

Chapter 3

“To what extent retail rates have been unbundled in Nebraska”

1.0 Purpose

The purpose of Technical Group #3 has been to determine “To what extent retail rates have been unbundled in Nebraska.” It was not our purpose to determine the merits or problems with deregulation, but to identify the current status of unbundling in Nebraska, and to give the consumer a better understanding of the complexity and costs for the current infrastructure to be unbundled. It is important to remember that all effects of retail competition are very hard to predict, as each state has moved to competition with different issues and concerns.

2.0 Status of Unbundling in Nebraska

There were no new developments regarding unbundling for the Group to address in 2005 and 2006. In 2004, all the electric utilities in Nebraska were surveyed to determine their current unbundling status. The results of that survey are shown in 5.0 Survey Results.

3.0 Team Members

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Rich Andrysik	-	Lincoln Electric System (LES)
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4.0 Introduction

LB901 defines unbundling as “the separation of utility bills into the individual price components for which an electric supplier charges its retail customers, including, but not limited to, the separate charges for generation, transmission, and distribution of electricity.”¹

There are various reasons why utilities may unbundle electrical service. The most compelling and the main reason that a utility unbundles is due to state statute or regulatory rule as part of a comprehensive deregulation plan. “The unbundling of retail electricity related services is a means to achieve direct access between consumers and competitive electricity supply. The overall objective of direct access is to reduce the total cost of electricity to society. Unbundling is therefore a means to develop a framework to facilitate consumer choice such that the overall cost of electricity to society is reduced.”²

Another reason that some utilities unbundle, which may not have been required to unbundle, is due to the need for better information on the costs of serving customers. In some states where deregulation has been instituted, municipal and public power entities have had the ability to opt out of deregulation, but have chosen to unbundle as a result of customer demand. Even in Nebraska one utility has chosen to unbundle and others are willing to

¹ State of Nebraska, Legislature of Nebraska, Legislative Bill 901, (Lincoln, Nebraska, 2000) p.3.

² Dr. Artie Powell, Utah Division of Public Utilities position paper presented to Utah Public Service Commission, Unbundling Electricity-Related Services (Utah: 1998) p.1.

consider it if their customers request it. Nebraska is in an enviable position of having low rates, so consumers are not pushing for deregulation. However, some consumers are requesting unbundled billing information to compare the costs of individual components of their energy bill with those costs in their facilities in other states. This process on its own may cause other utilities in Nebraska to have to unbundle as customers may begin to ask for comparisons at the same level that they are receiving in other states.

To determine “To what extent retail rates have been unbundled in Nebraska,” a survey was assembled, and mailed to the 165 retailing electric entities of Nebraska. Technical Group #3 received a response rate of 97.6% of customers. Only four utilities did not respond.

Of those utilities that responded, the study basically found these main points.

- One utility stated that they have formally unbundled.
- Over half (78%) of the utilities did not have unbundled cost of service studies.
- Less than half (40%) of the utilities’ billing systems will accommodate unbundling.
- Only (50%) of the utilities believe they have enough information to unbundle.

5.0 Survey Results

The detailed information from the surveys follows in the tables below. The Nebraska Power Review Board mailed the surveys out one time. The surveys that were not returned were followed up by a telephone call asking for a response. In addition to the first follow-up telephone call, the Nebraska Power Review Board also made a follow-up call to those that did not respond.

OF RESPONSES

TYPE	SENT OUT	RESPONDED	% RESPONSE
Municipal	123	119	96.7%
Federal, State & District	30	30	100.0%
Rural Electric Cooperative	12	12	100.0%
Total	165	161	97.6%

OF ELECTRICAL CUSTOMERS REPRESENTED

TYPE	SENT OUT	RESPONDED	% RESPONSE
Municipal	298,412	297,435	99.7%
Federal, State & District	596,162	596,162	100.0%
Rural Electric Cooperative	14,069	14,069	100.0%
Total	908,643	907,666	99.9%

Q1A. - HAS YOUR ORGANIZATION FORMALLY UNBUNDLED YOUR BILLS FOR ELECTRIC SERVICE?

