

SENATE BILL REPORT

ESB 5692

AS PASSED SENATE, FEBRUARY 11, 1994

Brief Description: Financing conservation investment by electrical, gas, and water companies.

SPONSORS: Senators Sutherland, Moore, Prentice, Jesernig, Williams, A. Smith, Amondson, Hochstatter, Roach, West and Oke

SENATE COMMITTEE ON ENERGY & UTILITIES

Majority Report: That Substitute Senate Bill No. 5692 be substituted therefor, and the substitute bill do pass.

Signed by Senators Sutherland, Chairman; Ludwig, Vice Chairman; Amondson, Hochstatter, Owen, Roach, West and Williams.

Staff: Scott Huntley (786-7421)

Hearing Dates: February 25, 1993; February 26, 1993; March 1, 1993; March 2, 1993; March 3, 1993; January 13, 1994; January 26, 1994

BACKGROUND:

There are two broad types of retail utilities that operate in the state of Washington: those owned by the consumers (usually through some type of municipal corporation) and those owned by investors. Consumer-owned utilities include municipal utilities, public utility districts, rural electric cooperatives, and mutual corporations. The rates and services of these consumer-owned utilities are regulated by officials who are elected by the consumers.

The rates and services of the investor-owned utilities are regulated by the Washington Utilities and Transportation Commission (WUTC). The WUTC conducts a comprehensive review of the costs and investments of the utility before approving the rates and charges of these utilities. The WUTC approves rates that allow a utility to make a fair rate of return for the company's stockholders.

When an electrical utility under WUTC jurisdiction invests in a power plant, the assets of the plant can be used as a form of collateral when borrowing. The WUTC must approve a utility's request to borrow large sums of money for these types of projects.

Traditionally, investor-owned utilities have had the incentive to sell more of their product in order to increase profits. Recently the WUTC and Puget Power have experimented with a new type of rate structure that decouples the utility's sales from

their ability to make greater profits. This rate structure emphasizes investments in electricity conservation.

Unlike investments in power plants, investments in conservation resources are more difficult to quantify as assets. This is partly because conservation investments often consist of a multitude of relatively small investments. Also the actual installed product (such as insulation or windows) is difficult to retain as utility property.

There is concern that investor-owned utilities and the WUTC may lack sufficient authority to allow a utility to borrow needed funds for large scale conservation projects.

SUMMARY:

With approval by the Washington Utilities and Transportation Commission (WUTC) investor-owned utilities may issue conservation bonds. Investor-owned utilities may pledge conservation investment assets as collateral for conservation bonds.

Conservation investments may be bondable if the WUTC determines that the expenditures were incurred in conformance with a conservation service tariff in effect with the WUTC. The WUTC must also find that the company has proven that the expenditures were prudent and that financing through these bonds is more favorable to the customer than other alternatives.

The WUTC reviews and approves conservation tariffs, and has the same authority over a proposed conservation tariff as it has over any other schedule which might change rates or charges. A utility applies to the WUTC for a determination as to whether any specific costs incurred constitute an approved conservation investment. Approved bondable conservation investments are included in the rate base.

The WUTC may require that the unamortized portion of bonded conservation investments provided to a customer be removed from the rate base of the company if that customer ceases to purchase utility services from the company. The WUTC may, by rule or order, require that contracts for conservation measures or services between a company and its customers include provisions which require the customer to repay any unrecovered portion of a conservation expenditure made for the benefit of the customer, if the customer ceases to purchase utility services from the company.

The WUTC and utility companies are free to establish any other policies and programs for conservation which are outside the scope of the act.

Procedures are established to allow conservation investments incurred prior to the effective date of the act to qualify as collateral for conservation bonds, upon WUTC approval.

Appropriation: none

Revenue: none

Fiscal Note: available

TESTIMONY FOR:

Conservation is becoming more difficult to finance, and without a measure like this it may soon become impossible to finance. This bill means more jobs for contractors. A source of funding for conservation must be found so that it can be financed more consistently. Many contracting companies have suffered by the inability of utilities to adequately finance conservation measures. This bill will provide a stable means of financing conservation in this state. It is becoming more and more apparent that we need solutions to the issue of financing conservation. This may be one answer.

TESTIMONY AGAINST:

The (Utilities and Transportation) Commission is not sure that this bill is the right answer to conservation financing. The commission is troubled by the shifting of the burden of proof in regards to "prudent investments." Under this bill the commission would have to prove that an investment was imprudent, rather than the company having to prove that it was prudent. The ratepayers should be assured of benefits for the risk that they are taking with this kind of financing. The benefits may not be quantified but the risk is on the ratepayer. The commission desires to have the clear authority to look at the whole (conservation) picture before considering a program like bond financing. There hasn't been a true need for the bill demonstrated. The bill may only apply to one company. A broader approach, like public financing, may be a better answer.

TESTIFIED: Bill Weaver, Puget Power (pro); Tim Sweeny, Ken Elgin, Wash. Utilities and Transportation Commission (con); Carol Washburn, State Energy Office (con); Jack Challender, North Star Electric (pro); Dave Ferguson, Cochrane Electric (pro); Arnold French, Betschart Electric (pro); Eric Fredericks, Caruso and Fredericks Contractor Co. (pro); Debbie Carr, Assoc. of Weatherization Employers & Contractors (pro); Richard Carrig, Carrig and Dancer Enterprises Inc. (pro); Don Trotter, Asst. AG, Public Counsel (con); Tom Eckman, NW Power Planning Council; Einar Johanson, Insulation and Glass Inc. (pro); Ron Newbry, Pacificorp (pro); Tricia McKay, Wash. Natural Gas (pro)