
Technology, Telecommunications & Energy Committee

HB 2443

Brief Description: Allowing utilities to recover costs through a purchased gas or power cost adjustment process.

Sponsors: Representatives Morris and Jackley.

Brief Summary of Bill

- Authorizes use of power cost adjustment mechanisms and purchased gas adjustment mechanisms.
- Establishes requirements for the use of power cost adjustment mechanisms.

Hearing Date: 1/22/02

Staff: Pam Madson (786-7166).

Background:

The Washington Utilities and Transportation Commission has authority to approve or set rates for retail electricity and gas service provided by investor-owned utilities. Rates must be fair, just, reasonable and sufficient to return reasonable compensation to the utility for the service provided.

In approving and setting rates, the commission examines costs incurred by the utility that the utility seeks to recover in the rates paid by its customers. The commission determines if these costs were prudently incurred. Costs determined to be imprudent are costs ultimately paid by the utility's shareholders.

Generally, rate-setting proceedings are initiated by a utility. Washington does not require utilities to have rates regularly examined and approved. There may be several years between a utility's general rate cases. Investment decisions are made during that time that are not examined for their prudence as an investment until a rate-setting proceeding occurs.

Natural gas retail customer rates reflect the cost of delivering natural gas to the customer's

home and the cost of the natural gas itself. The cost of natural gas is determined by an unregulated wholesale market. The cost of natural gas increased sharply during the winter of 2001 and customer rates have fluctuated as a result. Gas utilities may use a purchased gas adjustment procedure which is an accounting and rate adjustment that allows the company to adjust customer rates to recover actual gas costs between general rate cases.

Two of the three investor-owned utilities operating in Washington have each filed a general rate case with the Washington Utilities and Transportation Commission. Avista is seeking approval for increased electricity rates and Puget Sound Energy is seeking approval for increases in electricity and natural gas rates.

Summary of Bill:

Retail gas and electric utilities may recover, through their rates, the actual costs of natural gas, fuel, and electric power using a purchased gas adjustment mechanism or a power cost adjustment mechanism.

A retail electric utility that chooses to use a power cost adjustment process must use a process of deferred accounting. Deferred accounting records all increases and decreases in costs for fuel and electric power that differ from the projected costs.

Sufficient information must be filed by the retail electric utility with the Washington Utilities and Transportation Commission (WUTC) to allow the commission to clear the accounts. Reports on the accounts must be filed monthly by the utility with the commission.

The retail electric utility must clear its accounts at least yearly but may clear them no more often than quarterly. The utility may not file its first application to clear its deferred accounts until it has used deferred accounting for at least six months.

An adjustment may occur in the rates charged by the utility that chooses to use a power cost adjustment mechanism if the increase or decrease in actual costs for fuel and electric power differs more than 15 percent from the projected costs for the six-month period preceding the period in which the request is made to clear the deferred accounts. The amount of the adjustment is equal to the percentage of the increase or decreases that is greater than 15 percent. (For example, if the difference is 20 percent greater, the utility's rate increases by five percent.) The effective date of the increase is the first day of the next accounting period.

Actual costs are those costs incurred by an electrical utility that are required to purchase fuel, capacity, and energy.

The WUTC must adopt rules to implement power cost adjustment mechanisms and purchased gas adjustment mechanisms by December 31, 2002.

Appropriation: None.

Fiscal Note: Not Requested.

Effective Date: Ninety days after adjournment of session in which bill is passed.