TYPE	% - YES	% - NO	# OF RESPONSES
Municipal	0%	100.0%	119
Federal, State & District	3.3%	96.7%	30
Rural Electric Cooperative	0%	100.0%	12
Total	.62%	99.4%	161

One utility in Nebraska has unbundled. The utility that has unbundled is Loup River Public Power District. They have one rate class that is unbundled (per customer request). The unbundling breaks down the customer's charges into the following:

- Production Demand
- Transmission Line
- Transmission Substation
- Sub-transmission Line
- Sub-transmission Substation
- Energy

Q1B. - IF YOU HAVE NOT UNBUNDLED, HAS YOUR ORGANIZATION COMPLETED ANY UNBUNDLING RATE STUDIES?

TYPE	% - YES	% - NO	# OF RESPONSES
Municipal	9.7%	90.4%	114
Federal, State & District	62.1%	37.9%	29
Rural Electric Cooperative	50.0%	50.0%	10
Total	22.2%	77.8%	153

Q2A. - WILL YOUR CURRENT BILLING SYSTEM ACCOMMODATE UNBUNDLING?

TYPE	% - YES	% - NO	# OF RESPONSES
Municipal	31.2%	68.8%	112
Federal, State & District	58.6%	41.4%	29
Rural Electric Cooperative	81.8%	18.2%	11
Total	40.1%	59.9%	152

Q2B. - IF YOU ANSWERED "NO" TO QUESTION "2A," ARE YOU PLANNING TO CHANGE SYSTEMS TO ACCOMMODATE UNBUNDLING OR ARE YOU CONSIDERING THIS ISSUE IN THE PURCHASE OF ANY NEW BILLING SYSTEM?

TYPE	% - YES	% - NO	# OF RESPONSES
Municipal	7.8%	92.2%	77
Federal, State & District	58.3%	41.7%	12
Rural Electric Cooperative	50.0%	50.0%	2
Total	15.4%	84.6%	91

Q2C. - DOES YOUR ACCOUNTING AND COST OF SERVICE INFORMATION PROVIDE ENOUGH DATA FOR YOU TO UNBUNDLE YOUR ELECTRIC BILLS?

TYPE	% - YES	% - NO	# OF RESPONSES
Municipal	40.0%	60.0%	110
Federal, State & District	86.7%	13.3%	30
Rural Electric Cooperative	50.0%	50.0%	12
Total	50.0%	50.0%	152

6.0 Estimated Unbundling Costs

Technical Group #3 also previously estimated what the total cost for unbundling in Nebraska would be, should the electric utility industry open to competition. Costs associated with moving to retail competition were addressed, but were very hard to predict.

Separating unbundling from deregulation is very complicated. Deregulation impacts the unbundling process. Therefore, when determining the costs to be included in unbundling, which is a small piece of the deregulation process, certain assumptions had to be made. The cost methodology was highly speculative and subject to many assumptions. Because there is no central rate making authority in Nebraska, most costs were estimated based on the input of OPPD, LES, NPPD, and Rural Public Power Districts. For municipalities, the technical group used information from the Nebraska Municipal Power Pool (NMPP). Various items determined to be unbundling costs were obtained. To determine the estimated costs, the entities involved completed a spreadsheet with the estimated costs that would be incurred by them. The individual results were then accumulated into categories, and a statewide total cost to unbundle was estimated. (See Annual Report-2002 for detailed information).

The technical group estimated the cost for only unbundling in Nebraska to be approximately \$9 million. This would include an estimated one-time cost of approximately \$8 million. The on-going cost per year would be approximately \$1 million. A statewide consumer education

program would be needed to communicate to the consumer a new billing process, so consumer education on a statewide basis was included in these estimated costs. The estimated cost per customer was based on other deregulated states. The technical group used a \$1.36 average cost per customer (which was based on the information received from Pennsylvania), and then applied this cost to the number of customers in each public power entity in Nebraska.

The unbundling portion is only a small part of total deregulation costs, evidenced by the magnitude of the costs associated with unbundling and consumer education in other states. A determination of the level of unbundling for the state of Nebraska has currently not been made. However for purposes of determining a cost, we assumed generation, transmission, distribution, a customer charge, and up to two other items would be included, (i.e. probably no more than 5 or 6 line items).

7.0 Conclusion

These are the results that were gathered over the past years. Technical Group #3 will continue to review the status of unbundling in Nebraska, and report the results as needed. During the study year 2007, there may be activity in the area of privately owned generation that might require limited unbundling and Technical Group #3 may look in to those activities.