

Public Service Commission of the District of Columbia

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(202) 626-5100



IN REPLY REFER TO

September 8, 1993

David C. Wagman
Editor
Public Utilities Fortnightly
Suite 200
2111 Wilson Boulevard
Arlington, VA 22201

Re: State Regulators' Forum

Dear Mr. Wagman:

Enclosed please find my responses to be included in the State Regulators' Forum to be published in the Public Utilities Fortnightly. 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 to contact Mr. Presley Reed at (202) 626-9174.

Sincerely,

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

Howard C. Davenport
Chairman

Enclosure

QUESTION 1

WHAT CONDITIONS MUST EXIST BEFORE RETAIL WHEELING CAN BE ALLOWED AMONG YOUR JURISDICTIONAL ELECTRIC UTILITIES? WILL YOU SUPPORT OR OPPOSE THOSE CONDITIONS?

In my view the two most important conditions that must exist prior to regulatory approval of retail wheeling are: (1) a mechanism whereby residential consumers and the local utility are protected against any unreasonable negative impacts resulting from retail wheeling; and (2) a process, wherein all interested parties, through our established comprehensive integrated least-cost planning process, can be reasonably assured that the appropriate mix of utility-constructed capacity, non-utility generation and demand-side measures are planned for meeting future demand.

A major and frequently mentioned concern regarding retail wheeling is the 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. When a large customer or customers purchase all or part of their energy requirements through retail wheeling, that portion of the local utility's plant investment which those former customers are no longer paying for is stranded in that theoretically it is no longer required and no revenues are collected to pay for it. This becomes a critical issue which must be addressed. Depending on whether ratepayers pick up the tab for those costs which were previously being paid by former customers or the utility bears the shortfall in revenues, this shortfall can have a negative impact on

captive consumers, the utility or both. The negative impact on consumers results when the shortfall is allocated to those consumers remaining on the system, thereby increasing their costs for plant investment which arguably does not directly benefit them or this stranded investment can be left unrecovered by the utility, thus negatively impacting on its financial position.

Another issue which must be addressed is the development of sufficient safeguards which ensure the reliability of the wheeling entity. Unlike traditionally regulated utilities which are required to provide safe and reliable service whenever the consumers want electricity, unregulated entities, such as non-utility generators (NUGs) and independent power producers (IPPs), are not legally required to maintain such standards. It is conceivable that the reliability of a NUG or an IPP could be compromised if poorly financed or improperly managed. Under such circumstances, regulators, in fulfilling our obligation to protect the public interest, would be faced with the dilemma of directing the regulated utility to immediately step in and serve its former customers or allowing the wheeling customers to go unserved for an extended period of time.

In order to avoid such a dilemma, I believe some form of regulatory oversight over the wheeling NUG or IPP must exist in order to ensure adequate reliability. This regulatory scrutiny could be implemented through pre-approval of any retail wheeling agreements, particularly terms regarding reliability of performance, or through the greater use of cost-effective NUG and IPP resources by utilities to meet their demand. The latter could

be achieved through a comprehensive integrated least-cost planning process which selects the appropriate mix of self-generated and NUG capacity to be used as well as the appropriate level of utility control in management and operations of the NUG.

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 determine a means to mitigate the potential negative impacts of retail wheeling while allowing for the purported 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.

QUESTION 2

HOW IMPORTANT IS IT THAT YOUR UTILITIES ADOPT NEW TECHNOLOGIES TO HELP THEM MANAGE THEIR BUSINESS MORE EFFECTIVELY AND COMPETITIVELY? SHOULD REGULATORS PROMOTE TECHNOLOGICAL INNOVATION AMONG YOUR UTILITIES?

It is crucial that utilities adopt new technologies so that they can be more effective and competitive. If a utility is to be competitive in the future, the utility must become more focused, efficient, customer-oriented, and flexible. Technological advances also permit utilities to improve their competitive positions by cutting costs, increasing supply, and opening up new markets.

A prime example of the impact new technology can have on a utility can be seen in the least-cost planning process used in the electric and natural gas industries. A fundamental facet of least-cost planning is the use of new technology. Thermal energy storage, energy efficient refrigerators, natural gas chillers and compact florescent light bulbs are just a few examples of the technological innovations benefiting the electric industry. The adoption of these new tools and technologies have allowed utility companies to defer new plant construction, improve efficiency, and serve their customers better. In addition, an increasing concern for the environment has prompted utilities to invest in new technologies as is evidenced by electric and natural gas companies becoming increasingly involved in the development of alternative energy vehicles in response to federal and state environmental legislation.

In telecommunications, the future development of new technologies such as fiber optics, signaling system 7 and integrated services digital networks is of critical importance to local exchange carriers (LECs) and their customers. Network modernization can lower costs for existing services, improve service quality and lead to the offering of new products and services. In fact, it appears that the continued development of technological innovations in telecommunications may be necessary, not only to preserve the financial integrity of the LECs, but also to preserve the competitiveness of the U.S. economy.

Regulators must adopt policies to promote technological innovation among utilities; however, these policies must be carefully crafted to ensure that utilities do not overinvest in new technologies to their detriment and to the detriment of ratepayers. The use of new technology provides significant opportunities for improving productivity, efficiency, economic health and the quality of life and must be nurtured by regulators to benefit the public interest. Further, the development and implementation of new technological advances are fundamental to maintaining and expanding market opportunities, increasing supply, and reducing cost.