

*Mission Statement:*

*The UTC protects consumers by ensuring that utility and transportation services are fairly priced, available, reliable, and safe.*



# Washington Utilities and Transportation Commission

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## Commission Organization

Prepared for: The Kyrgyz Republic SEA

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# Mission Statement

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- The Washington Utilities and Transportation Commission protects consumers by ensuring that utility and transportation services are fairly priced, available, reliable, and safe.

# Key WUTC Role



# Organization

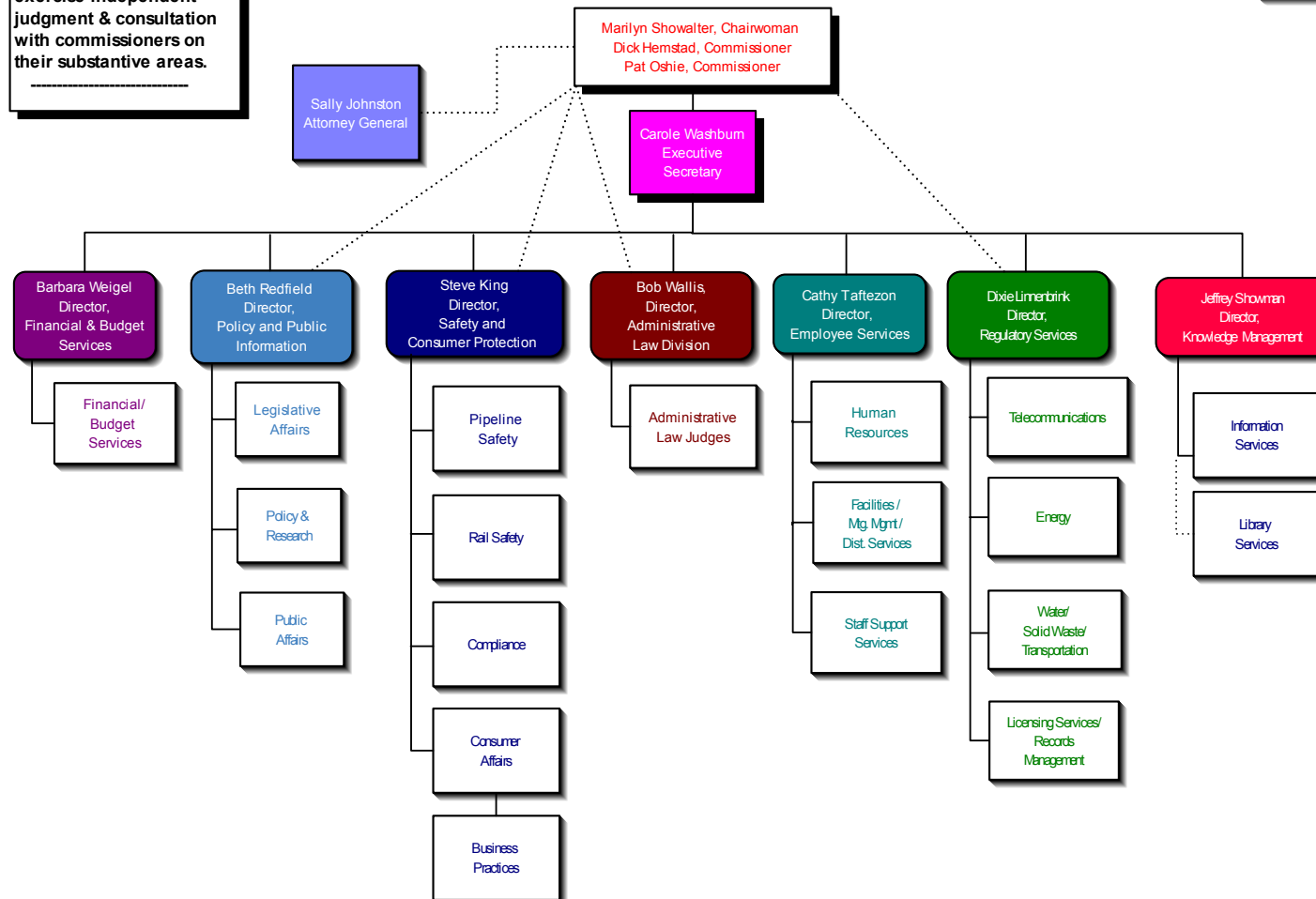
- Regulatory Services
  - Energy
  - Telecommunications
  - Water, Solid Waste and Transportation
  - Records Management and Licensing
- Policy
  - Policy and research
  - Media and government relations
- Administrative Law
- Attorney General
- Safety and Consumer Protection
  - Pipeline
  - Rail
  - Compliance
  - Consumer Affairs
  - Business Practices
- Knowledge Management
  - Information Services
  - Library Services
- Financial and Budget Services
- Human Resources

