

SENATE COMMITTEE ON PUBLIC AFFAIRS

February 19, 1999 Hearing Room B

3:00 p.m. Tapes 10 - 13

MEMBERS PRESENT: Sen. Gene Derfler, Chair

Sen. Joan Dukes, Vice-Chair

Sen. Eileen Qutub

Sen. Charles Starr

Sen. Thomas Wilde

MEMBER EXCUSED:

STAFF PRESENT: Brian E. Smith, Administrator

Rachel E. Halupowski, Administrative Support

MEASURE/ISSUES HEARD: Informational Hearing:

Power System Issues

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.

TAPE/#	Speaker	Comments
TAPE 10, A		
000	Chair Derfler	Opens meeting at 3:05 p.m. and opens invited testimony about Power System Issues.
<u>POWER SYSTEMS ISSUES</u>		
005	Larry Campbell	Ogden Energy Group, Inc. Presents (EXHIBIT A) . States his concerns are with contract sanctity, waste energy as a renewable source, and the need to protect small contracting firms with energy deregulation issues. States "we are a waste to

		energy conversion plant, we just burn a lot of garbage." States the National Electrical Contractors Association are concerned with the competitive nature of energy deregulation.
043	Ron Eachus	Chairman, Oregon Public Utility Commission (OPUC). Presents (EXHIBIT B) . Gives general background on the energy industry in Oregon: investor owned utilities are PGE, Pacificorp, Idaho Power, and publicly owned utilities are municipals, cooperatives, and public utilities districts. Refers the committee to the maps submitted with the testimony, noting which utilities currently supply energy to specified areas of Oregon. States, in the current electrical industry structure, the utility is responsible for providing generation, of which can be owned by the utility or purchased on the market. States the distribution services within their territory produces a bundled product sold at a bundled rate, which is regulated by the OPUC.
099	Eachus	States the current structure has resulted in low rates: an abundance of hydro energy, low cost coal and natural gas facilities, and low peak periods for seasonal exchanges. States the Northwest has been a national leader at encouraging energy efficiency and keeping rates and billing low. States the natural gas system in the Pacific Northwest, specifically Canada and the Rocky Mountain Region, provides access for competition and inexpensive resources via those gas lines.
132	Chair Derfler	Asks how many years of gas reserves there are in Canada.
133	Eachus	Answers he is unaware of Canada's gas reserves. Believes, generally, Canada has 50 to 100 years of reserves of natural gas. States the resource mixes in the Pacific Northwest are dominated by hydroelectric power and coal.
173	Eachus	States, since the Trojan Nuclear Power Plant closed, Portland General Electric (PGE) purchases about 60% of their energy on the market. States a significant component of hydroelectric power, gas, and oil are purchased on the market by PGE.
188	Chair Derfler	Ask how Enron, having purchased PGE, factors into the market purchases. Asks if PGE is a separate company.
191	Eachus	States PGE is a separate division of Enron. States Enron took the trading floor and wholesale power that PGE had before and moved that power into Enron's trading floor. States the Bonneville Power Administration (BPA) Act was changed in the 1980s resulting in a power exchange between BPA and investor-owned utilities. States the contracts from the BPA Act end in 2001.
220	Eachus	States BPA started the subscription process to sign new contracts. Believes BPA's power will be attractive compared to the market and that publicly owned utilities will still have preference. States the rates will be set in 1999, before the subscription process ends.
262	Chair Derfler	Asks if power rates will increase in 2001.

272	Eachus	States the rates have already increased to reflect the negotiated agreements. States OPUC is concerned with residential customers having equitable access to BPA power.
285	Chair Derfler	Ask how OPUC decides how much power goes to public utilities.
288	Eachus	States there is no real allocation to the public utilities, but they have preference and BPA will make as much power available to them as requested.
290	Chair Derfler	Asks, if the public utilities deregulate and go outside of their territories to sell power to other territories, would BPA provide the needed power.
296	Eachus	States the public utilities would only be eligible for the power needed in their territory. States the current BPA Act gives residential customers the ability to benefit from BPA power, but only through the utilities themselves. States the residential customers do not have direct access to the power. States, with deregulation, there is no provision in the act to recognize customer access, other than through a utility, and not an energy service provider. States the role of the OPUC is to set rates, terms, and conditions for service by the investor-owned utilities, and also to balance the interest of the customers and the utilities.
350	Rep. Jim Welsh	House District 43. States his involvement with deregulation began with the Energy Facility Siting Task Force in 1995. States, through the American Legislative Exchange Council (ALEC), he had entered into a discussion for model legislation to be introduced to all 50 states. States he is the national chair for ALEC. Feels power issues need to be taken seriously by the committee and legislation needs to occur as deregulation takes place.
TAPE 11, A		
002	Rep. Welsh	States he went to work to strategize about deregulation, but understands the political realities that the legislature may not be able to pass any significant legislation. States OPUC needs to be consulted while making legislation about deregulation.
050	Rep. Welsh	Recommends transition policies this legislature can make, to address special considerations, before going directly to full consumer choice. Believes the legislature needs to decide if the consumer will be given a choice of providers once deregulation is in effect.
070	Rep. Welsh	States there has been no policy decision about which consumers, either industrial, commercial, or residential, get power and at what level. Suggests not micromanaging the technical issues surrounding deregulation. States there needs to be a policy surrounding franchise fees and providing protection for tax exempt status of municipal bonds.
120	Rep. Welsh	States the public utilities feel there is currently no problem and do not want legislative regulation or authority. States public utilities have their own local boards to adjust to needed regulations. Believes residential consumers do not

