

# HOUSE COMMITTEE ON SMART GROWTH AND COMMERCE

January 29, 2001  
3:30 p.m.

Hearing Room 50  
Tapes 11-13

**MEMBERS PRESENT:** Rep. Rep. Bill Witt, Chair  
Rep. Alan Bates  
Rep. Alan Brown  
Rep. Janet Carlson  
Rep. Richard Devlin  
Rep. Bill Garrard  
Rep. Elizabeth Johnson  
Rep. Tim Knopp  
Rep. Jerry Krummel  
Rep. Laurie Monnes-Anderson  
Rep. Vicki Walker

**MEMBER EXCUSED:**

**STAFF PRESENT:** Daniel Clem, Administrator  
Renee' Lunsford, Administrative Support

**MEASURE/ISSUES HEARD:** Informational Meeting: Review of West Coast Power Crisis and Implications for Oregon

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These minutes are in compliance with Senate and House Rules. Only text enclosed in quotation marks reports a speaker's exact words. For complete contents, please refer to the tapes.

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<u>TAPE/#</u>	<u>Speaker</u>	<u>Comments</u>
<b>TAPE 11, A</b>		
010	Chair Witt	Calls the committee to order at 3:40 p.m. <b><u>The Western Energy Shortage, Portland General Electric</u></b>
020	Cindy Findlayson	Portland General Electric (PGE) spokesperson. Introduces speakers Walt Pollock and Mary Turina.
030	Mary Turina	Sr. Vice President, Power Supply, Portland General Electric. Gives verbal and written testimony regarding reasons for the western energy shortage (EXHIBIT A). Gives facts about PGE. <ul style="list-style-type: none"><li>• PGE is the largest utility in Oregon (over 700,000 retail customers).</li></ul> Gives reasons for the western energy shortage. <ul style="list-style-type: none"><li>• Demand for northwest energy has increased six times faster than supply.</li><li>• Increase in regional power prices</li><li>• Futures market</li><li>• Escalation in natural gas prices</li></ul>

072

Walt Pollock

Sr. Vice President, Power Supply, PGE. Talks about the California energy situation.

- California froze retail rates and the utilities divested of most of their generating plants.
- Transactions were done in a short-term spot market.
- \$11 billion of unrecovered cost between PGE and Southern California Edison.

Explains additional factors causing blackouts.

Talks about how California situation affects Oregon.

- States the western United States electrical system is interconnected.
- PGE has significant credit issues regarding payment for power provided for California.
- PGE has no winter availability of import.
- PGE has been ordered by federal government to provide all power excess be sent to California.

Describes PGE's immediate power supply outlook and how PGE has strategized to avoid situations like California.

Describes how the power market has changed monetarily in one year.

Discusses solutions (conservation, renewables) and how to plan for future needs.

Notes opportunities exist for new generation. Adds that building a new generating plant takes about 4 ½ years.

233 Rep. Brown

Asks if Mr. Pollock thinks that Oregon should implement SB1149.

227 Pollock

Responds PGE is trying to buy some time for the legislature to think about that and states, "I want us to act in a way that is supportive of either implementing on time or delaying so that you can make that decision."

255 Rep. Krummel

States that before the holidays, Los Angeles seemed to have plenty of power and asks how they are contributing to the problem.

272 Pollock

Responds Los Angeles Department of Power and Water, which is a municipal utility, is not subject to the restructuring that occurred in California. They were not selling their generation assets. They are operating more traditionally in utility fashion. They are required to make their excess available.

291 Rep. Krummel

States Pollock mentioned there were some new issues in the market place and asked him to expand on them.

296 Pollock

Responds, I was referring to the governmental order (to supply our excess energy to California). There are really two issues.

