

AOBA Utility Committee

*Could You Soon Be Paying
\$1.00 per kWh for
Peak Electricity Supply?*

*In a Weak Economy with Soft Near-Term Prices for
Energy Supplies **Utility Rates** Become a Major Concern*

Presented By

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Outline of Presentation

* Anticipated Utility Rate Changes

- Dominion Virginia Power

- Pepco

- WGL

* New Approaches to Electricity Pricing: Dynamic Pricing

* Energy Markets Update

Electric Utilities Take Advantage of Soft Energy Market Prices to Push for Rate Increase

*Large Capital Spending Programs Pushed by
Electric Utilities Despite Declines in Demand*

*Base Rate Increases Are Only Part Of The Story:
Surcharge Requests Grow More Than Base Rates*

Dominion Virginia Power (Vepco) Files Five Rate Applications

- ✱ On March 31, 2009 Virginia Power Submitted Five Rate Applications to the Virginia State Corporation Commission (VASCC), including:
 - A Fuel Rate Adjustment
 - A Base Rate Increase
 - A Transmission Rate Surcharge
 - A New Coal-Fired Power Plant Surcharge
 - A New Natural Gas Power Plant Surcharge

- ✱ The Company can also be expected to file requests for at least one, and more likely two, additional rate surcharges within the next year
 - A Demand-Side Management Surcharge (including AMI costs)
 - A Nuclear Power Plant Surcharge

DVP: *A Utility On A Spending Spree*

- ✦ Virginia Power indicates that it plans to invest \$2.7 billion per year over the next three years in new infrastructure
 - Generation & Transmission \$1.8 Billion per year
 - Distribution \$0.9 Billion per year
 - Total \$2.7 Billion per year
- ✦ Three-year Total \$8.1 Billion
- ✦ Current Rate Base is \$8.6 Billion
- ✦ Virginia Power plans to nearly **double** the size of its rate base in three years

Dominion Virginia Power Rate Requests

✧ Fuel Factor Adjustment

- **New Fuel Factor** of **3.529** cents per kWh will be placed in effect subject to refund as of **July 01, 2009**;
- New fuel factor reflects a **reduction** of 0.364 cents per kWh (or **-\$0.00364** per kWh) from current fuel factor;
- Percentage impact will depend on level of energy usage;
- Rate impacts for commercial customers will range from **-3.0%** for very small commercial customers to **-5.8%** for Large High Load Factor C&I customers;
- Rate impacts for individual accounts are best estimated by multiplying expected kWh usage by the change in the per kWh fuel factor (i.e., **-\$0.00364** per kWh)

Dominion Virginia Power Rate Requests (Cont.)

✧ Base Rate Increase Request

- Overall Base Rate Increase \$289 Million or 9.11% on Generation and Distribution Rates
 - ✓ Distribution Increase 10.07%
 - ✓ Generation Increase 8.65%
- Requested Increase Reflects 13.5% Return on Equity (ROE)
- Request Increase Includes Assumed \$36.5 Million Revenue Loss Due to DSM
- Increases by Rate Class:

	Base Rate*	Increase In
	Increase	Total Bill
✓ Residential	9.25%	5.72%
✓ GS-1	9.25%	5.53%
✓ GS-2	9.02%	4.76%
✓ GS-3	8.92%	3.98%
✓ GS-4	8.74%	3.28%

* Base Rate increase percentage computed with transmission costs removed from both present and proposed rates

Dominion Virginia Power Rate Requests (Cont.)

* Transmission Rate Surcharge (Rider T)

- Transmission Surcharge is designed to allow Veeco to pass through changes in transmission costs annually without a full base rate case
- All Transmission costs removed from Base Rates -- \$149.4 million
- Proposed Rider T revenue requirement is **\$227.5 million**
- Represents an increase of **52.3%** over the transmission costs currently in the Company's base rates
- Revenue Requirement allocated to rate classes using coincident peak demand factor
- The surcharge revenue requirement is allocated to rate classes recovered through either cents/kWh or \$/KW charges
 - ✓ **Demand metered non-residential customers are billed on a \$/kW (demand) basis**
 - ✓ All other classes are billed on a cents per kWh basis
- Increases for Commercial customers range from **1.2% to 3.2%** on Total Electric Charges with Low Load Factor GS-3 customers receiving the largest percentage increases

Dominion Virginia Power Rate Requests (Cont.)

✱ Coal Plant Surcharge (Rider S)

- Intended to provide recovery of costs for new Coal-Fired Power Plant that the Company has named the “Virginia City Hybrid Energy Center” (VCHEC)
- Filing represents an annual update of for a previously approved surcharge
- Estimated overall project cost is \$1.8 Billion
- Company is seeking a 14.50% ROE on its investment in the project
- Surcharge is intended to recover a revenue requirement of \$182.5 million
- The surcharge revenue requirement is allocated to rate classes recovered through either cents/kWh or \$/KW charges
 - ✓ GS-3 and GS-4 customers are billed on a \$/kW (demand) basis
 - ✓ All other classes are billed on a cents per kWh basis
- Increases for Commercial customers range from 1.7% to 3.1% on Total Electric Charges with Low Load Factor GS-4 customers receiving the largest percentage increases

Dominion Virginia Power Rate Requests (Cont.)

✧ Gas Plant Surcharge (Rider R)

- New surcharge is intended to provide recovery of costs for the new **Bear Garden Generating Station**, a gas-fired combined cycle generating plant
- Estimated overall project cost is **\$0.619 Billion**
- Company is seeking a **14.50% ROE** on its investment in the project
- Surcharge would recover a revenue requirement of about **\$100 million** annually
- The surcharge revenue requirement is allocated to rate classes recovered through either cents/kWh or \$/KW charges
 - ✓ **GS-3 and GS-4 customers are billed on a \$/kW (demand) basis**
 - ✓ All other classes are billed on a cents per kWh basis
- Increases for Commercial customers range from **0.9% to 1.6%** on Total Electric Charges with Low Load Factor GS-4 customers receiving the largest percentage increases

Dominion Virginia Power Rate Requests (Cont.)

