

# FINAL BILL REPORT

## E2SHB 2831

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### PARTIAL VETO

C 287 L 98

Synopsis as Enacted

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

**Sponsors:** By House Committee on Energy & Utilities (originally sponsored by Representatives Crouse and Mielke).

**House Committee on Energy & Utilities**  
**House Committee on Appropriations**  
**Senate Committee on Energy & Utilities**

**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 on bills. Examples of the components include the electricity itself, delivery services, metering and billing, customer services, general administration and overhead, and charges for programs to support conservation or the use of renewable resources.

As existing programs indicate, the law does not prevent electrical utilities from offering their retail customers the choice of purchasing parts of their service from alternate providers. In recent years, however, 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 are providing 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 attribute costs to those components or across classes of customers, in a similar manner.

Consequently, it is unknown how widely, if at all, the definitions and cost attribution 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, including those of local governments.

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:** Every electric utility must unbundle, and prepare a cost study and a service quality and reliability report. "Unbundle" means to separately identify, and publish the accounting, functionalization, classification, and assignment or allocation, of the costs of electrical service.

### Unbundling

At a minimum, an electric utility must include in the unbundling the accounting treatment for generation 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 must separately identify transmission, distribution, and control area services. A utility must functionalize costs separately for generation and energy supply, transmission, distribution, and other; must classify costs separately for at least energy and capacity; and must assign or allocate costs separately for residential, small commercial, industrial, and other.

### Cost Studies, Service Quality and Reliability Reports, and Filings

By September 30, 1998, each investor-owned electric utility serving more than one retail customer must file a cost study and a service quality and reliability report 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 filings meet the requirements of the act and to identify any issues in dispute.

By September 1, 1998, each consumer-owned electric utility must submit a cost study and a service quality and reliability report to its governing body in an open public meeting. The governing body is to determine whether the study and report meet the

requirements of the act. By October 1, 1998, consumer-owned utilities must submit a cost study and a service quality and reliability report to the state auditor, who must analyze and summarize the studies and reports. The state auditor is explicitly authorized to consult with the WUTC, the Department of Community, Trade, and Economic Development, the electric utilities, and others in analyzing and summarizing the studies and reports.

The cost studies must include the following documentation: (1) a description of the fundamental cost theory used; (2) a detailed description of the classifications, functions, and assignments or allocations of electrical service unbundled; (3) the costs attributed to each of these classifications, functions, and assignments or allocations, and, if proportional attribution of costs between classifications, functions, and assignments or allocations is necessary, the proposed method of attribution; (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 assigned or allocated costs; (6) if the utility used marginal costs for the classifications, or assignments or allocations, the rationale for this choice; and (7) the time period over which the cost data were compiled. The WUTC will determine whether an investor-owned utility is to use the data from the cost study used to formulate the utility's current retail rates, or from some other cost study. The governing body will make a similar determination for a consumer-owned utility.

To the extent the data are readily available, the service quality and reliability reports 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, if available); (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.

#### 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 and service quality and reliability reports to the Energy and Utilities Committees of the House and Senate. The joint 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 studies and reports submitted by investor-owned utilities. Similarly, the joint report is to include a summary of the service quality and reliability reports submitted by electric utilities, and observations regarding the consistency or lack of consistency among utilities in the amount and kinds of information available regarding service quality and reliability. Finally, the

joint report is to include an examination of alternative formats for simple, standardized disclosure of the fuel mix, air emissions, and other environmental impacts of generating resources.

### 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 and preparing service quality and reliability reports is likely to significantly outweigh the potential benefit to small utilities.

Small utilities are exempt from the act, unless the governing body of a small utility determines that the utility should comply with any or all of the act'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 that the utility should unbundle is encouraged, but not required, to submit a cost study and a service quality and reliability report to the state auditor.

### Large Municipal Utility

The largest municipal utility must report the following information to its governing body: (1) the ratio of the utility's customers to its employees, and changes that have occurred in that ratio over the previous 10 years; and (2) the annual sources of funding and the amount of annual expenditures, including federal funds, by the utility on conservation, renewable resources, and low-income weatherization and bill-paying programs, over the previous 10 years. The part of the report addressing (2) must describe: the amount of electricity saved by the conservation programs; overhead costs to administer the programs; and the overhead cost per low-income unit weatherized, as compared to the overhead costs of comparable programs administered by the state.

### Miscellaneous

These provisions explicitly do not require an electric utility to establish new rates or to adopt new rate-making methods, and do not require the WUTC to approve new revenue levels for investor-owned utilities. These provisions neither expand nor limit the authority of the WUTC to conduct hearings on disputed issues identified in reviewing the studies and reports submitted by investor-owned utilities. Finally, nothing in these provisions is to be construed as conferring on any state agency jurisdiction, supervision, or control over any consumer-owned utility.

Numerous additional terms are defined.

**Votes on Final Passage:**

House 77 17

Senate 42 5 (Senate amended)

House 86 12 (House concurred)

**Effective:** April 2, 1998

**Partial Veto Summary:** The Governor vetoed provisions requiring the largest municipal utility to report the following information to its governing body: (1) the ratio of the utility's customers to its employees, and changes that have occurred in that ratio over the previous 10 years; and (2) the annual sources of funding and the amount of annual expenditures, including federal funds, by the utility on conservation, renewable resources, and low-income weatherization and bill-paying programs, over the previous 10 years. The part of the report addressing (2) was to have described: the amount of electricity saved by the conservation programs; overhead costs to administer the programs; and the overhead cost per low-income unit weatherized, as compared to the overhead costs of comparable programs administered by the state.