		<ul style="list-style-type: none"> <li>• Are we going to get paid?</li> <li>• How do northwest priorities fit or when can a northwest emergency step in front of a California potential assistance?</li> </ul>
301	Turina	Adds, the problem is exacerbated because often times, California does not take the power.
345	Rep. Krummel	Asks about the use of nuclear power. Are any of the plants capable or producing electrical power and how much?
356	Pollock	Responds PGE will turn to other sources before we turn there. The US has enormous domestic reserves of Coal.
375	Rep. Krummel	Asks if wind plants in the gorge are still operational and how soon will the wind plant in Walla Walla be operable.
383	Pollock	Responds, the wind plants in the gorge (Goldendale) were too large. PGE has a 25-megawatt system wind project. I do think we'll see more of that resource. They're highly reliable.
410	Rep. Walker	Asks Pollock if PGE will be impacted if any California utilities declare bankruptcy. Would this affect the rate payers.
415	Pollock	Responds affirmatively to both questions. Says they are counter-parties with PGE on contracts. Gives illustrations.
430	Chair Witt	Comments that since it is the federal government's order to extend credit, there should be some federal responsibility.
450	Rep. Devlin	Asks, if you were to look at your customer-base now and what resources you would need over that five-year period, what portion would be covered by generation resources that you know you have control over and what portion would you be uncertain about.
460	Pollock	Replies, we don't think it's prudent to have more than 10% of our load exposed to market volatility. Under the current structure, it's not clear that PGE should be making long-term investments on behalf of our customers.
465	Rep. Devlin	Asks, in terms of what has happened in California, when the investor-owned utilities were required to divest themselves of their generating abilities, who acquired those.
472	Pollock	Responds, there were six-or-eight companies that bought parts of it --Duke, AES and a number of others.
<b>TAPE 12, A</b>		
030	Rep. Bates	Says, you mentioned a figure of \$150 - \$200 million for 100 megawatt hours. What is the real cost of developing that power? Is this price increase a result of profiteering?
059	Pollock	Responds by giving the committee a formula. He expands on that answer. He adds, hydro is a different asset. Hydro vintage assets are extremely valuable and not nearly that cost.
081	Chair Witt	Asks how the demand for energy in the 90s increased six-times faster than supply and why energy providers allowed this situation to evolve.
087	Turina	Answers, you run into a questionable area when you project how much load you will be serving. Continues by explaining the restructuring/marketing process.
099	Chair Witt	Asks, is this process of restructuring or deregulation impeding the investment of new facilities?
104	Turina	Responds it causes a lot of concerns about earned returns.
111	Chair Witt	Asks about how realistic power reductions efforts are.
116	Turina	Responds that customer response to conservation pleas made significant changes in power needs.

124	Pollock	Adds, electricity is 10 times as expensive to buy as our average rate. Designing tariffs is a real challenge.
131	Rep. Monnes-Andeson	Says that since high-tech is now Oregon's number one industry she is concerned that a decreased electrical supply will affect Oregon's economy and ability to draw new businesses to the state.
140	Pollock	Says, our first priority is to provide reliable service but we need to assure prospective industries that we have a good plan. He states a good plan would include: <ul style="list-style-type: none"> <li>• More plants built</li> <li>• Conservation investment</li> <li>• Renewables</li> </ul>
160	Turina	Adds that industry moving into Oregon could bring with it on-site small generation.

**Review of West Coast Power Crisis and Implications for Oregon, PacifiCorp**

190	Kevin Lynch	<p>Managing Director of Government Affairs for PacifiCorp. Submits written and verbal testimony (EXHIBIT B).  Quotes PacifiCorp company and energy statistics.  Talks about how the crisis in California is affecting his company.</p> <ul style="list-style-type: none"> <li>• PacifiCorp is subject to the Energy Department's order to sell power to California.</li> <li>• They are involved in power exchanges with California.</li> </ul> <p>Gives rate increases that are already in effect:</p> <ul style="list-style-type: none"> <li>• City of Tacoma, 43%</li> <li>• City of Seattle, 28%</li> <li>• Snohomish, 35%</li> <li>• Idaho Power, projected 24%</li> </ul> <p>PacifiCorp has filed for a rate increase of five-to-fifteen percent.</p> <p>States PacifiCorp has also become more involved in conservation efforts and load curtailment, taken a leadership role in establishing RTO West, the regional transmission proposal and has filed for regulatory realignment.</p>
365 375	Rep. Garrard Lynch	<p>Asks Mr. Lynch what his opinion is of SB1149.  Responds that reversing course would not be giving the best signal to developers and investors. PacifiCorp thinks that Oregon is best served by continuing to go forward with SB1149.</p>
399	Chair Witt	<p>States that your comment is interesting in view of the fact that your company opposed SB1149 two years ago.  Asks, as your company looks at this market place for making investments in new generating capability, how important is it that you have a basic ground rule to operate on long-term?</p>
410	Lynch	<p>Responds that it is essential. Addresses why they have regulatory realignment.</p>
<b>Tape 11, B</b> 027	Chair Witt	<p>States Scottish Power has been operating in the United Kingdom</p>

035 Lynch (UK), in a somewhat deregulated environment for sometime. Asks how he would characterize that experience. Responds, the UK has a single-person, acting as regulator and this regulator would have imposed a cap on the price. But adds, the UK has not, however, ran into a situation where demand outstripped supply.