✧ Commercial Customer Rate Impact Summary

	Effective Date	Impacts on Total Bill
➤ Fuel Rate Factor	7/1/2009	-3.0% to -5.8%
➤ Base Rate Increase	9/1/2009	3.3% to 5.5%
➤ Transmission Surcharge	9/1/2009	1.2% to 3.2%
➤ Coal Plant Surcharge	1/1/2010	1.7% to 3.1%
➤ Gas Plant Surcharge	1/1/2010	0.9% to 1.6%

Pepco Has **Four** (4) Rate Proceedings Pending In the District of Columbia

- * Base Rate Increase Request of **\$51.7 million**
- * Bill Stabilization Adjustment “BSA” Surcharge Request
- * AMI Regulatory Asset Request
- * Pension Regulatory Asset Request

Pepco DC Rate Requests (Cont.)

✧ **Base Rate Increase Request of \$51.7 Million**

- Filed May 22, 2009; Expected Effective Date - Spring 2010
- Overall Increase in Distribution Rates 13.9%
- Increases for Master-Metered Apartment (MMA) and Commercial Customer Accounts

	Base Rates	Overall
✓ Residential (R) (MMA)	29.3%	6.0%
✓ Residential All Electric (AE) (MMA)	34.7%	6.9%
✓ GS Non-Demand	11.3%	4.0%
✓ GS Demand	10.9%	3.2%
✓ GS Primary (GS-3A)	10.6%	2.5%
✓ GT-LV	12.8%	2.9%
✓ GT-3A	4.6%	0.8%

Pepco DC Rate Requests (Cont.)

* Bill Stabilization Adjustment “BSA” Surcharge Request

- Pepco’s “Bill Stabilization Adjustment” is really a tool for “**Revenue Stabilization**” for the Company
- Timing of implementation unclear at this time
 - ✓ Pepco wants expedited implementation
 - ✓ AOBA and OPC have argued that implementation should be synchronized with determinations in current base rate case
- Rate impact for commercial customers
 - ✓ Pepco proposes to **Cap** monthly rate adjustments **+/-10%** of base rate charges
 - ✓ Pepco projects that with no further customer reductions in use in response to its planned DSM programs **several commercial rate classes will receive maximum 10% upward rate adjustments in every month**
 - ✓ Commercial classes projected to receive maximum increase include: **GS-ND, GS-Demand, GS-Primary, and Temporary Service**
 - ✓ Other classes’ projected rate adjustments will vary, but could reach maximum levels if DSM programs yield large reductions in energy use

Pepco DC Rate Requests (Cont.)

✧ AMI Regulatory Asset

- Pepco seeks assured recovery of:
 - ✓ Costs for “Advanced Metering Infrastructure” (AMI) - **\$61 Million***
 - ✓ Undepreciated Costs of Meters Replaced by AMI - **\$51 million**
- If 50% funded by the federal government, Pepco’s proposed AMI costs will add an estimated future revenue requirement of at least **\$5.6 million** annually for **15 years**
- Without federal funding assistance, the revenue requirement for Pepco’s planned AMI program would be over **\$11 million** per year for 15 years

* *Pepco indicates that it plans to seek federal funding under the American Reinvestment and Recovery Act (ARRA) for up to half of the costs of its AMI planned system*

Pepco DC Rate Requests (Cont.)

✦ Pension Regulatory Asset Request

- Pepco seeks assured recovery of increases in Pension costs and cost for Other Post-Employment Benefits (OPEBs)
 - ✓ Company claims a nearly 200% increase in its Pension and OPEB expenses (including allocations of Holding Company costs) for 2009
 - ✓ Company wants to treat increased costs as regulatory assets and recover them in future years
 - ✓ AOBA anticipates that Pepco will file for a rate **surcharge** to recover Pension and OPEB regulatory asset costs after pending base rate increase is approved

Pepco Maryland Rate Requests

* AMI Regulatory Asset Request

- Pepco seeks assured recovery of:
 - ✓ **Advanced Metering Infrastructure (AMI) Costs - \$135 Million***
 - ✓ **Undepreciated Costs of Meters Replaced by AMI - \$??? Million****
- Company asserts advance approval of AMI cost recovery is required to get Federal matching funds
- Commission Staff says on approval of AMI deployment is required to qualify for Federal matching funds

* Pepco indicates that it plans to seek federal funding under the American Recovery and Reinvestment Act (ARRA) for up to half of the costs of its AMI planned system

** Pepco's filing is unclear with respect to remaining undepreciated costs for existing meters in Maryland

Pepco Maryland Rate Requests (Cont.)

✳ Uncollectible Expense Surcharge

- Pepco claims that its Overall Uncollectible Accounts Expense (DC and Maryland combined) is up more than \$2.0 million 2008
- Pepco's Uncollectible Expense for Maryland is up \$2.5 Million (while its DC expense is down \$0.5 Million)
- Maryland increase in uncollectible accounts expense is due to:
 - ✓ PSC requirement for more favorable payment plans for residential customers with accounts in arrears
 - ✓ Extended moratorium on disconnection of residential customers for non-payment of bills
 - ✓ PSC requirement that utilities buy receivables from third party suppliers
- Company's proposal is for a single rate surcharge to be applicable to all classes (i.e., commercial customers would further subsidize residential customers who don't pay their bills)

Pepco Maryland Rate Requests (Cont.)

