

# Understanding Your Electric Bill

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**S h e e t**

The Oregon Public Utility Commission sets rates for three electric companies. They include Portland General Electric (PGE), PacifiCorp, and Idaho Power.

The purpose of this fact sheet is to describe the major cost items paid through your electricity rates.

The Commission sets rates to cover two types of costs:

- 1) The day-to-day expenses a utility incurs such as acquiring power, maintenance of equipment, wages and taxes.
- 2) A fair return on a utility's investment in facilities to provide service.

Electric rates do not cover such things as political advertising, lobbying, or charitable contributions, floats in parades to special bonuses paid to executives.

The table on the next page shows the major costs electricity utilities incur and the share each category is of a typical residential bill. The figures represent an average of the three electric utilities regulated by the Commission.



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### *Average Electric Utility Costs*

**Power Costs: 49%**  
**Distribution Expenses 6%**  
**Administrative Expenses 9%**  
**Depreciation 12%**  
**Taxes and Fees 11%**  
**Investment Financing 11%**

**Power Costs:** Utilities generate their own electricity at power plants or buy electricity from other companies to serve their customers. By far, the largest expense is the cost of acquiring various sources of energy in order to serve customers, which was painfully clear in the 2000-2001 West Coast energy crisis.

**Distribution Expenses:** These are costs associated with installing and maintaining substations, poles, wires, underground facilities, and meters that bring electricity from power plants to homes and businesses.

**Administrative Expenses:** These include customer service, accounting, and other expenses such as wages and salaries of employees, pensions and benefits, informational advertising, office supplies and insurance. Other expenses include the costs of operating and maintaining the utility's transmission, distribution and office facilities.

**Depreciation:** Oregon's electric utilities make large capital investments to deliver electricity to homes and businesses. Each year, the utility must replace equipment that wears out. The Commission allows utilities

to recoup this depreciation expense associated with replacing worn-out equipment.

**Taxes and Fees:** Oregon's regulated electric utilities pay a variety of taxes and fees. These include state and federal income taxes, property taxes, fees for the use of rights-of-way in cities, payroll taxes, and fees to the Public Utility Commission to fund its regulation of the utility. The amounts included in rates are based on estimated revenues and costs for the utility.

**Investment Financing:** The job of providing electricity is an expensive undertaking. Utilities make huge investments in power plants, power lines, computer systems and meters.

Return on investment is the amount paid to the utility's debt holders and investors that finance the utility's investments to provide utility service.

The amount of the return on investment is decided by the Commission and is included in customer rates.

We hope this pamphlet is helpful in understanding the variety of expenses that make up your electric bill. We have created a similar document that explains expenses included in natural gas bills.



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