**Testimony Eugene Water & Electric Board**

040 Libby Henry Public Affairs, Eugene Water & Electric Board (EWEB) gives testimony and submits written statement (EXHIBIT C).

081 James P. Wiley Gives statistics about EWEB. Director, Electric Division, EWEB. Outlines EWEB's supply strategy.

- 1/3 power supplied from EWEB generating facilities
- 1/3 supplied from BPA
- 1/3 supplied from open market

States EWEB is pursuing a 15% rate increase, effective March 1, 2001, which would depend upon three factors:

- Generation availability
- Short-term conservation
- Market prices impact on future BPA rates

States they are concerned about the financial vulnerability of their trading partners and that they may not be paid for the power that they sell.

Talks about the supply and demand issues facing the Northwest. States a more diverse energy portfolio is necessary to minimize risk. Gives current energy rates.

Discusses development of renewable energy resources, new resources and tax incentives. They encourage law makers to:

- Establish tax incentives to develop renewable energy resources
- Streamline siting, licensing and permitting facilities
- Maintain strong environmental ethic

230 Mat Northway Manager, Energy Management Services, EWEB. Presents the "Demand Side" of the energy situation.

Says EWEB is committed to spending a minimum of 5% of its utilized revenue on new customer conservation programs.

Outlines curtailment strategies. States, this year there is an increase in the funding of low-income sector weatherization efforts.

336 Rep. Walker Says she is an EWEB customer. States that she was questioned if she wanted to switch to wind power and wanted to know if her rates would be less if she switched.

346 Northway Responds he doesn't believe that it will be very long before wind power is cheaper than the best mix they can put together.

355 Rep. Walker Asks if EWEB is planning incentives to encourage industrial customers to save energy.

365 Northway Says EWEB doesn't have heavy energy using industry in their service territory at this time. But they are looking at the possibility for the short-term.

370 Wiley Adds, we're looking at any alternative to limit the amount of energy we need to buy on the open market.

388 Rep. Walker Asks if EWEB is looking at charging their customers different rates for the amount of power used..

390 Wiley Answers affirmatively.

404 Rep. Brown Asks are you looking at fuel cell technology? Should the State of Oregon implement SB 1149?

410 Wiley Answers affirmatively to both questions.

415 Rep. Brown Should the State of Oregon implement SB1149?

420 Henry Says SB1149 pertains differently to consumer-run utilities than it does to investor-run utilities. Responds that her board supported the bill and states why.

440 Chair Witt Reiterates consumer-owned utilities were not part of the bill. Says they, in essence, are outside of the bill. In their own territories consumer-owned utilities have the authority to control how they handle decisions relative to deregulation.

450 Rep. Monnes Anderson Questions whether or not the federal government can force BPA to sell power to California it and when there is a crisis in the Northwest area.

463 Wiley States, there are a lot of efforts at the federal level to make Bonneville Power part of the solution and says he thinks that Oregonians need to resist that effort.

**Tape 12, B**

005 Chair Witt Asks if EWEB has done any studies to determine how much energy can be saved through more comprehensive conservation and curtailment practices. Questions whether EWEB has any specific proposals they want to bring to the legislature.

010 Northway We expect or hope to get a 5-10% reduction per year through our energy efficiency awareness program.

**Oregon Rural Energy Cooperative Association**

050 Sandy Flicker Oregon Rural Electric Cooperative Association. Introduces panel of herself, Tom O'Connor; Oregon Municipal Electric Utilities, and Robin Freeman, Oregon Peoples Utility District Association. States they represent multiple utilities.

Outlines how her utility company operates (EXHIBIT D). States they are primarily distribution facilities.

Gives some facts about Oregon electric cooperatives.

- 17 electric cooperatives serve in 32 counties.P
- They are private not-for-profit utilities
- They have big density issues. Their service area covers 65% of the state but only serves about 250,000 customers.
- They are public-preference customers of Bonneville
- On October 1, 2001 they will be full-requirements customers

of Bonneville.