* Pension Regulatory Asset Request

- Pepco seeks assured recovery of increases in Pension costs and cost for Other Post-Employment Benefits (OPEBs)
 - ✓ Company claims its Pension and OPEB expenses (including allocations of Holding Company costs) for 2009 have increased nearly **200%** or \$9.23 million annually
 - ✓ Company wants increased costs treated as regulatory assets and to recover those costs in future years
 - ✓ AOBA anticipates that, if the requested regulatory asset is approved, Pepco will file for a rate surcharge to recover deferred Pension and OPEB costs

Washington Gas Light Company

- ✳ No base rate increase requests pending or anticipated within the next year
- ✳ Negotiated rate freezes bar any base rate increases for WGL in either DC or VA during the remainder of 2009 and 2010
- ✳ WGL is expected to file for BSA-type rate adjustment (i.e., a RNA) in DC within the next year

**So How Do These Rate Changes
Result In Peak Charges In Excess Of
\$1.00 Per KWH?**

Dynamic Pricing

- ✧ Dynamic Pricing is a key element of utilities' "Smart Grid" concept
- ✧ Dynamic Pricing is **NOT** designed to provide reliable service, but rather to force customers to provide their own service reliability
- ✧ Dynamic Pricing is essentially **Time-of-Use Rates with variable pricing periods**
- ✧ Pepco has illustrative "Dynamic Pricing" rates in its AMI and DSM cases in DC and Maryland, but Pepco has not yet submitted specific rate design proposals and its plans are less well developed
- ✧ Virginia Power's base rate case filing proposes optional "Dynamic Pricing" for All Rate Classes

Dynamic Pricing

A Useful Tool in Controlling Demand or Another Regulatory Fad in the Making?

- **Utility provides notice of changes in rates** either on a real-time basis or with limited advance notice
- Many variations in the structuring of pricing periods and charges for service, but most involve a form of “*Critical Peak Pricing*” (CPP)
- Applicable rates for utility determined pricing periods may be either fixed in advance or tied to wholesale market price fluctuations
- Notice of price changes may be communicated via internet website or through AMI equipment with two-way communication capabilities
- Primarily focused on achieving reductions in demand for generation capacity and higher load factor utilization of generating plants
- It is unclear at this time whether or how Dynamic Pricing would be applied to customers who purchase generation services from competitive third-party suppliers

Pepco Critical Peak Pricing

✱ Current Smart Metering Pricing Program for Residential Customers in DC, But **NO Results** Reported To Date

✱ Illustrative CPP rate design for Residential customers

	DC	MD
➤ Critical Peak Rate (per kWh)	\$0.828	\$1.041
➤ Rate for All Other Hours (per kWh)	\$0.112	\$0.141
➤ 2007 All-In Average Rate (per kWh)	\$0.120	\$0.158

✱ Illustrative CPP rate designs for **Commercial** customers

	DC GT-LV	MD MGT LV II
➤ Critical Peak Rate (per kWh)	\$1.055	\$0.969
➤ Rate for All Other Hours (per kWh)	\$0.143	\$0.131
➤ 2007 All-In Average Rate (per kWh)	\$0.160	\$0.147

Dominion Virginia Power (DVP)

Dynamic Pricing Proposal

- A form of Dynamic Pricing proposed for each class of customers
- At least initially participation would be voluntary
- For commercial customers DVP proposes to identify three categories of days for pricing:
 - ✓ Category A (High Demand Days) – Not more than 30 per year
 - ✓ Category B (Intermediate Demand Days) – 55 to 85 per year
 - ✓ Category C (Low Demand Days) – Not less than 280 per year
- Separate sets of time-of-use rates applicable for each type of day
- In addition, DVP may designate up to 100 “Critical Peak Pricing” hours per year which would be billed at market determine prices.

Dominion Virginia Power (DVP)

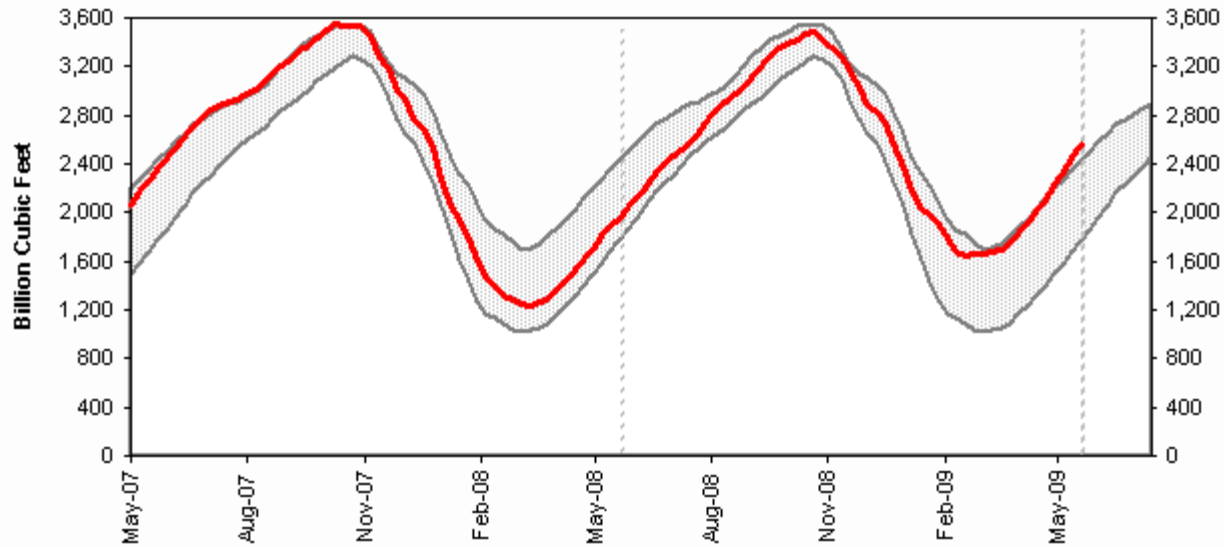
Dynamic Pricing Proposal (Cont.)