# Organization

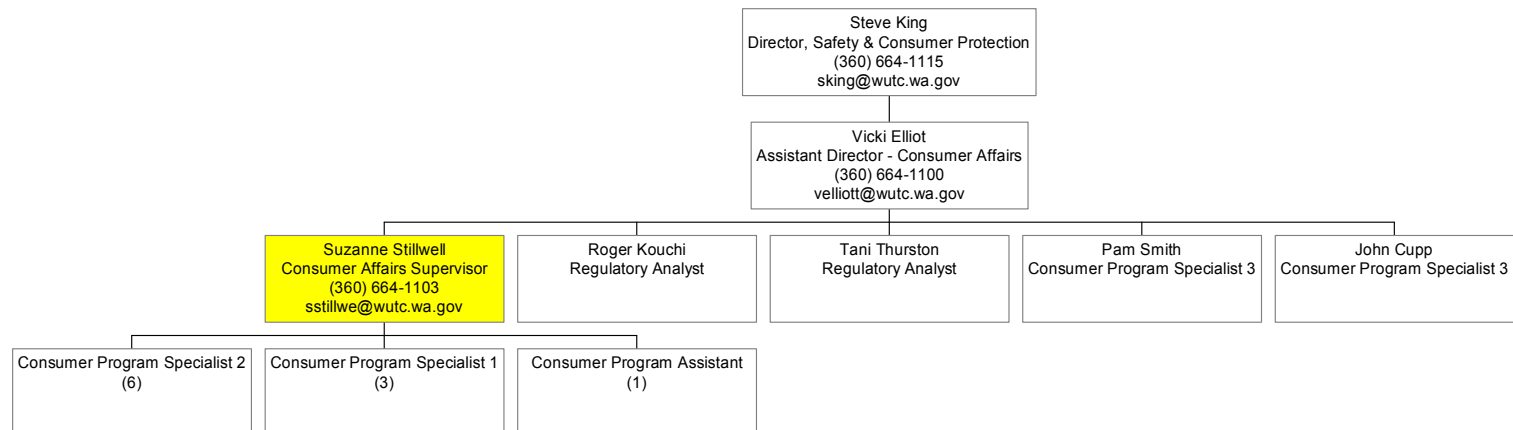
Directors are expected to exercise independent judgment & consultation with commissioners on their substantive areas.

## Washington State Utilities and Transportation Commission

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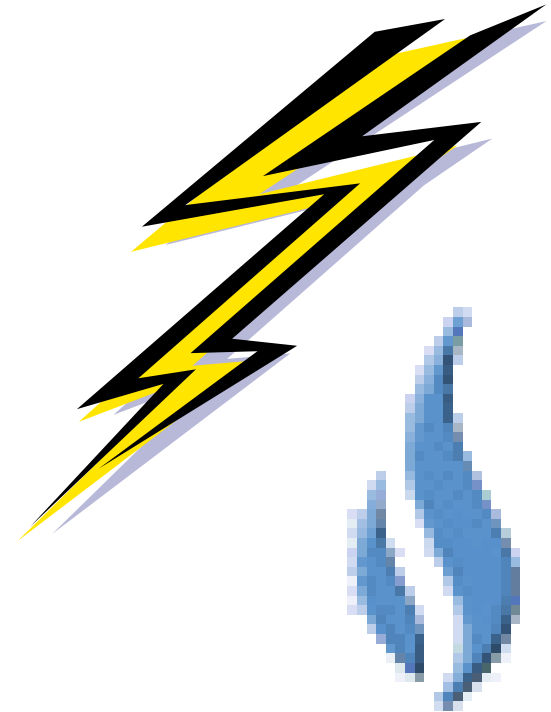
# Consumer Affairs



