

# Public Service Commission of the District of Columbia

450 5TH STREET, N.W.  
WASHINGTON, D.C. 20001  
(202) 626-5100



IN REPLY REFER TO:

September 1, 1994

Steven M. Fetter  
Senior Vice President  
Director of Regulatory and  
Governmental Affairs  
Fitch Investors Services, Inc.  
One State Street Plaza  
New York, NY 10004

Re: Regulatory Perspective  
on Retail Wheeling

Dear Mr. Fetter:

Enclosed please find my views on retail wheeling and competition in the electric industry to be included in the report that your company will present at the Edison Electric Institute Annual Financial Conference. I appreciate the opportunity to share my views, along with those of other state regulators, on these important issues.

If you have any questions regarding this matter, please feel free to contact Mr. Presley Reed at (202) 626-5140.

Sincerely,

A handwritten signature in cursive script that reads "Howard C. Davenport".

Howard C. Davenport  
Chairman

Enclosures

**COMPETITION AND  
RETAIL WHEELING IN THE ELECTRIC INDUSTRY**

Retail wheeling is being touted by many as today's panacea for stimulating competition in the electric industry; however, prior to broad acceptance and approval of retail wheeling by state utility regulators, three important issues must be addressed. Those issues are: (1) whether retail wheeling is preferable to wholesale wheeling or competitive bidding of generation capacity in meeting our public interest obligation; (2) the mechanism whereby residential consumers and the local utility are protected against any unreasonable negative impacts resulting from retail wheeling; and (3) a process, wherein all interested parties can be reasonably assured that the appropriate mix of utility-constructed capacity, non-utility generation and demand-side measures will be built for meeting future demand. My comments today will focus on the two latter issues.

In my view, the most significant and troubling concern regarding retail wheeling is the potential negative impact of stranded investment on both the utility and those captive residential and small commercial customers that continue to be served by the local electric company after large customers have partially or completely left the system. In those instances when the demand for electricity from those remaining captive customers is growing at a rate where the potentially stranded investment is ultimately used in the short-term, retail wheeling may prove beneficial to all. On the other hand, when retail wheeling results in generating capacity which is unlikely to become used and useful

by native customers in a reasonable time, or the excess capacity cannot be sold to some other non-native source, the resulting stranded investment reduces the likelihood that the retail wheeling transaction can be found to be in the public interest.

Of course, each proposed transaction must be weighed on its own merits. Where an effective and equitable mechanism to account for the reallocation of the cost responsibility for stranded investment is presented, I believe competition can and will benefit all consumers. However, I fail to see how I can fulfill my statutorily mandated responsibility to ensure just and reasonable rates when increased competition simply benefits a small segment of the public and inequitably transfers costs to captive customers who receive limited, if any, benefit.

The second issue of concern which must be addressed is the development of sufficient safeguards which ensure the reliability of the wheeling entity. Where intrastate regulated utilities are legally required to provide safe and reliable service whenever the consumers want electricity, unregulated entities, such as non-utility generators (NUGs), independent power producers (IPPs) and extraterritorial investor owned utilities (IOUs) are not always accountable to the state regulatory authority of the recipient customers. Lacking any direct accountability over an extraterritorial energy provider, it is conceivable that state regulators, in fulfilling our obligation to protect the local public interest, would be faced with the dilemma of directing the local regulated utility to immediately step in and serve its former customers or allowing these customers to go unserved for an

extended period of time. In order to avoid such a dilemma, I believe some form of local regulatory oversight over the contractual agreements between the former customer and the local utility is necessary in order to ensure adequate reliability. This regulatory scrutiny could be implemented through pre-approval of any supplemental and/or backup service provisions of retail wheeling agreements, particularly terms regarding reliability of performance.

Due to the uncertainties surrounding the future of retail wheeling, it is impossible at this time to predict how one's strategy for implementation of a workable and equitable retail wheeling market may develop. What is certain is that we, as regulators, must compare the benefits and risks of retail wheeling to other potential sources of competition such as wholesale wheeling and competitive bidding and based on that analysis determine the means to mitigate the negative impacts of the preferred competitive option while allowing for the benefits that may accrue to all ratepayers. Although specific mitigating actions must be determined on a case-by-case basis, regulators must be flexible in our reaction to any significant changes in the competitive forces in the electric industry.