- ✧ Base energy and demand charges **PLUS**
- ✧ Separate Time-of-Use pricing schedules for seasonal periods (i.e., summer and winter) and for A, B, and C days within each seasonal period **PLUS**
- ✧ “Critical Peak Pricing” for up to 20 five-hour periods in each 12 months (i.e., not more than 100 hours per year)
- ✧ Base Energy Charges are \$0.02 to \$0.03 per kWh
- ✧ On-Peak time-of-use generation charges on “A” days in the range of \$0.13 per kWh
- ✧ “Critical Peak Price” is **\$0.3400** per kWh making **total peak price** about **\$0.50 per kWh**
- ✧ Off-peak energy rate on “C” days can be as low as **\$0.0115** per kWh
- ✧ Notice of Critical Peak Pricing Periods provided on Company’s internet website at least **2 hours in advance**

Energy Market Update

June 24, 2009

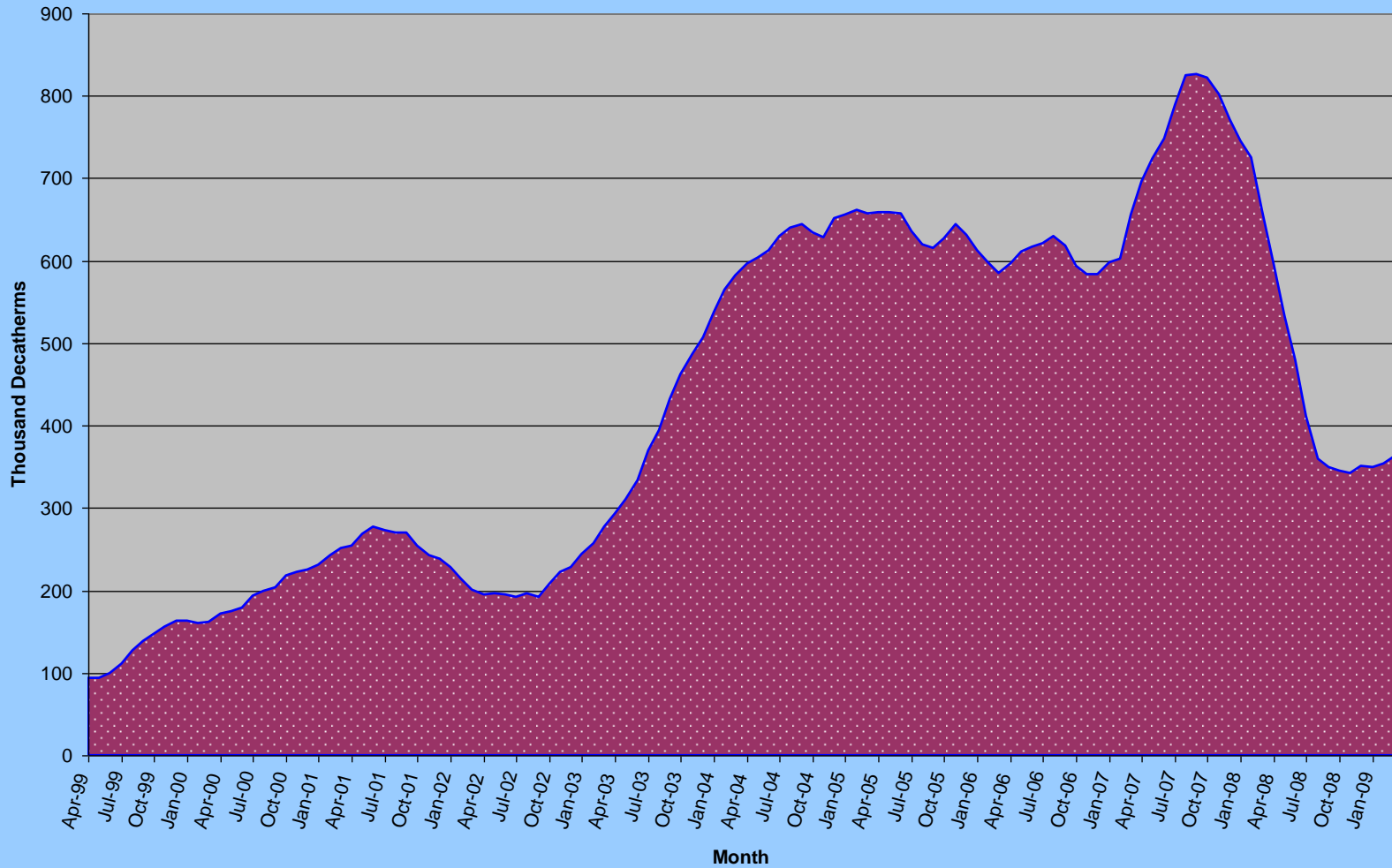
Natural Gas Storage Inventories Rise Above Five-Year High Levels



EIA: Working Gas in Underground Storage, Lower 48 States

Region	Stocks in billion cubic feet (Bcf)			Historical Comparisons			
	06/12/09	06/05/09	Change	Year Ago (06/12/08)		5-Year (2004-2008) Avg	
				Stocks (Bcf)	% Change	Stocks (Bcf)	% Change
East	1,164	1,091	73	992	17.3	1,062	9.6
West	408	395	13	277	47.3	306	33.3
Producing	985	957	28	666	47.9	716	37.6
Total	2,557	2,443	114	1,935	32.1	2,085	22.6