- They own very little generation.

**Municipal Public Utility Districts**

110 Tom O'Connor

Oregon Municipal Electrical Utilities. Gives history and statistics on electrical municipal utilities. Submits written testimony (EXHIBITE)

**Oregon People's Utility Districts in Oregon**

191 Robin Freeman

Oregon Peoples Utility Association (OPUDA). Explains what a PUD is, how it operates and what services they provide. Submits written testimony (EXHIBIT F).

States OPUDA is comprised of five PUD's.

- Central Lincoln PUD
- Clatskanie PUD
- Columbia River PUD
- Tillamook PUD
- Northern Wasco County PUD

240 O'Connor

Explains their relationship with BPA. States they are intertwined.

- There are 34 consumer-owned utilities-municipals, cooperatives and PUD's in Oregon which rely primarily on the BPA for the power they distribute.

States what factions make up The Federal Columbia River Power System.

- Thirty hydro projects
- One nuclear plant
- BPA transmission system

Says the power is sold under the "Public Preference" clause and there are key principles that are critical to consumer-owned utilities and the communities. Lists those principles. States that Congress later added the "Regional Preference" clause. Explains how these clauses work.

Talks about the cause of wholesale rate increase and the resultant rate increases in retail rates of 5-25%. States projected wholesale rate increases between the 2002 and 2006 period will have an average increase of 63%.

296 Freeman

Highlights what local utilities are doing to reduce their exposure to the market.

Lists five steps proposed by the region's governors at the Denver Energy Summit.

Addresses the need for wholesale price caps and cost-based rates.

Talks about the importance of reliability.

States what actions the consumer-owned utilities want the Federal Energy Regulatory Commission to take.

369 Flicker

Reiterates how important consumer-owned utilities relationship

with BPA is.

Outlines what they are doing to alleviate the energy shortage.

- Increasing conservation and weatherization efforts
- Implementing load-reduction programs
- Implementing renewed conservation efforts
- Participating in the PNGC (Coffin Butte) project – produces 2.5 megawatts of power
- Developing co-generation (steam) projects
- Involved in fuel-cell program
- Supporting tax-incentive programs
- Establishing low-income energy assistance programs

States they would like legislature to help keep their maintenance and operation costs down by weighing the cost of mandates.

**Tape 13, A**

020 Chair Witt

Asks what is attributing to these big increases that BPA is giving us advance notice of.

030 O'Connor

Responds the increases are due to:

- Not enough power to meet the demand
- Having to purchase power from the market
- Removal of the flexibility out of the Federal Columbia Hydro System with fish constraints
- Wholesale prices in California and West Coast are out-of-sight
- Very dry water year

**Citizen's Utility Board**

070 Jason Eisdorfer

Attorney, Citizens Utility Board. Explains CUB is non-profit group, which represents residential customers of investor-owned utilities.

Reviews history of SB1149.

- 1992 Congress passed Energy Policy Act
- Federal Energy Regulatory Commission began pushing for competitive market wholesaling
- There was excess capacity in market
- Risk for utility was too great to continue building resources
- When PGE closed Trojan they filled gap with market

Explores alternative of passing a new bill to give the PUC authority to command utilities to build resources.

**Renewable NW Market**



201 Rachel Shimshack Director, Renewable Northwest Project (RNP). Submits written and verbal testimony regarding RNP's position on the energy situation (EXHIBIT G).

States RNP is a regional advocacy organization promoting the implementation of solar, wind and geothermal resources. Lists who the member groups are.

Addresses the uncertainty of the current energy market. Says she would like to focus on some solutions to the energy .

- Create diverse portfolio of demand and supply-side resources.
- Focus on relieving the existing transmission and distribution constraints with conservation and distributed resources.
- Focus on renewables such as solar, wind, geothermal
- Implement siting and transmission policies that acknowledge the benefits of clean energy technologies. She shares specific suggestions on how to accomplish this.

342 Chair Witt Comments that in SB1149 there is specific provisions for development of renewable resources.

412 Shimshack Reiterates that SB1149 allows there to be consistent investment in these resources over time, which creates a more stable situation for the future.

440 Rep. Krummel Asks about the megawatt numbers quoted. Does it represent it hour, month, or year?

450 Shimshack Explains how this figure is calculated.

467 Rep. Brown Asks if there are any geothermal generating plants in Oregon now and what is the potential for more.

480 Shimshack Responds there are no commercial-scale projects in Oregon. Lists the on-going projects and their potential energy output.

