

**BEFORE THE  
LOUISIANA PUBLIC SERVICE COMMISSION**

**ORDER NO. U-21453**

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Docket No. U-21453 - In Re: An investigation into whether electric industry restructuring and competition in the provision of retail electric service is in the public interest.

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(Decided at Business and Executive Session held August 19, 1998)

In this docket, the Louisiana Public Service Commission (“Commission” or “LPSC”) has been actively considering whether electric industry restructuring and competition in the provision of retail electric service is in the public interest. The public interest determination is perhaps the most important issue for the Commission to consider. In light of this, the Commission at its December 17, 1997 Business and Executive Session, voted to accept the Staff’s Review and Recommendation regarding this threshold issue. As is more fully detailed in the Staff Report, Commission Staff recommended a finding that the restructuring of the retail electric industry may be in the public interest, contingent on numerous issues being individually and adequately researched, then implemented in a manner that remains consistent with the public’s interest. In order to begin the process of researching those issues, the Commission established a procedural schedule for the purpose of receiving comments and testimony from the public and interested parties.

The second in a series of public hearings covered the topic of Unbundling. Under traditional regulation, vertically integrated utilities offer service to customers on a bundled basis. Customers currently receive generation, transmission, distribution and customer services for one price. Charges for these services are not billed or paid for separately. If the Commission approves the opening of the retail electric market to competition, functional unbundling will have to occur and the rates for each function will have to be separately identified.

In a world of retail customer choice, generation services will be competitive. Therefore, the costs of generation needs to be unbundled and stated separately on the customer bill. Customers need to be able to compare the costs of one seller of generating services with another. This is by far the best opportunity for customers to shop around and save money.

Electrical transmission and distribution functions would each remain regulated, largely by the Federal Energy Regulatory Commission (“FERC”) and the Louisiana Public Service Commission. This is generally the view expressed by other public utility commissions that have addressed the issue of retail competition.

Customer service functions, depending upon the definition ultimately adopted by the Commission, may be competitive in the future. Examples of customer service functions, include, but are not limited to billing, meter reading, the installation and maintenance of meters and other customer-related services. The customer service business units would be a merchant function that would sign up individual or groups of customers for electricity service (This business unit is unnecessary in a mandatory power exchange or poolco market structure). Customers could choose from competing merchants, who are related or unrelated to utilities, for that service. The merchant would market its services and contract with generators and owners of transmission and distribution lines to deliver the power to its customers. It is important to note that many of the parties submitting comments on this issue indicated that while many of the customer service functions may ultimately become competitive, it is generation that will be the first function to become competitive on a retail level.

The Commission is vitally concerned with the impact of retail competition on the rates charged and services rendered to retail customers. Additionally, the Commission has great concern over the potential for public confusion, annoyance, and fraud that may occur as a result of retail customers' lack of awareness of the issues pertaining to electric industry restructuring. As such, particular attention should be paid to customer understanding of the unbundling process and efforts must be made to educate ratepayers about the new competitive situation. Consequently, the Commission Staff presented the following report to the Commission at its August 19, 1998 Business and Executive Session.

### **Rates to be Unbundled**

If the Commission determines that retail competition for generation (and potentially customer service functions) is in the public interest, rates for Generation, Transmission, Distribution and Customer Services will have to be unbundled. Only in this way will appropriate price signals be given to customers.

### **Competitive versus Regulatory Functions**

It was the Staff's recommendation that if the Commission finds retail competition to be in the public interest that initially only the generation function be made competitive. This is the model that has been followed in most jurisdictions that have moved to competition. Pursuant to the provisions of Federal Energy Regulatory Commission Order No. 888, the FERC will have jurisdiction over all bulk transmission facilities, including the rates to be charged for the use of those facilities.

The distribution function will remain subject to the Louisiana Public Service Commission's jurisdiction. Customer service functions (metering, meter reading, billing, etc.) may well become competitive in the future.

### **Utility Unbundling Filings**

The Staff recommended that the Public Service Commission order jurisdictional electric utilities to conduct functional and class embedded cost-of-service studies with an unbundling of rates. This should be done on a revenue neutral and a real cost of service basis. Filings should be presented in the manner in which the utility would normally conduct a cost-of-service study, following any guidelines previously established by the FERC and the LPSC. These studies should reflect a separation of transmission and distribution that is consistent with the FERC 7-factor test. Utilities with multiple operating companies (e.g. Entergy and C&SW) should identify and quantify any difference in operating company revenue requirement that would result from using an allocated share of system-wide transmission, as compared to the operating company's transmission only. Filing parties shall attach any explanatory materials which need to accompany the cost breakdowns. Filings shall be subject to evidentiary hearings.