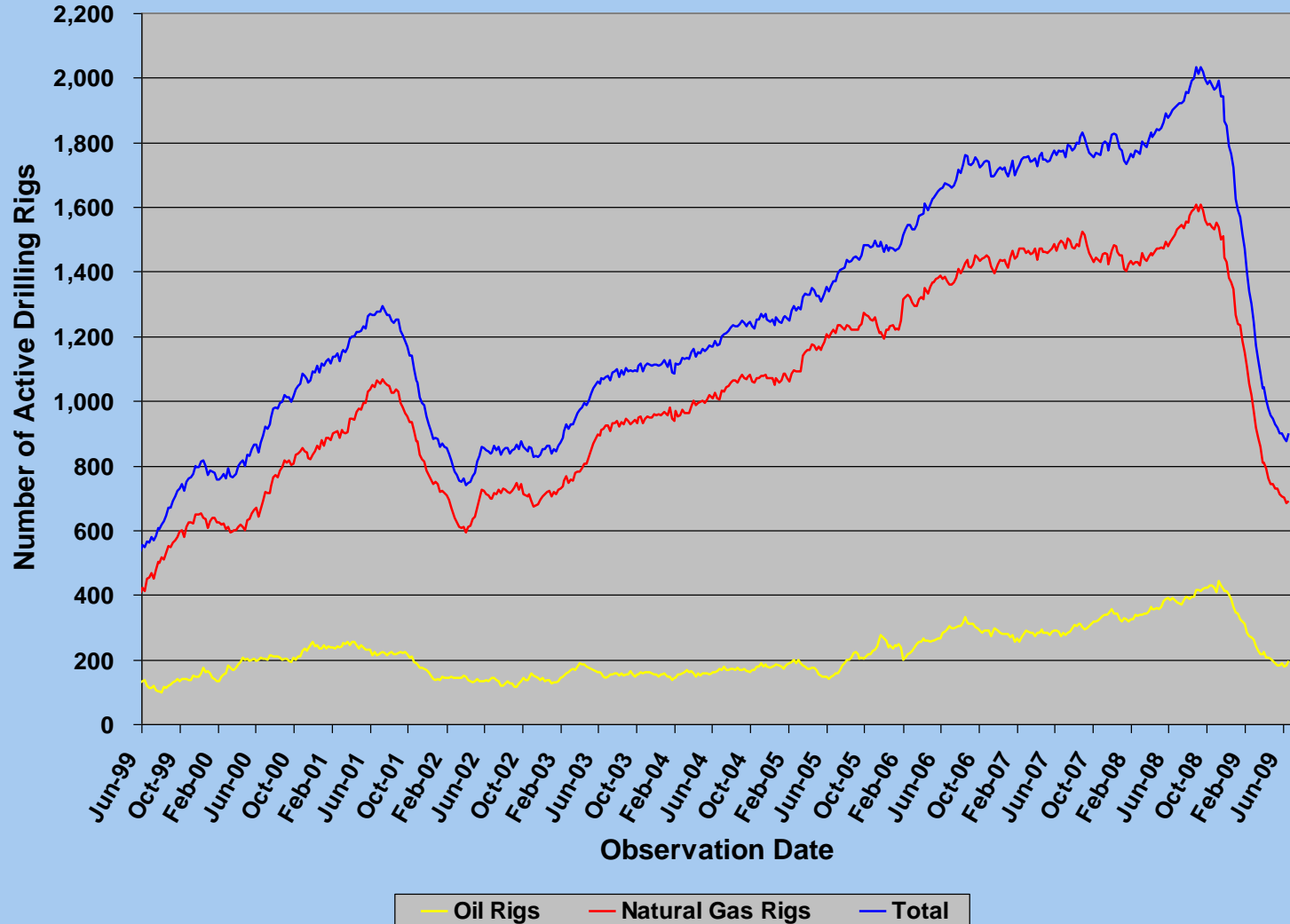
U.S. LNG Imports April 1999 Through March 2009 (12-Month Rolling Averages)



■ U.S. LNG Imports (12-Month Rolling Average)

