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**SUBSTITUTE HOUSE BILL 2831**

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**State of Washington**

**55th Legislature**

**1998 Regular Session**

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

Read first time 02/04/98. Referred to Committee on .

1 AN ACT Relating to unbundling the components of electrical service;  
2 creating new sections; and declaring an emergency.

3 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

4 NEW SECTION. **Sec. 1.** The definitions in this section apply  
5 throughout chapter . . . , Laws of 1998 (this act) unless the context  
6 clearly requires otherwise.

7 (1) "Commission" means the utilities and transportation commission.

8 (2) "Conservation" means an increase in efficiency in the use of  
9 energy use that yields a decrease in energy consumption while providing  
10 the same or higher levels of service. Conservation includes low-income  
11 weatherization programs and programs that result in overall reductions  
12 of electrical system requirements.

13 (3) "Consumer-owned utility" means a municipal electric utility, an  
14 electric cooperative, a public utility district, an irrigation  
15 district, a port district, or a water-sewer district that is engaged in  
16 the business of distributing electricity to retail electric customers  
17 in this state.

18 (4) "Control area services" means scheduling, reactive power,  
19 spinning reserves, nonspinning reserves, voltage control and

1 regulation, load following, and other related services necessary to  
2 sustain reliable delivery of electricity.

3 (5) "Delivery services" means the services needed to deliver  
4 electricity to a retail electric customer using transmission,  
5 distribution, and related facilities. Delivery services include  
6 control area services, and the real property upon which the delivery  
7 plant, equipment, and other delivery infrastructure is located.

8 (6) "Electric cooperative" means a cooperative or association  
9 organized under chapter 23.86 or 24.06 RCW.

10 (7) "Electric meters in service" means those meters that record in  
11 at least nine of twelve calendar months in any calendar year not less  
12 than two hundred fifty kilowatt hours per month.

13 (8) "Electrical company" means a company owned by investors that  
14 meets the definition of RCW 80.04.010 and is engaged in the business of  
15 distributing electricity to more than one retail electric customer in  
16 the state.

17 (9) "Electric utility" means any electrical company or consumer-  
18 owned utility as defined in this section.

19 (10) "Electricity" means electric energy, measured in kilowatt  
20 hours, or electric capacity, measured in kilowatts.

21 (11) "Governing body" means the council of a city or town, the  
22 commissioners of a municipal electric utility, an irrigation district,  
23 or public utility district, or the board of directors of an electric  
24 cooperative that has the authority to set and approve rates.

25 (12) "Irrigation district" means an irrigation district authorized  
26 by chapter 87.03 RCW.

27 (13) "Municipal electric utility" means a business providing  
28 electrical service, that is owned or operated by a city or town as  
29 authorized by chapter 35.92 RCW either directly or indirectly through  
30 the creation of a board, authority, corporation, or other entity to  
31 manage its operation.

32 (14) "Port district" means a port district within which an  
33 industrial district has been established as authorized by Title 53 RCW.

34 (15) "Public utility district" means a district authorized by  
35 chapter 54.04 RCW.

36 (16) "Renewable resources" means electricity generation facilities  
37 fueled by: (a) Water; (b) wind; (c) solar energy; (d) geothermal  
38 energy; (e) landfill gas; or (f) low-emission organic nontoxic biomass

1 energy based on solid organic fuels from wood, forest, and field  
2 residues, or dedicated energy crops available on a renewable basis.

3 (17) "Retail electric customer" means any person or entity,  
4 including, but not limited to, a residential, commercial, or industrial  
5 customer, that purchases electricity for ultimate consumption and not  
6 for resale.

7 (18) "Small utility" means any consumer-owned utility with twenty-  
8 five thousand or fewer electric meters in service, or that has an  
9 average of seven or fewer customers per mile of distribution line.

10 (19) "State" means the state of Washington.

11 (20) "Unbundle" means to separately identify, and publish costs by  
12 classification, function, and allocation as used in common cost-of-  
13 service practice.

14 (21) "Water-sewer district" means a water-sewer district authorized  
15 by Title 57 RCW.

16 NEW SECTION. **Sec. 2.** (1)(a) By September 30, 1998, each  
17 electrical company shall submit a cost study described in subsections  
18 (2) and (3) of this section to the commission. The commission shall  
19 review each cost study in an open public meeting to determine whether  
20 the filing meets the requirements of this section, and to identify any  
21 issues in dispute. Nothing in chapter . . ., Laws of 1998 (this act)  
22 shall be construed as either increasing or limiting the authority of  
23 the commission to conduct hearings on disputed issues.

