

SERVICE DATE

DEC 13 1995

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of the Commission's Notice of Inquiry:	)	DOCKET NO. UE-940932
	)	
	)	POLICY STATEMENT
	)	
Examining Regulation of Electric Utilities in the Face of Change in the Electric Industry	)	Guiding Principles for Regulation in an Evolving Electricity Industry
	)	
	)	
.....	)	

**Background:** On December 16, 1994, the Washington Utilities and Transportation Commission initiated an inquiry under Docket No. UE-940932 entitled Examining Regulation of Electric Utilities in the Face of Change in the Electric Industry (NOI). After reviewing comments and reply comments submitted by 40 interested organizations and individuals, the Commission on August 14, 1995, issued a draft policy statement pursuant to RCW 34.05.230 and WAC 480.09.200 entitled Guiding Principles for an Evolving Electricity Industry. At that time the Commission requested comment on the eight principles comprising the draft policy statement. The Commission received comments, criticisms, and recommendations from 17 participants in the NOI. The Commission has reviewed these comments and used them to revise the draft policy statement and produce a final set of policy principles.

**Statement of Policy:** The Commission issues this policy statement pursuant to WAC 480.09.200. The statement consists of eight principles which should guide adaptation of the Commission's exercise of its regulatory authority to the more competitive circumstances facing the state's electricity industry. The statement does not constitute a formal order binding upon the Commission or parties that may come before it in formal proceedings. Rather, the statement serves to demonstrate the current opinions held by the Commission concerning the expansion of competition in the electricity industry. The Commission intends to use these principles in exercising its general regulatory duties and responsibilities and in developing its opinions and judgements concerning specific regulatory issues which it may be required to address.

Guiding Principles for Regulation in an Evolving Electricity Industry

1. Electricity service should be available to customers at prices that are both reasonable and affordable. The Commission's fundamental responsibility is to ensure that, where this service is provided by an investor-owned monopoly, customer needs are met at a cost that is fair, just, reasonable, and not unduly discriminatory. The monopoly provider is entitled to rates that are sufficient to provide it the opportunity to recover and earn a fair return on its investment dedicated to public service. However, where electricity service can be made available at affordable prices established through competition that is both efficient and that treats all customers fairly, competition should be accommodated and encouraged.

2. Non-economic bypass and the inappropriate shifting of costs of the electric system between or among customers do not constitute fair and efficient competition, are contrary to the public interest, and should be avoided. Customers of continuing monopoly service should benefit, or at least not be harmed, from choices made by customers with access to competitive options.

3. The long-term integrity, safety, reliability, and quality of the bulk electric system and retail electricity service should not be jeopardized.

4. Consumers should be afforded a broad range of choice in electricity service and pricing options. Service terms and pricing options should reflect customer needs, as well as the reasonable costs and consequences of these options. Unbundled service options should require appropriate conditions, including notice provisions and limitation of service obligations, to ensure that customers see the full costs as well as the full benefits of their choices. All classes of customers should have access to a basic level of reasonably priced and reliable service.

5. Development of competitive electricity markets should not undermine public policies favoring environmental protection, energy efficiency, resource diversity, and technological innovation. If these policies are to be realized, a host of parties will have important roles to play including utilities, new market entrants, electricity customers, and environmental regulatory and other agencies of government including the Commission. Approaches that encourage development of markets for energy efficiency and renewable generation equipment should be emphasized.

6. Transitional regulatory decisions concerning specific situations and responses to competitive circumstances should be made carefully in a manner that avoids creating an advantage or imposing a disadvantage upon any group of competitors, or inhibiting the "natural" evolution of efficient markets.

7. The opportunity for members of the public to voice their views in the planning, choice of resources, siting, and impacts of the electricity system should be preserved.

8. Traditional regulation of monopolies serves to protect consumers by establishing fair prices free from monopoly abuse. Traditional regulation also protects utility shareholder interests by setting rates that provide an opportunity to recover and earn a fair rate of return on utility investment made to provide the public with reliable service. Traditional notions about the meaning of this "regulatory social compact" have received substantial criticism from both utilities and regulators over the last two decades. Interests of customers should continue to be balanced with the opportunity for shareholders to earn fair returns. When justified by the public interest, regulatory policy should seek flexible ways to reduce both shareholder and ratepayer exposure to potentially stranded costs. However, regulation cannot and should not be expected to guarantee utilities will, in all circumstances, be made entirely whole for generation or other costs that are determined through actual and fair competition to be stranded or uneconomic.

**Changes in the Statement:** In light of the rapid pace of change in the electricity industry and the state, regional, and federal regulatory and policy issues that may affect the electricity industry in Washington, the Commission anticipates that it may become necessary to modify or revise the principles established in this policy statement. Under such circumstances the Commission intends to distribute any modifications or revisions for comment by all interested parties before amending the statement.

DATED at Olympia, Washington this 11th day of December 1995.

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION



SHARON L. NELSON, Chairman



RICHARD HEMSTAD, Commissioner



WILLIAM R. GILLIS, Commissioner