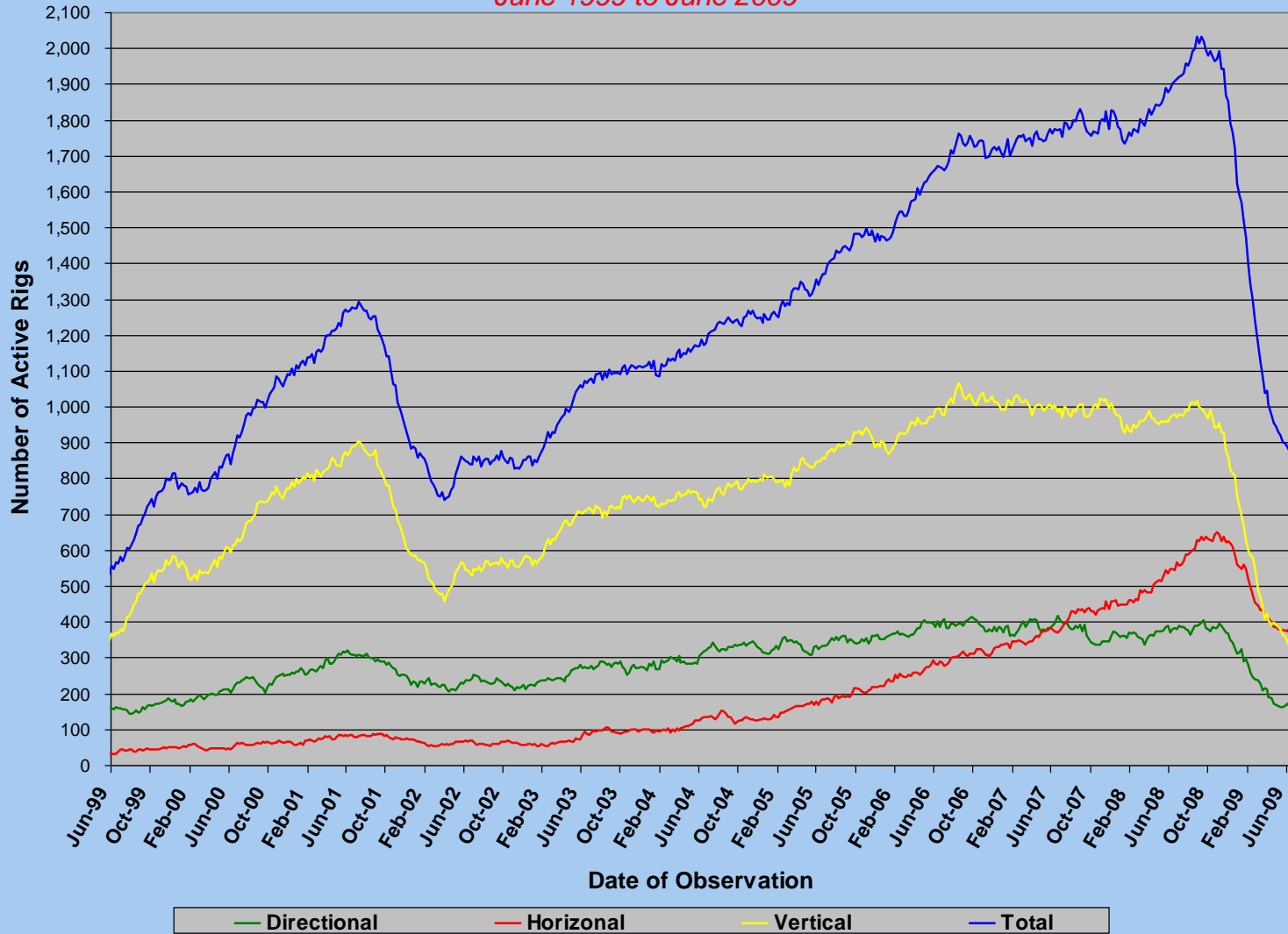
U.S. Oil and Natural Gas Drilling Activity