24 (b) Except as provided in section 4 of this act, by September 1,  
25 1998, each consumer-owned utility shall submit a cost study with the  
26 information and documentation described in subsections (2) and (3) of  
27 this section to its governing body in an open public meeting. The  
28 governing body shall determine whether the study meets the requirements  
29 of this section. By October 1, 1998, each consumer-owned utility shall  
30 submit the cost study to the state auditor.

31 (2) Except as provided in section 4 of this act, by September 30,  
32 1998, every electric utility shall unbundle the costs of its electrical  
33 service classifications, functions, and allocations. At a minimum, an  
34 electric utility shall classify, functionalize, or allocate costs  
35 separately for generation capacity and energy supply, delivery  
36 services, metering and billing, customer account services, programs to  
37 support conservation or renewable resources other than hydroelectric  
38 power, general administration and overhead, and taxes. Within the

1 category of delivery services, an electric utility shall functionalize  
2 costs separately for transmission, distribution, and control area  
3 services. Classification shall separately include, but not be limited  
4 to, electric energy and capacity. Allocation shall separately include,  
5 but not be limited to, residential, small commercial, industrial, and  
6 other.

7 (3) The cost study required of each electric utility under  
8 subsection (1) of this section shall include the following  
9 documentation:

10 (a) A description of the fundamental cost study theory proposed,  
11 such as fully embedded costs, marginal or incremental costs, or some  
12 combination thereof;

13 (b) A detailed description of the classifications, functions, and  
14 allocations of electrical service unbundled;

15 (c) The costs assigned to each of these classifications, functions,  
16 and allocations and, if proportional assignment of costs between  
17 classifications, functions, and allocations is necessary, the proposed  
18 method of assignment;

19 (d) For utilities that operate in more than one state, the costs  
20 attributable to operations in Washington;

21 (e) For each class of retail electric customers, the method by  
22 which the utility calculated costs, and classified, functionalized, and  
23 allocated costs;

24 (f) If the utility proposes to use marginal costs for any  
25 classifications, functions, or allocations, a clear description of  
26 those classifications, functions, and allocations, and the rationale  
27 for this choice; and

28 (g) The time period over which cost data were compiled.

29 NEW SECTION. **Sec. 3.** (1) The state auditor shall receive,  
30 analyze, and summarize the studies required of consumer-owned utilities  
31 under section 2 of this act. The state auditor may consult with the  
32 commission, the department of community, trade, and economic  
33 development, and others in analyzing and summarizing the studies.

34 (2) By December 1, 1998, the state auditor and commission shall  
35 prepare a joint report on the results of the cost studies required  
36 under section 2 of this act, and shall submit the report to the energy  
37 and utilities committees of the senate and house of representatives.  
38 The report shall include the following information:

1 (a) A summary of the cost studies submitted by electric utilities;  
2 and

3 (b) Observations regarding the consistency or lack of consistency  
4 among utilities in methods of classification, functionalization, and  
5 allocation, and in descriptions of unbundled costs.

6 In the report, the commission shall also describe any issues  
7 arising from the cost studies submitted by electrical companies.

8 NEW SECTION. **Sec. 4.** (1) The legislature finds that: (a) Small  
9 utilities operate on a nonprofit basis, and typically serve rural areas  
10 where the cost of providing service exceeds that of urban areas; (b)  
11 most small utilities are full-requirements customers of the Bonneville  
12 power administration and do not purchase electricity and related  
13 products and services individually for resale to utility customers; and  
14 (c) the additional expense of unbundling is likely to significantly  
15 outweigh the potential benefits to small utilities.

16 (2) The provisions of section 2 of this act do not apply to a small  
17 utility. However, nothing in this section prohibits the governing body  
18 of a small utility from determining the utility should unbundle and  
19 comply with any or all of the provisions of section 2 of this act  
20 applicable to other consumer-owned utilities.

21 (3) A small utility whose governing body has determined the utility  
22 should unbundle is encouraged, but not required, to submit a cost study  
23 described in section 2 of this act to the state auditor.

24 NEW SECTION. **Sec. 5.** Nothing in chapter . . . , Laws of 1998 (this  
25 act) shall be construed as requiring an electric utility to establish  
26 new rates or to adopt new rate-making methods. In addition, nothing in  
27 chapter . . . , Laws of 1998 (this act) shall be construed as conferring  
28 on any state agency jurisdiction, supervision, or control over any  
29 consumer-owned utility.

30 NEW SECTION. **Sec. 6.** This act is necessary for the immediate  
31 preservation of the public peace, health, or safety, or support of the  
32 state government and its existing public institutions, and takes effect  
33 immediately.

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