		accept the need to move toward deregulation or to subsidize the deregulation movement. Urges the committee to consider the issues seriously.
168	Mike Grainey	Assistant Director, Oregon Office of Energy. Presents (EXHIBIT C) . States his office does energy facility siting, deals with radioactive waste, and promotes energy conservation for renewable resources. Emphasizes that funding for public services is a key point for the Governor in any bill that passes on deregulation.
200	John Harrison	Information Officer, Northwest Power Planning Council (NPPC). Presents (EXHIBIT D) . States the council's responsibilities are: to prepare an electric power plan for the Northwest, to prepare a program to protect fish and wildlife in the Columbia River Basin, and to inform and involve the public in deciding future energy sources and fish and wildlife recovery. States the need to face power plant issues, as the industry becomes more competitive.
247	Chair Derfler	Asks who Bonneville competes with.
250	Harrison	States there is a need to be sure that BPA does not become a super competitor by virtue of its hydropower and the transmission system it controls. States retail competition may sell electricity through as many providers as there are long distance carriers.
300	Harrison	States the council is involved in urban deregulation issues. States without a captive customer base, the industry and power developers may be reluctant to build new power plants, without certainty of recovering costs. Asks the committee to keep in touch with the council, as a resource, regarding deregulation.
347	Chair Derfler	Asks what the advantage is to separating generation transmission of BPA.
351	Harrison	States there is a need to regulate, because BPA's transmission is not regulated. States the need for regulation of the federal transmission system so that it cannot be used to the disadvantage of any customers. States BPA is only regulated by the federal government and only under the rules of the Federal Transmission Act.
372	Jane Cummins	League of Oregon Cities. Presents (EXHIBIT E) . States PGE serves 54 cities, Pacific Power serves 95 cities, Idaho Power serves nine or ten cities, and the community owned utilities serve more than 100 cities. States some cities are served by more than one utility.
TAPE 10, B		
014	Cummins	States there is a franchise fee when a city and a utility have a franchise agreement. States when there is no franchise agreement, statute allows a city to impose a privilege tax for the use of the rights of way by the utility. States a franchise fee is a rental fee. States fees are based on gross revenues of a utility and are capped at 5% by state law.

044	Chair Derfler	Believes franchise fees are passed on to the customers and paid through taxes.
050	Cummins	States the fee is perceived as a rent the utilities pay. States that cities have the authority to determine how they can recoup their costs for doing business. States the PUC has set up franchise fees as operating expenses.
080	Terry Flores	Pacificorp. Presents (EXHIBIT F) . States Pacificorp owns and operates the second most extensive transmission network in the Western United States as well as the largest investor-owned bulk/wholesale power marketer. States they are geographically diverse, which will cause some issues during deregulation. Supports customer choice and would like to be sure to protect the customers. Explains Pacificorp began a portfolio program for residential and small commercial customers.
130	Flores	States the portfolio program was offered to 1800 customers. States most customers were pleased with the portfolio program. States there were no large-use customers who participated because the large industrials argued the cost was too high.
174	Chair Derfler	Asks if the commercial/industrial customers were required to remain on the program for a specified amount of time.
181	Cummins	States the residential and small commercial customers could opt out at any time.
193	Brian Boe	Portland General Electric (PGE). Presents (EXHIBIT G) . States PGE is a strong advocate for energy restructuring in Oregon. States there needs to be a comprehensive approach to deregulation that ensures all customer classes enjoy the potential benefits. States PGE operated a pilot project from October 1997 through December 1998. States that by July 1998 a total of 15% of eligible customers had switched suppliers.
250	Boe	States PGE is committed to a thorough and thoughtful review on behalf of the customers and shareholders. States there are many issues, including the proposed hydro-credit, the treatment of BPA residential exchange credits, and the manner in which the order sets PGE's return on equity.
285	Dave Robertson	PG&E Corporation. Presents (EXHIBIT H) . States PG&E is not a utility, but operates three business lines in Oregon: US Generating Company, PG&E Gas Transmission, and PG&E Energy Services. States PG&E's objective is to help Oregon deregulate with the help of their experience as a national company.
356	Libby Henry	Eugene Water & Electric Board (EWEB). Presents (EXHIBIT I) . States EWEB's operating budget is \$100 million. States they pay 6% of their operating revenues to the city. States the board will offer a portfolio to customers in the spring. States market and conservation programs keep their energy inexpensive. States the most significant environmental challenge EWEB faces is the upcoming listing of spring Chinook salmon, pursuant to the Endangered Species Act. States EWEB has budgeted \$12 million for salmon enhancement.