June 1999 to June 2009

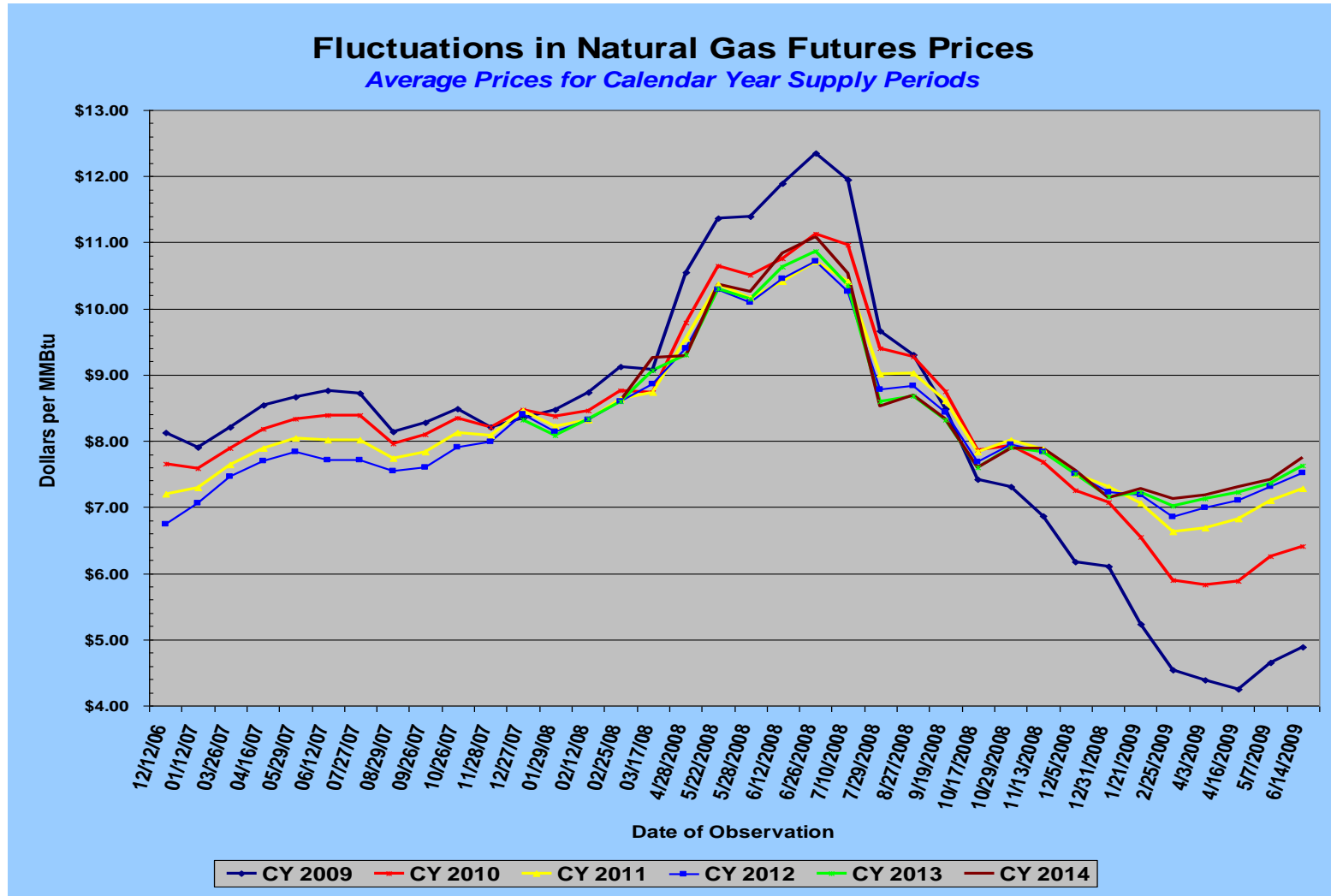


US. Active Drilling Rigs By Type

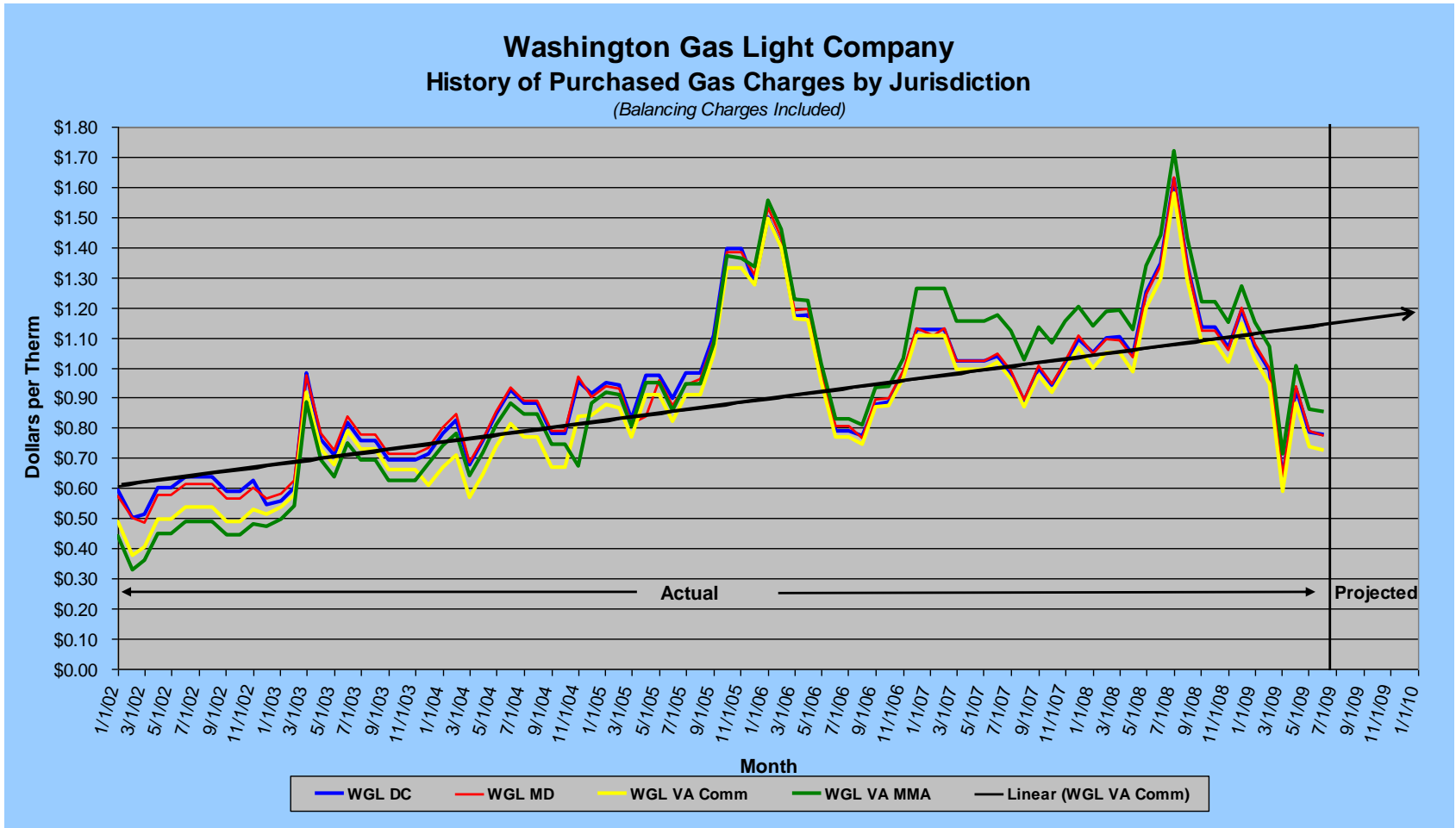
June 1999 to June 2009



Natural Gas Commodity Prices Have **Bottomed** And Turned Upward for All Future Periods