The first part of the unbundling filing shall consist of a break down of all costs into the categories of generation, transmission, and distribution. All administrative, general, and common costs shall be allocated to functions and to customer classes on a cost causation basis. All rates shall be unbundled as a part of this filing. In performing the cost-of-service study and rate unbundling, the transmission and distribution (T&D) functions shall be assigned the utility's average rate of return. The generation component will be the difference between actual revenues and the T&D revenue requirements for each class. The utility shall separately identify nuclear decommissioning expenses and fixed and variable (fuel and non-fuel) components of each purchased power contract. This filing deadline shall be no later than 4 months after the date of the order.

The second part of the unbundling filing shall consist of a more detailed breakdown of all expenses. The cost of service study and the rate unbundling shall identify all categories in distribution that could be moved into a fourth category (customer or retail services) should those services actually become competitive. This includes, but is not limited to: meter investment and associated O&M expense, meter reading, billing, collection, and bad debt expense. This filing deadline shall be no later than 8 months after the date of the order.

Finally, the Staff recommended that an independent technical consultant be retained in order to review the above cost-of-service filings for accuracy and consistency.

### **Timing of the Introduction of Unbundling to Ratepayers**

Should the Commission find restructuring is in the public interest, jurisdictional electric utilities should begin to reflect unbundled rates on their bills approximately one year prior to the time that retail competition is to commence. Reflecting unbundled rates on retail customer bills much earlier than a year prior to competition would likely cause confusion to customers as they will not, at that time, be billed on an unbundled basis. One year of lead time should provide adequate advance notice to permit customers to become comfortable with the process and the format of their bills.

On motion of Commissioner Sittig and seconded by Commissioner Dixon, the Commission voted to unanimously accept the Amended Staff Report and Recommendation on Unbundling.

### **IT IS THEREFORE ORDERED THAT:**

1. Jurisdictional electric utilities conduct functional and class embedded cost-of-service studies with an unbundling of rates. This shall be done a revenue neutral and a real cost of service basis.
2. The first part of the unbundling filing shall consist of a breakdown of all costs into the categories of generation, transmission, and distribution. All administrative, general, and common costs shall be allocated to functions and to customer classes on a cost causation basis. All rates shall be unbundled as a part of this filing. In performing the cost-of-service study and rate unbundling, the transmission and distribution (T&D) functions shall be assigned the utility's average rate of return. The generation component will be the difference between actual revenues and the T&D revenue requirements for each class. The utility shall separately identify nuclear decommissioning expenses and fixed and variable (fuel and non-fuel) components of each purchased power contract. This filing deadline shall be no later than 4 months after the effective date of this order.
3. The second part of the unbundling filing shall consist of a more detailed breakdown of all expenses. The cost of service study and the rate unbundling shall identify all categories in distribution that could be moved into a fourth category (customer or retail services) should those services actually become competitive. This includes, but is not limited to: meter investment and associated O&M expense, meter reading, billing, collection, and bad debt expense. This filing deadline shall be no later than 8 months after the effective date of this order.
4. Filing parties shall attach any explanatory materials which need to accompany the cost breakdowns. Filings shall be subject to evidentiary hearings.
5. The Commission Staff is directed, pursuant to Commission General Order dated October 25, 1993, to initiate the Request for Proposal (RFP) process to retain an independent technical consultant to review the cost-of-services filings required by this Order for accuracy and consistency.
6. Should the Commission find restructuring is in the public interest, jurisdictional electric utilities shall begin to reflect unbundled rates on their bills approximately one year prior to the time that retail competition is to commence.

7. The adoption of this Order offers no commitment on the Commission's behalf as to whether competition is in the public interest. This Order simply begins the process of collecting raw data regarding unbundled rates from jurisdictional utilities so that the Commission's final decision on this matter will be an informed one.
8. This Order shall be effective immediately.

**BY ORDER OF THE COMMISSION**  
**BATON ROUGE, LOUISIANA**  
September 1, 1998

/S/ DON OWEN  
DON OWEN, CHAIRMAN  
DISTRICT V

/S/ IRMA MUSE DIXON  
IRMA MUSE DIXON, VICE-CHAIRMAN  
DISTRICT III

/S/ C. DALE SITTIG  
C. DALE SITTIG, COMMISSIONER  
DISTRICT IV

/S/ JAMES M. FIELD  
JAMES M. FIELD, COMMISSIONER  
DISTRICT II

/S/ LAWRENCE C. ST. BLANC  
SECRETARY

/S/ JACK "JAY" A. BLOSSMAN, JR.  
JACK "JAY" A. BLOSSMAN, JR., COMMISSIONER  
DISTRICT I