TAPE 11, B

012	Henry	States the board had eight months of public hearings to take into account their customer's needs. States EWEB's primary mission is to supply low cost power to their customers. States EWEB generates much of their own power, participates in the wholesale markets, and engages in business with public and private investor-owned utilities.
037	Chair Derfler	Asks if EWEB pays a franchise fee.
039	Henry	States EWEB pays to the city, in lieu of taxes, what is comparable to a franchise fee, but is set according to statute.
049	Chair Derfler	Asks what EWEB does in terms of public purposes.
051	Henry	States EWEB has set up many programs for public purposes, including conservation programs and low income projects. States they are paying between 5% and 6% on public purposes.
063	Diane Cowan	Executive Director, Oregon's People's Utility District Association (OPUDA). Presents (EXHIBIT J) . Gives specified account of the history of PUDs in Oregon. States, today, PUDs in Oregon have over 6,000 miles of line and serve approximately 175,000 Oregonians. Asks the committee to respect OPUDA history and framework affirming local control if changes are to be made to the present system.
114	Sandy Flicker	Oregon Rural Electric Cooperative Association (ORECA). Presents (EXHIBIT K) . States ORECA is private and not affiliated with the government (unlike PUDs and municipals). States ORECA serves the largest cooperative in the United States. States ORECA maintains over 27,000 miles of line. States when a cooperative's revenue exceeds operating expenses, consumers get capital credits similar to a dividend check. States ORECA gets their power from BPA.
161	Flicker	States cooperatives meet rural community needs by providing services such as energy conservation and environmental enhancement programs.
200	Tom O'Connor	Director, Oregon Municipal Electric Utilities (OMEU). Presents (EXHIBIT L) . States OMEU is customer owned and locally controlled. States elected officials set the policies and rates. States OMEU has served Oregon since 1888. States Oregon Municipal Electric Utilities distribute utilities and do not generate power. States such utilities have the first option to buy power from the federal dams on the Columbia River and they buy the majority of their power from BPA. States they generally have the lowest rates in their service areas and would like to continue that service.
270	Chair Derfler	States there is a cooperative in Eugene as well as EWEB. Asks why there need to be two utilities operating in that area.

271	Flicker	States there are two cooperatives in that area, as well as a variety of public utilities. States the utilities were formed at different times for different purposes. States EWEB serves the most rural areas, but cooperatives were formed to meet other areas needs.
287	Chair Derfler	Asks if the variety of public utilities ever thought about joining into one larger company, rather than three or four diversified ones.
289	Flicker	States the subject has entered discussions in the past, however, the benefits of merging have not evolved into any decisions.
299	Sen. Qutub	Asks if there is overlap and if there is presently a choice as to which provider a customer can choose.
302	Flicker	States there is no overlap because they are a monopoly distribution.
310	O'Connor	States the people in the community ultimately make the decisions on whether the municipalities continue to stay in business.
344	Jason Eisdorfer	Attorney, Citizens' Utility Board (CUB). Presents (EXHIBIT M) . States he was involved with the pilot program assessment task forces that looked at the pilot program for PGE and PacifiCorp. Believes CUB is the largest state-based public interest coalition in the country specifically focused on electricity industry restructuring. States CUB has written a comprehensive restructuring bill. States because Oregon has some of the lowest rates in the country there is the potential of failing to restructure the industry properly.
394	Eisdorfer	States the difference between residential and industrial customers: industrial customers can go directly to market, where residential customers are not asking for direct access. States "Retail access and access to Bonneville are not compatible."
TAPE 12, A		
006	Eisdorfer	States, within the last couple of years, both utility and federal government support for certain programs have dwindled to unacceptable levels. States there are benefits and protection in Oregon's current system which he has outlined in the exhibit.
040	Rachel Shimshak	Director, Renewable Northwest Project. States her members include energy companies, consumer groups, and environmental organizations. States solar, wind, and geothermal energy are abundant resources in the Northwest. States the Northwest depends on renewable systems for low rates. States several utilities are participating in pilot projects.
085	Shimshak	States renewables are capital-intensive in the short run. States most customers are concerned with current rate costs, but not concerned with rate costs in the long run. States concern with growing regions and the need to initiate new

