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July 2006

- Background
- **■** Restructuring of Markets
- Goal of Unbundling
- Unbundling Process
- Unbundled Functions
- **Example of Unbundled Rates**
- Unbundled Rates and Bill

### **Background**

- Historically only Electric utilities produced/purchased commodity and provided delivery service to all customers so there was no choice.
- A single rate was charged including both commodity and delivery costs which was a "Bundled Rate".

#### **Background (continued)**

- In the late 1990's the NYPSC restructured the Electric industry to create competitive services where possible
- Regulation is a proxy for competition but a competitive market is presumed to be more efficient
- Competition offers choice and savings from innovation and value-added services
- NYPSC believed that the provision of commodity and retail sale to customer could be a competitive activity
- Delivery (due to infrastructure requirements) not considered ripe for competition

#### Restructuring markets for competition:

- Electric market restructuring
  - Utilities sold generation to private parties
  - Regional Independent System Operators were established to:
    - Operate competitive markets for the sale of electricity between generators and Load Serving Entities (utilities and Energy Service Companies {ESCO})
    - Control bulk and interstate transmission systems of utilities which are still largely regulated operations
  - **ESCO's were created by private enterprises and were** intended to compete with, and eventually replace, utilities in resale of electricity to customers

#### **Goal of Unbundling**

- To separate bundled Electric Utility rates into commodity and delivery service related portions.
- WHY?
  - For customers to compare ESCO and utility commodity service rates the utility must offer a comparable commodity rate
  - Customers who take commodity service from an ESCO should not pay commodity related costs of utility which are included in bundled rates

#### **Unbundling Process**

- Utility Delivery and Commodity service <u>costs</u> must be separately identified to design unbundled <u>rates</u>
- Delivery and Commodity service costs are each composed of subcategories:
  - Commodity costs (purchase price of KWH's) is easy to quantify as coming from contracts or purchased on the wholesale market
  - Retailing costs in selling services are not easy to quantify since they are performed by the utility for both commodity and delivery services using common facilities and labor

#### **Unbundling Process (continued):**

#### **Commodity Costs**

- Utilities purchase commodity for its customers in regional ISO market or bilateral contracts with generators
- Utilities use flow through commodity tariffs to recover commodity costs from its customers - no profit is included
- NOTE: any stranded costs/benefits from restructuring are reflected in non by-passable Delivery rates and also flowed through to customers' bills

#### **Unbundling Process (continued)**

#### **Retailing Costs:**

- Focus is on identifying utility retailing functions and related costs
- Retailing costs must then be allocated between the utility's commodity and delivery service to be able to design unbundled rates

#### **Unbundling Process (continued)**

- NYPSC required utilities to perform <u>cost of</u> <u>service studies</u> to identify retailing function costs and their allocation between provision of commodity and delivery service
- Embedded cost of service studies using historic costs were used as surrogate for costs utility would avoid in the long run if retailing functions were no longer performed by utility for commodity service

#### **Unbundling Process (continued)**

- NOTE: Utilities are required to be ready to provide commodity service to all customers including those who may have previously been customers of an ESCO (Provider of Last Resort or POLR)
- Due to POLR requirement utilities can't avoid all commodity retailing costs in unbundled rates since they can't fully exit the commodity business
- Difference between utility actual avoided cost and amounts reflected in unbundled commodity service rates is known as "lost revenues"

#### Unbundling Process (continued) Example of Lost Revenues

- Utility commodity related unbundled retailing rate is 4¢ per KWH
- Due to POLR requirement utility can only avoid 1¢ per KWH
- 100 KWH customer transferred to ESCO commodity service
- Utility revenues reduced by \$4 but only \$1 of costs reduced= \$3 of lost revenues

#### **Unbundling Process (continued)**

- Utilities provided recovery of lost revenues
- Lost revenues are a measure of system duplicated costs resulting from the transition to competition:
  - ESCO is incurring commodity related retailing costs serving transferred customer
  - Utility is incurring residual commodity related retailing costs due to POLR requirement

# Retailing functions and their costs reflected in unbundled rates are:

- Meter ownership, service and data handling (for electric only)
- Billing & Payment Processing
- Commodity Supply (Procurement)

#### Note: Indirect costs reflected in each function

- Customer Care (for example call centers)
- Credit & Collections
- Uncollectibles

#### **Example of Unbundled Rates:**

Unbundled rates for Con Ed Electric Residential Customer:

Commodity (Procurement)

\$0.18/KWH

■ Retailing Functions:

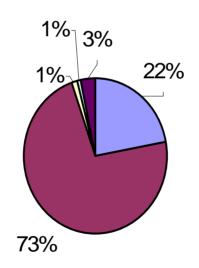
■ Billing & Payment Processing \$0.94/mo.

■ Meter (own, service & data) \$4.22/mo.

■ Commodity Supply \$0.0037/KWH

#### **Unbundled Rates and Bill**

#### Con Ed Bectric Residential Customer Monthly Bill



- Delivery (regulated)
- Commodity
- Commodity Supply
- Billing
- Meter Ownership, Services, Data