WGL's Purchase Gas Charges Remain Well Below Trend Line

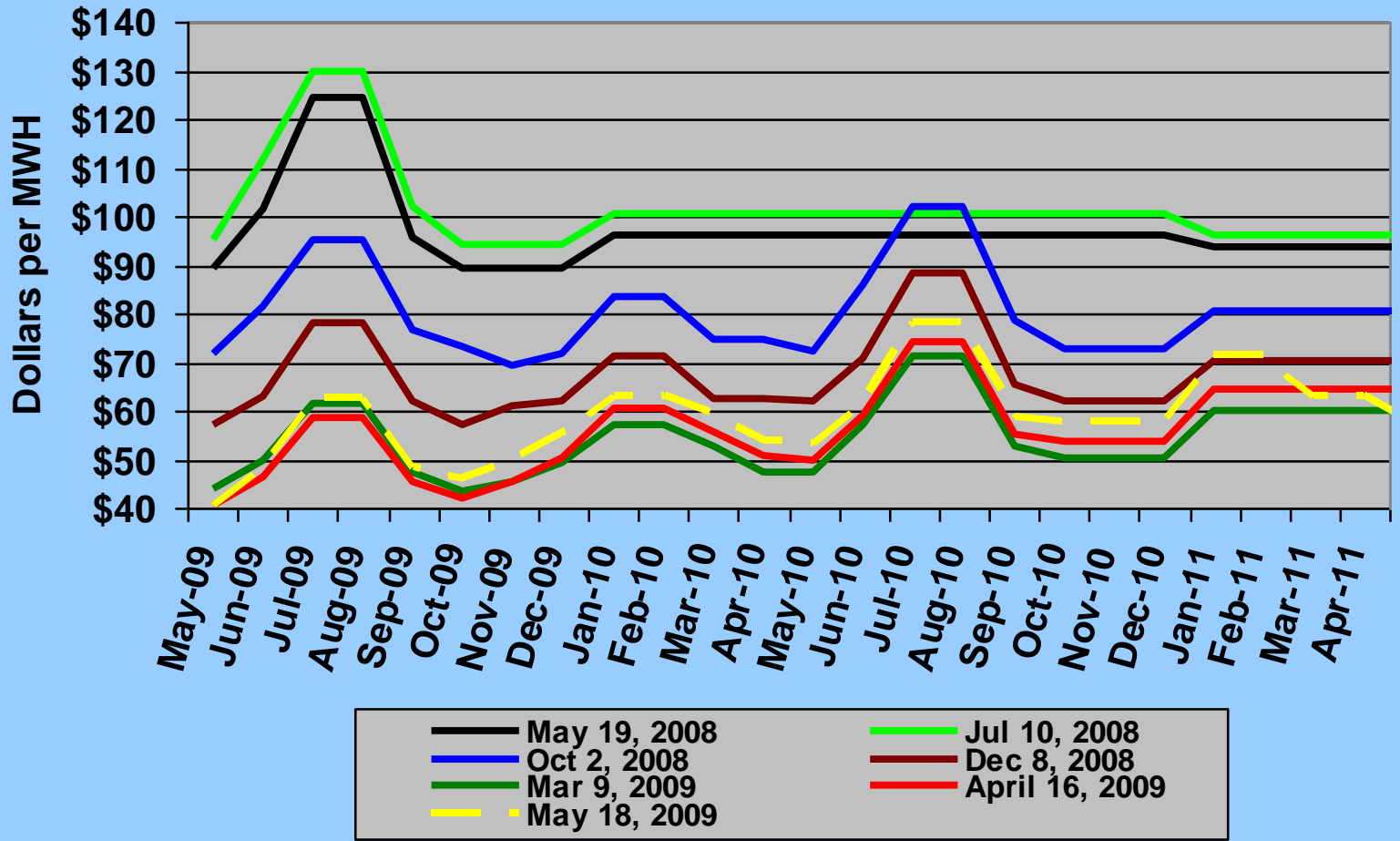


Electric Markets

June 24, 2009

PJM Monthly Electric LMP Futures - Peak

For May 2009 Through May 2011



PJM RPM Capacity Costs net of CTR value from the Base Residual

Auction for 2012-13 Planning Period

Zone	(1) Preliminary Zonal Capacity Price [\$/MW-day]	(2) CTR Credit Rate [\$/MW UCAP Obligation per Day]	(3)=(1)-(2) Capacity Cost Net of CTR \$/MW-day
Atlantic City	\$ 139.82	\$ 4.64	\$ 135.18
AEP	\$ 16.46	\$ -	\$ 16.46
Allegheny Power	\$ 16.46	\$ -	\$ 16.46
BGE	\$ 133.46	\$ 3.83	\$ 129.63
COMED	\$ 16.46	\$ -	\$ 16.46
DAYTON	\$ 16.46	\$ -	\$ 16.46
DOM	\$ 16.46	\$ -	\$ 16.46
Delmarva Power	\$ 169.63	\$ 6.64	\$ 162.99
Duquesne Light	\$ 16.46	\$ -	\$ 16.46
JCPL	\$ 139.82	\$ 4.64	\$ 135.18
METED	\$ 133.46	\$ 3.83	\$ 129.63
PECO	\$ 139.82	\$ 4.64	\$ 135.18
PennElec	\$ 133.46	\$ 3.83	\$ 129.63
PEPCO	\$ 133.46	\$ 3.83	\$ 129.63
PPL	\$ 133.46	\$ 3.83	\$ 129.63
PSEG	\$ 162.87	\$ 13.22	\$ 149.65
Rockland Elect.	\$ 139.82	\$ 4.64	\$ 135.18

Reliability Pricing Model (RPM)

Locational Generation Capacity Costs

For Pepco & BGE Service Territories

2007-08 2008-09 2009-10 2010-11 2011-12 2012-13

(Dollars per Megawatt Day)

* Clearing Price	\$188.54	\$210.11	\$237.33	\$174.29	\$110.00	\$133.46
* Capacity Transfer Credit	\$ 48.38	\$ 29.53	\$ 19.21	\$ 0.00*	\$ 0.00*	\$ 3.83
* Net Load Price	\$140.16	\$180.58	\$218.12	\$174.29	\$110.00	\$129.63

(Cents per Kilowatt-Hour)

* Clearing Price	1.571	1.751	1.978	1.453	0.917	1.113
* Capacity Transfer Credit	0.403	0.246	0.160	0.000*	0.000	0.032
* Net Load Price	1.168	1.505	1.818	1.453	0.917	1.081

Illustrative Forward Looking Retail Electricity Supply Prices by Cost Component

(for DC Electric Market)

	06/10 – 5/11 As of Jun 2009	06/10 – 5/12 As of Jun 2009
	Cents per kWh	
* Estimated Electric Energy Cost	5.72	6.07
* Locational Capacity Costs	1.52	1.26
* Congestion Charges	0.73	0.71
* Transmission Costs	0.35	0.38
* Ancillaries	0.19	0.22
* Marketer Costs ¹	1.22	1.18
* Distribution Losses	<u>0.49</u>	<u>0.49</u>
* Estimated Total Retail Supply Cost	10.22	10.34

1 *Includes administrative, marketing, collateral and billing costs as well as marketer risk and profit.*