in the proceeding on February 14, 2007, making the interim rates permanent.

On July 16, 2007, APCo filed an application³⁶, pursuant to § 56-249.6 of the Code, to, among other things, (1) decrease its fuel factor from 2.030 cents/kWh to 1.614 cents/kWh effective for service rendered on and after September 1, 2007, and (2) concurrently terminate the Off System Sales (“OSS”) Margin Rider established in Case No. PUE-2006-00065. The net effect of these proposed changes results in an annual increase in revenues of approximately \$33.4 million. On August 20, 2007, the Commission issued an order that, among other things, established a procedural schedule for this case, scheduled an evidentiary hearing for November 8, 2007, and allowed APCo’s proposed fuel factor to go in effect on an interim basis subject to refund on September 1, 2007.

³⁵ Case No. PUE-2006-00100, *Application of Appalachian Power Company, To revise its fuel factor pursuant to § 56-249.6 of the Code of Virginia.*

³⁶ Case No. PUE-2007-00067, *Application of Appalachian Power Company, To revise its fuel factor pursuant to § 56-249.6 of the Code of Virginia.*

Dominion Virginia Power

Rate adjustment factor to recover generation facility costs

On July 13, 2007, Dominion Virginia Power filed an application³⁷ for approval, certification, and rate adjustment under § 56-585.1, § 56-580.D, and § 56-46.1 of the Code of Virginia with regard to a carbon capture compatible, clean-coal powered electric generation facility. Dominion Virginia Power requests that the Commission (1) grant a certificate and approval to construct and operate a coal plant, (2) establish a general rate of return on equity of 11.75% and authorize an additional 200 basis points, (3) find that the competitive bidding rules do not apply, or alternatively, grant exemptions for certain portions of such rules, (4) approve a proposed rate rider to be effective January 1, 2009, and (5) provide other relief as necessary. The proposed rate rider is designed to recover the carrying costs on construction expenditures made from inception of the project through December 2009. The Company proposes to track actual costs and recoveries and true-up any differences in subsequent years. The projected revenue requirement for calendar year 2009 is \$83.3 million, resulting in an average monthly increase of \$1.53 to a residential customer with usage of 1000 kWh. On August 9, 2007 the Commission issued its Order for Notice and Hearing which, among other things, establishes a procedural schedule, sets the case for hearing on January 8, 2008, and requires that Dominion Virginia Power supplement its application to allow for a review of the costs expected to be incurred or file a memorandum explaining why such supplementation is not necessary.

³⁷ Case No. PUE-2007-00066, *Application of Virginia Electric and Power Company, For Approval, certification and rate adjustment under § 56-585.1, § 56-580.D, and § 56-46.1 of the Code of Virginia with regard to a carbon capture compatible, clean-coal powered electric generation facility.*

Fuel case

On April 2, 2007, Dominion Virginia Power filed an application³⁸ to increase its fuel factor from 1.891 cents/kWh to 2.232 cents/kWh effective for service rendered on and after July 1, 2007. Pursuant to the requirements of H.B. 3068 and S.B. 1416, passed by the 2007 General Assembly, this results in an increase to the residential class of approximately 4%. The application explained that this will provide for recovery of \$219 million of a projected \$662 million fuel increase. Pursuant to HB 3068 and SB 1416, the remaining \$443 million will be deferred and recovered from customers during the period July 2008 through June 2011. The Commission entered its Order Establishing Fuel Factor on June 26, 2007, allowing the Company's proposed fuel factor to become effective for service rendered on and after July 1, 2007.