# Natural Gas – Electricity Convergence

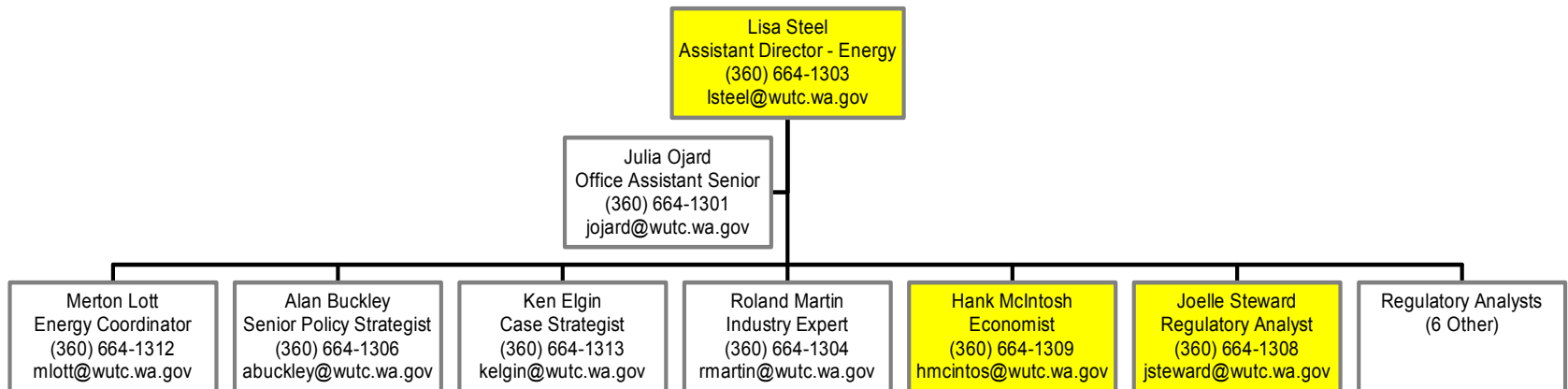
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- Most new electricity is produced by gas-fired combustion turbines.
- Electricity and natural gas prices are related.
- In Washington State, both electricity and natural gas are winter-peaking fuels for space heating.
- WUTC analyzes electric and natural gas utilities in the same section – Energy.



# Energy Section

## WUTC Energy Section





# Financing the WUTC



- Utility fees
  - Percentage of regulated revenues.
  - Ceiling set by the legislature (RCW 80.24.010) at 0.1% of the first \$50,000 of gross operating revenue, plus 0.2% of any gross operating revenue in excess of \$50,000. Minimum fee set at \$1.
  - WUTC order sets exact fee by March 1 of the preceding year.
  - Reduced for energy companies 2/12/2003 in Docket No. U-030164 to 0.1% of the first \$50,000 of gross operating revenue, plus 0.185% of any gross operating revenue in excess of \$50,000 dollars. The minimum fee is \$1.
  - Late fee is 2% of the amount due, accruing interest at the rate of 1% per month.
  - Collections accrue in a special purpose fund.
  - For exceptional cases, the WUTC can directly bill the utility that filed the case.

# Financing the WUTC



- Budget approval

- WUTC proposes a budget. Legislature authorizes a spending limit.
- Current biennial budget period: July 1, 2003 to June 30, 2005.
- Past two budget cycles, fee collections exceeded authorized budget.
- In principle, excess collections in a special purpose fund should be used to offset future fee collections, or refunded.
- Legislature passed special legislation the past two sessions to apply the WUTC surplus to offset the general fund deficit.
- Agency budget is approximately \$15 million per year. Almost \$1 million of this is allocated to the Energy Section.
- The Energy Section's budget is spent as follows:
  - Payroll 92%
  - Goods and Services 6%
  - Travel 2%

# Why regulate utilities?

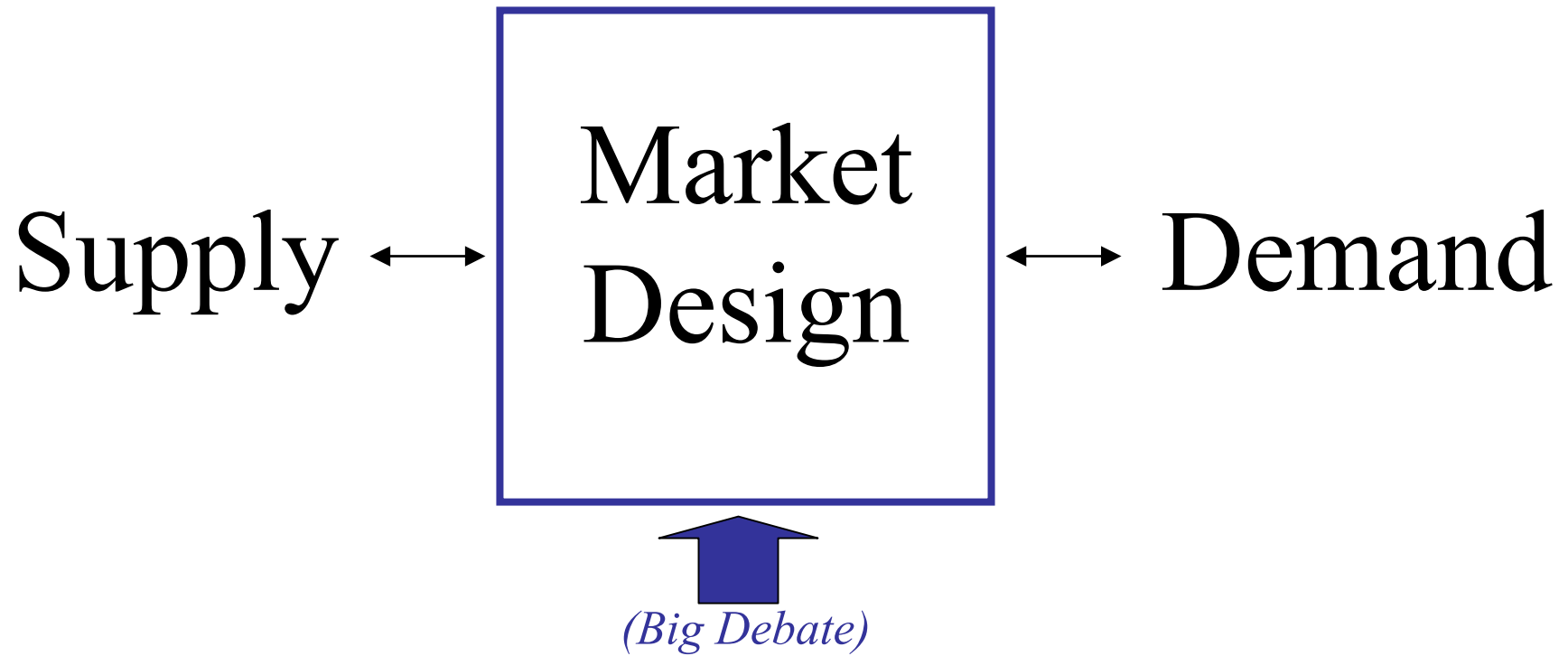
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- They are monopolies.
- They are privately owned.
- They provide essential services.

