

HOUSE BILL REPORT

HB 2831

As Reported By House Committee On:

Energy & Utilities
Appropriations

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.

Brief History:

Committee Activity:

Energy & Utilities: 1/28/98, 1/30/98, 2/4/98 [DPS];

Appropriations: 2/7/98 [DP2S(w/o sub EN)].

HOUSE COMMITTEE ON ENERGY & UTILITIES

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 11 members: Representatives Crouse, Chairman; DeBolt, Vice Chairman; Mastin, Vice Chairman; Poulsen, Ranking Minority Member; Bush; Delvin; Honeyford; Kastama; Kessler; Mielke and B. Thomas.

Minority Report: Do not pass. Signed by 2 members: Representatives Morris, Assistant Ranking Minority Member; and Cooper.

Staff: 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, the components of which are not separately identified. Examples of the components include the electricity itself, delivery services,

metering and billing, 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, utilities currently provide retail customers with bundled service, there has been no need for utilities to agree upon definitions of the various components of electrical service, or to assign costs to those components or across classes of customers, in a similar manner. Consequently, it is unknown how widely, if at all, the current definitions and cost assignment methods differ among utilities.

Investor-owned electrical utilities are regulated by the Washington Utilities and Transportation Commission. 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. Utilities regulated by elected governing bodies are sometimes referred to as "consumer-owned utilities."

The state auditor audits public accounts.

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 of Substitute Bill: Every electric utility must unbundle the costs of its electrical service and prepare a cost study. "Unbundle" means to separately identify and publish costs by classification, function, and allocation as used in common cost-of-service practice.

Unbundling

At a minimum, an electric utility must classify, functionalize, or allocate costs separately for generation capacity and energy supply, delivery services, metering and billing, customer account services, programs to support conservation or renewable resources other than hydroelectric power, general administration and overhead, and taxes. Within the category of delivery services, an electric utility shall functionalize costs separately for transmission, distribution, and control area services. Classification shall separately

include, but not be limited to, electric energy and capacity. Allocation shall separately include, but not be limited to, residential, small commercial, industrial, and other.

Cost Studies and Filings

By September 30, 1998, each investor-owned electric utility serving more than one retail customer must file a cost study with the Washington Utilities and Transportation Commission (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 to identify any issues in dispute.

By September 1, 1998, each consumer-owned electric 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. By October 1, 1998, consumer-owned utilities must submit a cost study to the state auditor, who must analyze and summarize the studies. The state auditor is explicitly authorized to consult with the WUTC, Department of Community, Trade, and Economic Development (CTED), and others in analyzing and summarizing the studies.

The cost studies must include the following documentation: (1) A description of the fundamental cost theory proposed; (2) a detailed description of the classifications, functions, and allocations of electrical service unbundled; (3) the cost accounts assigned to each of these classifications, functions, and allocations, and, if proportional allocation of accounts between functions is necessary, the proposed method of assignment; (4) for utilities that operate in more than one state, the costs attributable to operations in Washington; (5) for each class of retail electric customers, the method by which the utility calculated costs, and classified, functionalized, and allocated costs; (6) if the utility proposes to use marginal costs, the rationale for this choice; and (7) the time period over which the cost data were compiled.

Report to the Legislature

By December 1, 1998, the WUTC and state auditor 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 the methods of classification, functionalization, and allocation, and in descriptions of unbundled costs. 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 the State Auditor.

Numerous additional terms are defined.

Substitute Bill Compared to Original Bill: Findings are deleted.

Definitions are revised. "Conservation" includes programs that result in overall reductions of electrical system requirements; "control area services" include non-spinning reserves; and "renewable resources" include electricity generation facilities fueled by landfill gas. "Electrical company" is limited to companies that serve more than one retail customer. The definition of a municipal electric utility explicitly recognizes that a city may indirectly operate an electric utility by creating an entity to operate the utility on the city's behalf. To "unbundle" requires publishing costs by classification, function, and allocation as used in common cost-of-service practice.

Unbundling and cost study requirements are reorganized and consolidated, and language is clarified. The components to be unbundled are revised to put metering and billing together, to delete marketing and sales, to delete other products and services, and to add taxes. Classification of costs must include electric energy and capacity; functionalization must include transmission, distribution, and control area services; and allocation must include residential, small commercial, industrial, and other.

A provision is added to clarify that the bill neither expands nor limits the authority of the WUTC to conduct hearings on disputed issues identified in reviewing the cost studies submitted by IOUs. Consumer-owned utilities (COUs) will now file their cost studies with the State Auditor, rather than the Department of Community, Trade, and Economic Development (CTED). The state auditor is explicitly authorized to consult with the WUTC, CTED, and others in analyzing and summarizing the studies.

A section is added to clarify that utilities are not required either to revise their rates or adopt a particular ratemaking method, and that the bill does not give any state agency jurisdiction, supervision, or control over any COU.

Appropriation: None.

Fiscal Note: Available. Fiscal note on substitute bill requested on February 5, 1998.

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

Testimony For: (original bill) This is a necessary first step to gain information about cost structures. This bill raises the possibility of increased discussion among the general public; consumers should receive this information. The small utility exemption is in the best interests of small utilities; the threshold should be raised to 40,000 or 50,000 meters in service due to the expense of unbundling and preparing a cost study. CTED may not have the necessary expertise to analyze the cost studies submitted by consumer-owned utilities. CTED is the state's repository of energy information; this is an appropriate role for the agency. The September 30, 1998, deadline is tough but manageable. A more generalized list of costs to be unbundled would be preferable; the greater the detail required, the more expensive it will be for utilities to comply with the bill. The definition of renewable resources should include landfill gas but limit hydro to a ceiling of 30 mW. The studies required by this bill are complementary to and consistent with some work already ongoing at the WUTC. It would not be advisable to have a standard method of assigning costs, because the circumstances of each utility are different. It would be useful to have a standard reporting format. Common basic terms are needed.