		resources. States the new resources may end up being fossil resources because they are cheap now, but may be more expensive in the long run. Hopes to retain renewables as a resource to keep air pollution low.
120	Julie Brandis	Associated Oregon Industries (AOI). Presents (EXHIBIT N) . States that as the electricity energy environment changes and moves toward market structure, the commercial voice becomes more important. States, from surveys, AOI found that most commercial customers are happy with their current utility service.
178	Gary Conkling	Industrial Customers of NW Utilities. Presents (EXHIBIT O) . States that manufacturers face competition at home and abroad that demands ongoing cost-control efforts to remain competitive. States there is little incentive in a regulated environment to produce quality goods at low prices. States a competitive electricity market would benefit manufacturers and their suppliers.
216	Kathleen Dotten	Oregon Metals Industry Council. Presents (EXHIBIT P) . States her members have problems with a 3% public purpose tax, because the tax can translate to \$3 million in new taxes for some companies. States the additional cost of this magnitude could result in operation closures.
255	Paul Cosgrove	American Forest & Paper Association (AFPA). Presents (EXHIBIT Q) . States AFPA is one of the country's largest generators of electricity. States craft pulping mills are energy neutral, generating as much electricity as is used. State the industry would like to continue being involved in the debate.
282	Kathryn Van Natta	Governmental Affairs Manager, Northwest Pulp & Paper Association. States her association represents pulp and paper mills on environmental and energy issues that impact mill operations. States energy is the third largest variable cost of manufacturing pulp and paper.
308	Diane Royse	International Brotherhood of Electrical Workers (IBEW). Presents (EXHIBIT R) . States IBEW is concerned with deregulation because they believe it will adversely impact their members. Believes the trend of downsizing and outsourcing will effect worker protection and safety standards.
364	Gerald Bruce	International Brotherhood of Electrical Workers (IBEW). Presents (EXHIBIT S) . States deregulation is having a negative effect on IBEW to meet the needs of future manpower demands. States downsizing companies is having a negative effect on the ability to keep up with losses of employees through retirement. Suggests that the legislature move cautiously while implementing deregulation.
TAPE 13, A		
026	Bruce	States the process for deregulation should start with carefully assigning committees to examine all the pitfalls. States the object of deregulation should not benefit the large industrial customers who can pass their costs on in a competitive market place.
039	Chair Derfler	Closes informational meeting on power issues and adjourns meeting at 5:30 p.m.

Submitted By, Reviewed By,

Rachel E. Halupowski, Brian E. Smith,

Administrative Support Administrator

EXHIBIT SUMMARY

A ñ Power Issues, written testimony, Larry Campbell, 5 pp

B ñ Power Issues, written testimony, maps, and charts, Ron Eachus, 16 pp

C ñ Power Issues, written testimony, and informational booklet, Mike Grainey, 6 pp

D ñ Power Issues, written testimony, John Harrison, 68 pp

E ñ Power Issues, written testimony, Jane Cummins, 4 pp

F ñ Power Issues, written testimony, and maps, Terry Flores, 5 pp

G ñ Power Issues, written testimony, informational booklet, and quick card, Brian Boe, 34pp

H ñ Power Issues, written testimony, and informational booklet, Dave Robertson, 16 pp

I ñ Power Issues, written testimony, and informational booklet, Libby Henry, 46 pp

J ñ Power Issues, written testimony, and statistic booklet, Diane Cowan, 14 pp

K ñ Power Issues, written testimony, and membership directory, Sandy Flicker, 75 pp

L ñ Power Issues, map, Tom OíConnor, 1 p

M ñ Power Issues, written testimony, Jason Eisdorfer, 15 pp

N ñ Power Issues, written testimony, Julie Brandis, 4 pp

O ñ Power Issues, written testimony, Gary Conkling, 1 p

P ñ Power Issues, written testimony, Kathleen Dotten, 1 p

Q ñ Power Issues, written testimony, Paul Cosgrove, 3 pp

R ñ Power Issues, written testimony, Diane Royse, 2 pp

S ñ Power Issues, written testimony, Gerald Bruce, 3 pp