

# HOUSE BILL ANALYSIS

## HB 2831

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**Title:** An act relating to unbundling the components of electrical service.

**Brief Description:** Requiring electric utilities to unbundle the costs of their assets and operations.

**Sponsors:** Representatives Crouse and Mielke.

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### HOUSE COMMITTEE ON ENERGY & UTILITIES

*Meeting Date:* January 27, 1998

*Bill Analysis Prepared by:* Margaret Allen (786-7110).

**Background:** The electricity industry is changing. The convergence of multiple influences at the federal, state, and market levels, as well as technological advances, have made it increasingly feasible for at least some retail electricity customers to purchase parts of their electrical service from different suppliers.

In Washington, a variety of utility programs allow some utility customers either to purchase electricity from alternate suppliers or to have their utility purchase electricity for them at market-based rates. Most retail electricity customers, however, currently pay a set rate for a package of electrical services, and the components of that package are not separately identified in utility bills. Examples of the components include the electricity itself, delivery services, metering, billing and other customer services, general administration and overhead, and charges for public programs to support conservation or the use of renewable resources.

As existing programs indicate, state statutes do not prevent electrical utilities from offering their retail customers the choice of purchasing parts of their service from alternate providers. However, in recent years, there has been considerable public debate about whether the state should require electrical utilities to give their customers the opportunity to purchase one or more of the components of electrical service from different suppliers and, if so, what the parameters of that requirement should be.

As part of the debate, several concerns have been raised about the pricing of the individual components of service. Since, for the most part, vertically integrated utilities currently provide retail customers with bundled service, there has been no

need for utilities to define the components of service identically and with sufficient detail to allow for meaningful cost allocations, or to settle on a single cost allocation method. It is unknown how widely, if at all, the current definitions and cost allocation methods used by utilities differ.

Without universally accepted definitions and a universally accepted method of allocating costs, concerns have been raised that: (1) There will be no adequate way of determining whether utilities are shifting costs from some customers to other customers; (2) there will be no adequate way of determining whether utilities are shifting costs from competitive services to regulated services (such as from the electricity commodity to distribution service, the latter being likely to remain a monopoly); and (3) customers with the option of purchasing from alternate suppliers will not have useful and comparable information to guide their selections.

Investor-owned electrical utilities are regulated by the Washington Utilities and Transportation Commission (WUTC). An electrical utility that is operated by a unit of local government (such as a municipality, public utility district, irrigation district, or port district ), or by a rural electric cooperative or mutual association, is regulated by its elected governing body.

The Department of Community, Trade, and Economic Development (CTED) has an energy policy division.

Renewable resources are defined to include water, wind, solar energy, geothermal energy, biomass, and similar sources of energy. The cost per kilowatt hour of producing hydroelectric power usually is considerably lower than the cost per kilowatt hour of producing electricity using other renewable resources.

**Summary:** By September 30, 1998, every electric utility must unbundle the costs of its assets and operations, to accurately allocate the costs of utility functions for each class of retail electric customers. Unbundle– means to separately identify, and allocate costs to, different components of electrical service. A utility is not required to use the information to set new rates.

### Cost Allocations

At a minimum, an electric utility must allocate costs separately for generation capacity and energy supply, delivery services (broken out by transmission, distribution, and control area services), metering, billing and other customer account services, programs to support conservation or renewable resources other than hydroelectric power, marketing and sales, general administration and overhead, and other products and services. Delivery services are defined to include the real property upon which the delivery plant, equipment, and other delivery infrastructure is located. Control area services are defined as scheduling, reactive power, spinning

reserves, voltage control and regulation, load following, and other related services necessary to sustain reliable delivery of electricity.

### Cost Studies and Filings

By September 30, 1998, each investor-owned electric utility must file a cost study with the WUTC, which the WUTC must review in an open public meeting. The WUTC is to determine whether the filing meets the requirements of the bill and identify any issues in dispute.

By September 1, 1998, each consumer-owned utility must submit a cost study to its governing body in an open public meeting. The governing body is to determine whether the study meets the requirements of the bill. Consumer-owned utility— is defined to mean a municipal electric utility, electric cooperative (which is defined to include a mutual association), public utility district, irrigation district, port district, or a water-sewer district that is engaged in the business of distributing electricity to retail electric customers. By October 1, 1998, consumer-owned utilities must submit a cost study to CTED, which must analyze and summarize the studies submitted to it.

The cost studies required of electric utilities must include the following information: (1) A description of the fundamental cost theory proposed; (2) a detailed description of the functions of electrical service unbundled; (3) the cost accounts allocated to each of these functions, and, if proportional allocation of accounts between functions is necessary, the proposed methodology; (4) for utilities that operate in more than one state, the allocation of total costs attributable to operations in Washington; (5) for each class of retail electric customers, the method by which the utility calculated and allocated costs among the functions; (6) the principles and theory that form the basis for the allocations in (3) through (5); (7) if the utility proposes to use marginal costs for any functions, a clear description of those functions and the rationale for this choice; and (8) the time period over which the cost data was compiled.

### Report to the Legislature

By December 1, 1998, the WUTC and CTED are to submit a joint report on the results of the cost studies to the Energy and Utilities Committees of the House and Senate. The report is to include a summary of the cost studies submitted by electric utilities, and observations regarding the consistency or lack of consistency among utilities in cost-allocation methods and in descriptions of unbundled functions. In addition, the WUTC is to describe any issues arising from the cost studies submitted by investor-owned utilities.

### Small Utilities

The Legislature finds that small utilities operate on a nonprofit basis and typically serve rural areas where the cost of providing service exceeds that of urban areas, that most small utilities do not themselves purchase electricity and related products and services individually, and that the additional expense of unbundling is likely to significantly outweigh the potential benefit to small utilities.

The bill does not apply to a small utility, unless the governing body of the utility determines the utility should comply with the bill's provisions. A small utility is defined as a consumer-owned utility with no more than 25,000 electric meters in service, or an average of no more than seven customers per mile of distribution line. A small utility whose governing body has determined the utility should unbundle is encouraged, but not required, to submit a cost study to CTED.

### Additional Findings and Definitions

The Legislature makes several findings regarding the electricity industry, and the importance of accurately allocating costs as opportunities to purchase components of electrical service separately increase. Numerous additional terms are defined.

***Appropriation:*** None.

***Fiscal Note:*** Requested 1/20/98.

***Effective Date of Bill:*** The bill contains an emergency clause and takes effect immediately.