# Electricity—Big Debate

*Competition vs. Cost-Based Rates*

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# Cost-Based Rates

## Pros

- Useful where a market alternative is not available
- Predictable prices
- Lower, stable risk
- Can incorporate social goals

## Cons

- May not produce the lowest price
- Create incentives to overbuild
- Discourage innovation
- Cumbersome, time-consuming process
- Process itself adds to costs
- Less responsive to changing conditions than markets
- Can misallocate scarce resources

The tradeoff is imperfect competition for imperfect regulation.

# Cost-of-Service Fundamentals



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- Utility is obligated to serve core customers.
  - Core customers are obligated to pay costs for their customer class.
  - Utility is obligated to plan for resources sufficient to serve its customers.
  - Rates are set by the WUTC under cost-of-service ratemaking principles.
  - Rates must be fair, just, reasonable and sufficient.
  - Rates must cover cost of service, plus the opportunity to earn a fair return on investment.

# Revenue Requirement

- Operations costs
  - Historical test year
  - Normalized
  - Adjusted for known and measurable changes
- Capital Structure and Rate Base
  - Capital structure (may be pro forma)
  - Cost of capital
  - Depreciation study
  - Interstate allocations

# Customer Classes

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Next step is to define customer classes.

- A customer class is a group of similarly-situated customers with similar usage characteristics, thus, comparable costs to serve.
- Examples:
  - Residential
  - Commercial
  - Industrial
  - Special Contract



# Investments

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- Utilities have wide discretion over management of their businesses.
  - WUTC does not pre-approve investments, but some states commissions do.
  - WUTC cannot compel the utility to commence a rate proceeding, but many state commissions can. However, in exceptional circumstances, the WUTC can file a complaint.

# Rate Determination

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- Cost of Service: division of costs among customer classes based on usage characteristics.
  - Rate Spread: division of revenue requirement among customer classes. Related to, but not identical to, cost of service.
  - Rate Design: division of costs within a customer class.

# Tariffs

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Subdivided into schedules that provide:

- Monthly charges
- Energy charges
- Demand charges
- Terms and conditions (e.g. service quality)

# Elements of Service Quality

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- Power Quality (e.g. voltage and frequency standards)
- Reliability (e.g. outage standards)
- Safety
- Customer Service
- Information

# Optional Rate Case Elements

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- Rate plans (e.g. scheduled increases, rate freezes)
- Alternative risk/reward structures
  - Profit sharing mechanisms
  - Incentive mechanisms
  - Performance-based ratemaking

# Evolving Competitive Markets



- Special contracts
  - Many large gas and electric customers have special contracts with rates set by a demonstrated competitive alternative.
- Allow competition where it's viable
  - Low competitive barriers since no exclusive service territories for electric utilities.
  - Most large gas customers buy only transportation, not commodity, from the utility.
- Market-based tariffs
  - Several large industrial electric customers can choose their commodity supplier. Residential and small business electric customers buy from the monopoly.
  - Pilot retail choice programs for all customers classes have been and may be proposed. Washington has no retail choice programs active at this time, but some states do have retail choice.