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Decision 99-02-081 February 18, 1999

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of Sierra Pacific Power Company for Approval of its Proposals to Implement Direct Access Billing Options and Separate Costs for Revenue Cycle Services.	Application 98-02-006 (Filed February 5, 1998)
Application of PacifiCorp (U 901-E) for Approval of PacifiCorp's Revenue Cycle Services Credits Pursuant to D.97-12-093.	Application 98-02-009 (Filed February 5, 1998)
Application of Southern California Water Company, doing business as Bear Valley Electric Service (U 133 W) for Approval of Proposals to Implement Billing Options and Separate Costs for Revenue Cycle Services.	Application 98-02-013 (Filed February 5, 1998)

OPINION

Summary

This decision adopts customer bill credits for revenue cycle services, as proposed by Sierra Pacific Power Company (Sierra), Southern California Water Company doing business as Bear Valley Electric Service (BVE), and PacifiCorp.

I. Background

Decision (D.) 97-05-039 and D.97-12-093 directed Sierra, BVE, and PacifiCorp to file these applications for separating the costs and developing bill credits for revenue cycle services. Revenue cycle services are those services associated with electric utility metering and billing. Specifically, D.97-12-093 directed the applicants to submit proposals for three billing options identified in D.97-05-039:

> **Consolidated Utility Billing** - The customer's authorized energy service provider (ESP) sends its bill to the utility. The utility in turn sends a consolidated bill, which includes utility and ESP charges, to the customer.
>
> **Consolidated ESP Billing** - The utility bills the ESP for services provided by the utility and the ESP provides a consolidated bill to the customer.
>
> **Dual Billing** - The utility and ESP bill customers separately for their respective services.

D.97-12-093 also directed applicant utilities to "unbundle" the costs of these billing services and to provide an associated credit on customer bills where the customer subscribes to the billing services of competitors.

Following issuance of D.97-12-093, we considered these matters for the three large electric utilities. D.98-07-032 and D.98-09-070 adopted bill credits and rules for the revenue cycle services of Pacific Gas and Electric Company (PG&E), Southern California Edison Company (Edison), and San Diego Gas & Electric Company (SDG&E), pursuant to D.97-05-039.

Sierra filed its application on February 5, 1998 and amended it on October 21, 1998. BVE filed its application on February 5, 1998. PacifiCorp filed its application on February 5, 1998. The applications have been consolidated in this proceeding. No party has protested any of the three applications. This decision grants the uncontested proposals of the applicants. The Commission therefore waives the 30-day comment period otherwise required in Public Utilities Code Section 311(g)(2).

II. The Application of Sierra

Sierra's application explains the utility's circumstances as they affect its ability to offer revenue cycle services and the costs of those services. Sierra has about 43,000 customers in California, which accounts for about 8% of Sierra's gross electric revenues. Sierra is located mostly in Nevada, where it is planning to implement direct access by the end of 1999 pursuant to the policies of the Public Utilities Commission of Nevada. Sierra proposes to coordinate restructuring efforts of the two state jurisdictions in order to promote their cost-effective implementation. Sierra does not expect most ESPs to be interested in competing in its service territory because the territory is relatively isolated. At the time it filed its application, Sierra had no direct access requests from ESPs.

Billing Services - Sierra explains that its existing billing system was designed in the 1960s and is not capable of accommodating billing or receivables for multiple companies. Sierra is working to modify its system to remedy many of its billing system's shortcomings for its electric, gas, and water services, but states the process is expensive and time-consuming. Currently, Sierra is able to offer dual billing. Sierra explains it is in the process of developing long-term changes to its billing system that would permit it to offer any product or service and to accommodate direct access by mid-1999.

Because of the high cost of implementing major changes to its system and ESPs' apparent lack of interest in serving Sierra's customers, Sierra's short-term plan is to implement a manual system for ESP billing options. Sierra describes its plans to offer partial consolidated ESP billing within six months and full consolidated ESP billing within a year. Sierra explains consolidated utility billing will be very difficult with its existing system because the system was not designed to process any bills but Sierra's. Accordingly, it will offer this service with manual processing until it can incorporate longer-term system changes.