Delmarva Power

Fuel case

On April 2, 2007, Delmarva Power filed an application³⁹ to (1) decrease its fuel factor to 5.2284 cents/kWh from 5.6185 cents/kWh for the month of June 2007 based on the use of the proxy fuel calculation pursuant to the Fuel Index Procedure contained in the Company's Memorandum of Agreement ("MOA") adopted by the Commission in Case No. PUE-2000-00086, and (2) increase its fuel factor to 6.5986 cents/kWh based on actual and projected power purchase costs beginning on July 1, 2007. On April 13, 2007, the Commission entered an Order for Notice and Hearing that, among other things, allowed the 5.2284 cents/kWh fuel

³⁸ Case No. PUE-2007-00025, *Application of Virginia Electric and Power Company, To revise its fuel factor pursuant to Va. Code § 56-249.6.*

³⁹ Case No. PUE-2007-00013, *Application of Delmarva Power and Light Company for an increase in electric rates pursuant to Va. Code §§ 56-249.6 and 56-582.*

factor to become effective on an interim basis on June 1, 2007. On June 8, 2007, the Commission issued an Order finding that the MOA and Fuel Index Procedure are applicable on and after July 1, 2007. On July 11, 2007, the Commission entered its Final Order establishing a fuel factor of 5.2284 cents/kWh for service rendered on and after June 1, 2007.

Delmarva filed a complaint against the Commissioners in the United States District Court for the Eastern District of Virginia, asserting that the Commissioners violated federal law in denying the requested rate increase. Delmarva also sought a temporary restraining order and a preliminary injunction against the Commissioners, which would immediately put into effect its requested fuel rate of 6.5986 cents/kWh. On July 23, 2007 the Honorable Robert E. Payne, Senior United States District Judge, dismissed the complaint without prejudice and denied the injunction. On August 17, 2007, Delmarva noticed an appeal of Judge Payne's decision to the United States Court of Appeals for the Fourth Circuit.

Delmarva also has appealed the Commission's decision to the Supreme Court of Virginia. On August 3, 2007, Delmarva requested that the Supreme Court suspend the Commission's decision, allow the increased fuel rate of 6.5986 cents/kWh to go into effect immediately while the case is on appeal, and expedite the schedule of the appeal. On August 20, 2007, the Supreme Court denied Delmarva's requests. This case remains on appeal to the Supreme Court.

Transfer of Service Territory and Facilities to A&N Electric Cooperative

On July 2, 2007, Delmarva and A&N Electric Cooperative filed a joint application⁴⁰ and a joint petition⁴¹ for, among other things, approval of Delmarva's sale of its Virginia

⁴⁰ Case No. PUE-2007-00061, *Joint Application of A&N Electric Cooperative and Delmarva Power and Light Company, For approval of certificates of convenience and necessity.*

⁴¹ Case No. PUE-2007-00060, *Joint Petition of A&N Electric Cooperative and Delmarva Power and Light Company, For approval of purchase and sale of service territory and facilities.*

service territory and facilities to A&N Electric Cooperative. In a related matter, A&N Electric Cooperative filed an application⁴² on July 13, 2007, for approval of special rate schedules to be applicable to A&N's new customers in the former Delmarva Virginia service territory. The Commission issued its Order for Notice and Comment in these matters on July 18, 2007, setting a procedural schedule.

Potomac Edison

Fuel case

On April 12, 2007, Potomac Edison filed an application⁴³ with the Commission to implement a levelized fuel factor to recover its purchased power expenses incurred between July 1, 2007 and June 30, 2008. The Company projected the factor for full recovery of projected costs during the defined period would increase its capped generation rate of 3.456 cents/kWh to 6.123 cents/kWh. Due to the substantial increase Potomac Edison proposed a three year phase-in of the rate increase. On June 28, 2007, the Commission entered its Order Denying Application, denying the Company's application and its May 10, 2007 Motion to Establish Interim Rates.

Potomac Edison has appealed the Commission's decision to the Supreme Court of Virginia. On July 26, 2007, the Company requested that the Supreme Court suspend the Commission's decision, allow the requested rate increase to go into effect immediately while the case is on appeal, and expedite the schedule of the appeal. On August 20, 2007, the Supreme Court denied Potomac Edison's requests. This case remains on appeal to the Supreme Court.