**Bonneville Power Administration**

**Tape 14, A**

028 Anne Morrow Bonneville Power Administration. Gives verbal and written testimony regarding Bonneville Power Administration's (BPA) position on the current power supply challenge (EXHIBIT H). Outlines what BPA is doing to address these obstacles.

- Maximize power from hydro systems
- Work with aluminum companies and other customers to secure load reductions
- Preparing to put rates forward that will assure recovering their costs.
- Implementing demand-side programs involving customer choice load reductions
- Advocating the compact fluorescent lamp program
- Advertising customer conservation activities.

040 John Elizalde Manager, Sales and Customer Service for Western Oregon and Western Washington for Power Business Line, Bonneville Power Administration. Gives testimony and written statement on California-Oregon power exchange.

Gives statistics on river flow.

Outlines California exchange program. States:

- They exchange power with California on a two-for-one basis.
- The first megawatt hour is due back within 24 hours.
- The second megawatt hour is due back within a two-week period.
- California must be back to zero balance by February 16, 2001.

138	Rep. Knopp	Asks if we are using off-peak, power that is received in the two-for-one power exchange.
145	Elizalde	Answers affirmatively and explains that because we have a hydro system, our fuel supply is storable to a limited extent.
159	Rep. Knopp	Asks if the run-off stays at the same rate, will BPA have the flow to provide power to the co-ops this summer.
165	Elizalde	States BPA thinks they will have the flows necessary to meet the load carrying capability. But BPA's biggest concern is having the flows necessary to move fish this summer.
181	Rep. Knopp	Asks if BPA is going to have to kill fish to "keep the lights on."
188	Elizalde	Responds right now they just don't know.
194	Knopp	Asks if are there empty tubes where turbines could be located.
200	Elizalde	Responds, there are some turbines that are not operating. If needed, we can provide the committee with a complete analysis of the facilities.
209	Rep. Devlin	Says there was testimony to the effect that as long as we made it through this winter, we should be fine in summer. Asks what guarantees Oregon has that BPA won't be ordered on the federal-level to provide energy to California.
215	Elizalde	Responds that so far, the Department of Energy hasn't asked us to do anything that would harm the Pacific Northwest.
226	Monnes-Anderson	Refers to the testimony regarding a Tacoma power shortage that occurred at peak hours. Asks for clarification regarding that account and the laws that govern those decisions..
268	Elizalde	Responds he does not have the specifics of that case and will get back to the committee with them
318	Chair Witt	Asks, if a decision were made to sell Bonneville power to California, how would that price be determined?
321	Elizalde	Responds that when BPA sells surplus power to anyone, they sell it at a market-based price.
327	Rep. Krummel	Asks why California would choose to take a blackout when they would have the capability to send energy back.
335	Elizalde	States, he doesn't know the answer.
361	Rep. Krummel	Says it has been stated that the Snake River Dams provide only 4% of the total load in the system and are therefore are expendable. Asks if that 4% were unavailable right now, how would that affect us.
378	Elizalde	Responds, we would be another 1000 megawatts short of where we are right now. We would be putting fish in greater jeopardy.

421 Chair Witt He explains in more detail.  
Stated that he would like to remind committee members to be looking at new policies that could be adapted in areas of conservation, siting, etc. that would help to implement and position Oregon as we move forward.

440 Chair Witt Reminds members that they be hearing bills Wednesday, January 31, 2001 and requests that they read them in advance.  
Meeting is adjourned at 6:30 p.m.

Submitted By,

Reviewed By,

Renee' Lunsford,  
Administrative Support

Daniel Clem,  
Administrator

**EXHIBIT SUMMARY**

- A. The Western Energy Shortage, Portland General Electric**
- B. Review of West Coast Power Crisis and Implications for Oregon, PacifiCorp Statement**
- C. Testimony, Eugene Water and Electric Board**
- D. Oregon Rural Electric Cooperative Association**
- E. Consumer-Owned Utilities and BPA, Testimony of Tom O'Connor, Oregon Municipal Electric Utilities**
- F. Oregon People's Utility District Association**
- G. Renewable Northwest Project, Rachel Shimskak, Director**
- H. Bonneville Power Administration**