Testimony Against: This bill assumes a fundamental difference in the way electricity is delivered. There has not yet been a full, reasoned discussion of restructuring and this bill will not assist the debate. The bill will not quantify the costs of maintaining the safety and reliability of the electricity system. United States citizens are not particularly happy with the results of the deregulation of the telecommunications industry; telephone companies are losing their most profitable, viable markets in urban areas while having to maintain unprofitable markets in rural areas. This bill does not require outside marketers to disclose their costs.

Neutral: Separating and disclosing costs could be valuable, yet the bill contains no standards for doing so. There should be a consistent formula. Safety and reliability standards, such as those used in the Puget Sound Energy merger, are important.

Testified: Aaron Jones, Washington Rural Electric Co-op Association (pro); Teresa Osinski, Washington Utilities and Transportation Commission (pro); Mike Tracy, Puget Sound Energy (pro/with comment); Liz Shuler, International Brotherhood of Electrical Workers 125 (neutral/with questions); Frank J. Warnke, International Brotherhood of Electrical Workers 77 (questions); George F. Tyler, citizen (problems); Collins Sprague, Washington Water Power (pro); Lew McMurrin, Washington Public Utilities District Association (pro); Bill Dobbins, Douglas Public Utilities District (pro) Dave Arbaugh, Chelan Public Utilities District (pro); Mark Greenberg, Enron Corporation (pro), Paul Kaufman, Enron Corporation (pro); Paul Chasoo, Town of Steilacoom (pro); Ron Newbry, Pacificorp (pro/with concerns); Chandra Shah, Northwest Energy Coalition (pro/with concerns); K. C. Golden, Department of Community, Trade, and Economic Development (pro/conditionally); Jan Gee, Washington Food Industry and Washington

Retail Association (pro); Enid Layes, Industrial Customers of Northwest Utilities (pro); Ian MacGowan, Kaiser Aluminum (pro); Robert Stern, Washington State Labor Council (con); Jim Harding, Seattle City Light (pro); and Gary Saleba, Western Public Agency Group (pro/with changes).

HOUSE COMMITTEE ON APPROPRIATIONS

Majority Report: The second substitute bill be substituted therefor and the second substitute bill do pass and do not pass the substitute bill by Committee on Energy & Utilities. Signed by 25 members: Representatives Huff, Chairman; Alexander, Vice Chairman; Clements, Vice Chairman; Wensman, Vice Chairman; H. Sommers, Ranking Minority Member; Gombosky, Assistant Ranking Minority Member; Benson; Carlson; Cooke; Crouse; Grant; Kenney; Kessler; Lambert; Lisk; Mastin; McMorris; Parlette; Poulsen; Regala; D. Schmidt; Sehlin; Sheahan; Talcott and Tokuda.

Minority Report: Do not pass. Signed by 4 members: Representatives Doumit, Assistant Ranking Minority Member; Chopp; Cody and Keiser.

Staff: Julie Salvi (786-7349).

Summary of Recommendation of Committee on Appropriations Compared to Recommendation of Committee on Energy & Utilities: "Fish and wildlife mitigation" is added to the list of electrical service costs to be separately identified.

For the cost study, a utility must use the same data the utility used to formulate its current retail rates, rather than just specifying the time period over which the cost data were compiled.

Each utility required to submit a cost study must also submit a service quality and reliability report. To the extent the data is readily available, the report must contain the following information: (1) the level of customer satisfaction as measured by customer surveys (and the report must include a copy of the survey form or script); (2) the number of customer complaints filed during a year; (3) the number of minutes, on average, a customer or feeder line is without power during a year; and (4) the number of times, on average, a customer or feeder line is without power during a year. In their joint report to the Legislature, the state auditor and WUTC must summarize the reports, and provide observations regarding the consistency or lack of consistency among utilities in the amount and kinds of information available regarding service quality and reliability.

The state auditor is explicitly authorized to consult with the utilities submitting cost studies and service quality and reliability reports, as well as with the WUTC, CTED and others.

Three definitions are revised. "Municipal electric utility" now means a utility providing electrical service that is operated by a city or town as authorized by chapter 35.92 RCW (and no longer refers to the provision of utility services by an entity created by a city or town for that purpose). The description of "biomass" within the definition of renewable resources is revised to remove the phrase "low-emission organic nontoxic" and to expressly exclude wood pieces that have been treated with chemical preservatives. The definition of "unbundle" is revised to take into account the fact that some utilities assign rather than allocate costs to rate classes, and to eliminate a reference to "common cost-of-service practice."

Language that might be interpreted as requiring a utility to use the cost study prepared under the bill to set new rates, or to adopt a new rate-making method, is eliminated or clarified. Additional clarifications are made.

Appropriation: None.

Fiscal Note: Available. New fiscal note requested on February 5, 1998.

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

Testimony For: This bill is not a first step in restructuring the electricity industry. The study required in this bill will provide needed information to make an intelligent decision of whether or not to take the first step toward restructuring the industry.

Testimony Against: None.

Testified: Representative Crouse, prime sponsor.