

## **Chapter Three**

**“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 states have moved to competition with different issues and concerns.

## 2.0 Team Members:

Jay Anderson	Omaha Public Power District
Rich Andrysik	Lincoln Electric System
Don Cox	Hastings Utilities
Chuck Eldred	Omaha Public Power District
Jim Gibney	Wahoo Utilities
Jamey Pankoke	Perennial Public Power District
Marv Rief	Nebraska Public Power District
Donna Starzec	Nebraska Public Power District

## 3.0 Status of Unbundling in Nebraska

There were no new developments in 2003 regarding unbundling for Technical Group #3 to address. All issues were addressed in previous reports. Therefore a summary of the prior work is provided below for the 2003 report.

## 4.0 Recap of Prior Years Reports

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.”<sup>1</sup>

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.”<sup>2</sup>

Another reason that some utilities unbundle, even not required to, is 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 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

---

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

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

compare the costs of individual components of their Nebraska energy bill with the electric costs at their facilities in other states. This process on its own may cause other utilities in Nebraska 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 162 retailing electric entities of Nebraska. Technical Group #3 received a response rate of 74.1% representing 97.4% of customers and 98.2% of total Mwh sales to ultimate consumers. The study disclosed the following main points. (Refer to Annual Report-2001 for detailed information).

- Only one utility has formally unbundled.
- The majority of utilities do not have unbundled cost of service studies.
- Half of the utilities' billing systems will accommodate unbundling.
- Over half of the utilities believe they have enough information to unbundle.
- 70% of the utilities stated that they would not unbundle unless mandated.

The surveys detailed in the Annual Report-2001 were only mailed out one time. The surveys that were not returned were followed up by a phone call asking for a response. In addition to the phone call, the team also attempted to get responses by working through NPPD and the Municipal Energy Agency of Nebraska. The respondents were also asked to provide a copy of their typical residential bill.

Technical Group #3 also 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).

These are the results that were gathered over the past two years. Technical Group #3 will continue to review the status of unbundling in Nebraska, and report the results as needed.