Sierra states it could offer these billing services in early 1999. It prefers to wait at least a year to determine the demand for direct access from its customers and to assess the need for consolidated billing options because of the high cost of these billing options.

Cost Separation for Billing and Metering Services - Sierra proposes a two-step process for separating or unbundling billing and metering service costs. First, it would develop a costing method consistent with that adopted by the Commission for the three major utilities. Subsequently, it would file an advice letter to tariff the rates associated with the costing method. Sierra's amended application proposes an avoided cost method for meter ownership, meter services, meter reading, and billing processing. The avoided cost method focuses on those costs the utility will no longer incur when customers choose the metering or billing services of an ESP competitor. Sierra observes that the major avoidable cost component for meter and billing services is labor. It does not believe it will avoid any fixed costs in the near future, especially because it does not expect much market activity in its territory.

Sierra's application goes on to describe how it would apply the avoided cost method to the various revenue cycle services. A letter to the assigned Administrative Law Judge (ALJ) dated January 12, 1999 states that Sierra's proposed costing method does not differ substantially from the method adopted for the three major electric utilities in D.98-09-070. Table 1 of Sierra's application presents the billing credits Sierra would offer customers who choose the revenue cycle services of ESP competitors.

III. The Application of BVE

BVE provides background about its system which is relevant to its application. BVE explains that it offers electric service to about 20,500 customers in the area of Big Bear Lake in San Bernardino County. BVE states it owns no generation assets and purchases energy from Enova Energy, Inc. BVE owns no transmission assets and purchases transmission capacity from Edison. Its customers are highly transient.

Billing Services - BVE proposes to implement the three billing options set forth in D.97-05-039. BVE's application presents a description of the conditions under which its tariffs would offer consolidated and dual billing services.

Cost Separation for Metering and Billing Services - BVE proposes to use a net avoided cost method in determining billing credits for customers using the services of ESP competitors. In that regard, BVE proposes to conduct a cost study for each relevant service which accounts for the number of customers procuring service from competitors. Depending on the service, BVE intends to segment customers by usage level, meter type, and geographic zones. BVE also provides substantial detail with regard to the terms under which its tariffs would offer revenue cycle services.

In a January 6, 1999 letter to the assigned ALJ, BVE states it has modified its avoided cost model adopted in D.98-09-070 to the extent practical and would use that modified model to develop rates which it would propose by advice letter following issuance of a decision here.

IV. Application of PacifiCorp

Billing Services - PacifiCorp's application specifies that it would permit consolidated ESP billing, that is, the ESP will bill the customer for PacifiCorp services as well as its own. The application does not address partial ESP or dual billing.

Cost Separation for Metering and Billings Services - PacifiCorp, like BVE and Sierra, proposes to develop a net avoided cost method for calculating billing credits for customers who use the metering and billing services of ESP competitors. It would offer different credits for customers of different sizes and types, where possible, generally according to rate schedule. PacifiCorp would segment customers by geographic region for those credits that reflect avoided travel time. For billing services, PacifiCorp appears to assume labor savings, including overheads, at all levels of market penetration.

PacifiCorp would provide a credit to customers who return meters, depending on the net book value of the meter less costs incurred to prepare the meter for use by another customer. It also determined a credit for meter services and meter reading. To calculate the meter reading credit, PacifiCorp interviewed meter readers with regard to the time spent, then calculated the labor cost, including taxes and benefits.

Table 2 of PacifiCorp's application presents the credits proposed by PacifiCorp for metering and billing services. The application describes in more detail the assumptions PacifiCorp makes in developing the credits for each category of service. It also provides a breakdown of estimated costs in each service category.

By letter to the assigned ALJ dated January 21, 1999, PacifiCorp states it would be able to file an advice letter to implement revenue cycle services credits within 60 days of a Commission decision.

