

# SENATE BILL REPORT

## E2SHB 2831

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As Reported By Senate Committee On:  
Energy & Utilities, February 26, 1998

**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:** House Committee on Appropriations (originally sponsored by Representatives Crouse and Mielke).

**Brief History:**

**Committee Activity:** Energy & Utilities: 2/24/98, 2/26/98 [DP].

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### SENATE COMMITTEE ON ENERGY & UTILITIES

**Majority Report:** Do pass.

Signed by Senators Finkbeiner, Chair; Hochstatter, Vice Chair; Jacobsen, Rossi, T. Sheldon and Strannigan.

**Staff:** Andrea McNamara (786-7483)

**Background:** In Washington, most retail electricity customers 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.

However, state statutes do not prevent electric utilities from offering their retail customers the choice of purchasing parts of their service from alternate providers, and 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.

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 recent years, considerable public debate has emerged about whether the state should require electric utilities to give their customers the opportunity to purchase one or more of the components of electricity 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 companies (IOUs) 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. Utilities regulated by elected governing bodies are sometimes referred to as "consumer-owned utilities" (COUs).

**Summary of Bill:** Every electric utility must unbundle the costs of its electrical service and prepare a cost study. "Unbundle" is defined as separately identifying and publishing costs by classification, function, and allocation as used in common cost-of-service practice.

At a minimum, an electric utility must include in its unbundling the accounting treatment for the following components of electricity service:

- (1) generation capacity and energy supply;
- (2) delivery services, including transmission, distribution, and control area services;
- (3) metering and billing;
- (4) customer account services;
- (5) programs to support conservation or renewable resources other than hydroelectric power;
- (6) fish and wildlife mitigation;
- (7) general administration and overhead; and
- (8) taxes.

An electric utility must also include within its unbundling the functionalization of costs separately for generation and energy supply, transmission, distribution, and other.

Classification of costs must separately include, but not be limited to, electric energy and capacity; and allocation of costs must separately include, but not be limited to, residential, small commercial, industrial, and other.

By September 30, 1998, each investor-owned electric utility (IOU) 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, which WUTC must review in an open public meeting. WUTC is directed 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 (COU) 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 meets the requirements of the bill. By October 1, 1998, COUs must submit a cost study to the State Auditor, who must analyze and summarize the studies. The State Auditor is authorized to consult with WUTC, Department of Community, Trade, and Economic Development, and others in analyzing and summarizing the studies.

The elements of the cost studies are specified and 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.

The elements of the service quality and reliability report are specified and include, to the extent it is currently collected and reasonably available, the following information: (1) the level of satisfaction of the utility's customers; (2) the number of customer complaints filed during a calendar year; (3) the number of minutes the average customer or feeder line is without electricity during a calendar year; and (4) the number of times the average customer or feeder line is without power during a calendar year.

By December 1, 1998, WUTC and State Auditor are directed 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 report must include a summary of the submitted cost studies, 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, WUTC is to describe any issues arising from the cost studies submitted by IOUs.

An exemption for small utilities is included. The provisions of the act do not apply to small utilities unless the governing body of the utility determines the utility should comply with the bill's provisions. A small utility is defined as a COU with no more than 25,000 electric meters in active 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.

Legislative findings are included in support of the small utility exemption, including 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.

Numerous additional terms are defined.

**Appropriation:** None.

**Fiscal Note:** Available.

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

**Testimony For:** The bill makes some simple but important steps toward consumer education and providing information that will help guide policymakers in the on-going restructuring debate. The unbundling and cost analysis requirements are well crafted to provide the most useful information in the least burdensome way; the results will help prevent cost-shifting between customer classes. The service quality and reliability reports will help establish a solid baseline of information against which changes in quality or reliability can be measured in the future. Small utilities will seek voluntary compliance with as much of the bill as is feasible for them.

**Testimony Against:** None.

**Testified:** PRO: Lew McMurrin, WA PUD Association; Teresa Osinski, WUTC; Enid Layes, ICNU; Aaron Jones, WRECA; Collins Sprague, WA Water Power Co.; Chandra Shah, NW Energy Coalition.