⁴² Case No. PUE-2007-00065, *Application of A&N Electric Cooperative, For approval of special rates pursuant to § 56-235.2 of the Code of Virginia.*

⁴³ Case No. PUE-2007-00026, *Application of Potomac Edison Company d/b/a Allegheny Power, for an increase in electric rates pursuant to Va. Code §§ 56-249.6 and 56-582.*

Stranded Costs

Pursuant to a January 15, 2004 CEUR resolution, (the “2004 Resolution”) the Attorney General has on each September 1st, beginning in 2004, filed a report on stranded costs with the CEUR. The Commission Staff has assisted the Attorney General in preparing the information for these reports and stands ready to assist in future reports.

Financial Profile of Virginia’s Electric Utilities

Since the electric industry is capital intensive, it is very important that electric utilities be able to raise capital on reasonable terms and at favorable rates. When raising debt capital, a company’s credit ratings are a major factor influencing the terms and rates it is able to obtain. The two major rating agencies are Moody’s Investors Service (“Moody’s”) and Standard & Poor’s Ratings Services (“S&P”). S&P assigns bond ratings ranging from “AAA” to “D”, with a plus (+) or minus (-) added to show relative standing within the major categories. Moody’s assigns ratings ranging from “Aaa” to “C”, with a modifier of 1, 2 or 3 in each ratings category from “Aa” through “Caa” to show relative standings within the major categories. A bond rated below “BBB-” by S&P or “Baa3” by Moody’s is considered non-investment grade or a “junk bond”.

Despite increased capital spending, pressures from fuel and labor costs, and concerns about reducing greenhouse gasses, credit quality in the U.S. electric utility industry remained steady in the first half of 2007.⁴⁴

⁴⁴ Standard and Poor’s Industry Report Card, July 19, 2007.

The ratings for Virginia’s Old Dominion Electric Cooperative (“ODEC”) and five investor-owned electric utilities based upon the current Senior Secured Debt Credit Ratings and Outlooks are listed below.

Company	Senior Secured Debt Credit Ratings and Outlooks
	Standard & Poor’s Rating/Outlook
Appalachian Power	BBB/Stable
Delmarva Power	BBB+/Stable
Kentucky Utilities	BBB+/Stable
ODEC	A+/Stable
Potomac Edison	BBB/Stable
Virginia Power	A-/Stable

APPENDIX A

**SUMMARY OF NATURAL GAS RETAIL
ACCESS PROGRAMS IN VIRGINIA**

SUMMARY OF NATURAL GAS RETAIL ACCESS PROGRAMS IN VIRGINIA

This appendix updates last year's report regarding natural gas retail access programs in the Commonwealth of Virginia. 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. Natural gas retail access is now available through two programs, one in the service territory of Washington Gas ("WG"), including customers within the service area of Shenandoah Gas, and the other in the territory of Columbia Gas of Virginia ("CGV").

WG's Retail Access Program

As of August 1, 2007, WG's program had eleven CSPs serving 8,030 non-residential customers, and four active CSPs were serving 47,120 residential customers. Cumulatively, these accounts represent approximately 12.0 percent of the 460,064 natural gas customers in WG's service territory. It is important to note, however, that WG's unregulated affiliate, WGES, serves approximately 85 percent of the switched customers.

CGV's Retail Access Program

As of August 1, 2007, there were three CSPs providing service to 1,976 non-residential customers, and two CSPs were serving 6,354 residential customers. Cumulatively, these accounts represent approximately 3.6 percent of the 234,274 natural gas customers in CGV's service territory. It is noteworthy that the two CSPs serving the greatest number of CGV's customers are non-regulated affiliates.

CSP Activity

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 a high level of affiliate market concentration may have distorted the actual level of competitive activity. It is noteworthy that both programs have seen a significant decline in the number of switched customers over the past year.