V. Discussion

Applicants have substantially complied with D.97-05-039 and D.97-12-093 by filing these applications. We have intended for the applicants to follow the model established in D.98-09-070 for the major electric companies, PG&E, Edison, and SDG&E. The applicants have made some significant steps to satisfy that objective. Applicants have presented proposals which are at least conceptually consistent with D.98-09-070, although the proposals in their specificity are not entirely consistent with the policies or methods adopted in D.98-09-070. For example, PacifiCorp does not propose at this time to offer dual billing. PacifiCorp and BVE would segment credits according to customer location, a practice referred to as "geographic segmentation" and one which we rejected for the larger utilities in D.98-09-070. PacifiCorp would reduce the meter ownership credit by costs incurred to prepare the meter for use by another customer. The applicants have used avoided cost methods which apparently differ in some respects from those adopted in D.98-09-070. Indeed, BVE does not present any outline of its methods or illustrative rates, proposing instead to provide them as part of an advice letter filing. The applicants do not propose ways of adjusting their revenue cycle services credits in the future.

The policies we adopted in D.98-09-070 recognized implicitly at least that PG&E, SCE, and SDG&E have the resources to develop somewhat elaborate pricing methodologies and markets which would attract competitors. Applicants here are relatively small companies. Their customers are located in less dense, less urban areas of the state than their larger utility counterparts, and we assume that they have fewer large customers. As a result, the prospects for competition in revenue cycle services markets is less assured. Applicants have made an earnest attempt to accommodate the costing conventions we adopted in D.98-09-070. Those which they have proposed are reasonable in light of prevailing circumstances. No party opposes them. We do, however, encourage Applicants to offer meter reading credits that are not geographically de-averaged until distribution rates are likewise de-averaged. We also recommend that the utilities' meter ownership credits are not reduced by costs incurred to prepare returned meters for use by another customer or resale. These minor changes would conform the proposals before us to the major components of programs adopted for PG&E, Edison, and SDG&E. Otherwise, we will adopt the proposals with the understanding that they are not precedential and that we are not in any way reversing the determinations we made in D.98-09-070. We will reconsider the level of credits and the costing methods adopted here if a customer group, competitor, or prospective competitor files a petition to modify seeking to pursue the matter further. Finally, we find that Applicants may defer implementation until as late as January 1, 2000. We do so in recognition that competitors have shown no interest in participating in Applicants' revenue cycle services markets. As direct access proceeds in those markets, the prospects for revenue cycle services may improve. We will require a more expeditious implementation should any party petition to modify our order here.

Findings of Fact

1. BVE, PacifiCorp, and Sierra have complied with D.97-05-039 and D.97-12-093 by filing the subject applications.

2. BVE, PacifiCorp, and Sierra have proposed revenue cycle services and revenue cycle services credits that are substantially similar to those adopted for PG&E, SCE, and SDG&E in D.98-09-070, considering the relatively fewer prospects for revenue cycle services competition in the near future.

3. BVE, PacifiCorp, and Sierra have stated in letters to the assigned ALJ that they will affect compliance with a decision in this proceeding by filing advice letters.

Conclusion of Law

The Commission should grant the applications of BVE, PacifiCorp, and Sierra for revenue cycle services and revenue cycle services credits as set forth herein.

O R D E R

IT IS ORDERED that:

1. The application of Sierra Pacific Power Company (Sierra) is granted as set forth herein. Sierra shall file an advice letter within 60 days to affect compliance with this order and shall implement its program no later than January 1, 2000.

2. The application of Southern California Water Company doing business as Bear Valley Electric Service (BVE) is granted as set forth herein. BVE shall file an advice letter within 60 days to affect compliance with this order and shall implement its program no later than January 1, 2000.

3. The application of PacifiCorp is granted as set forth herein. PacifiCorp shall file an advice letter within 60 days to affect compliance with this order and shall implement its program no later than January 1, 2000.

4. These consolidated applications are closed.

This order is effective today.

Dated February 18, 1999, at San Francisco, California.

RICHARD A. BILAS
President
HENRY M. DUQUE
JOSIAH L. NEEPER
Commissioners