

SENATE COMMITTEE ON PUBLIC AFFAIRS

March 3, 1999 Hearing Room B

7:00 p.m. Tapes 16 - 17

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: Introduction of Committee Measures

HB 2022 Public 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 16, A		
000	Chair Derfler	Opens meeting at 7:00 p.m. and opens work session on the introduction of committee measures.
<u>INTRODUCTION OF COMMITTEE MEASURES</u>		
005	Brian E. Smith	Committee Administrator. States LC 1317 was covered at the 2/26/99 Public Affairs meeting.

010	Chair Derfler	MOTION: Moves LC 1317 dated 3/1/99 BE INTRODUCED as a committee bill.
		VOTE: 3-0 EXCUSED: 2 - Dukes, Wilde
	Chair Derfler	Hearing no objection, declares the motion CARRIED. LC 1317 is introduced as SB 1149.
013	Smith	States LC 3655 is submitted at the request of the Fair and Clean Energy Coalition as their restructuring bill.
015	Chair Derfler	MOTION: Moves LC 3655 dated 3/1/99 BE INTRODUCED as a committee bill.
		VOTE: 3-0 EXCUSED: 2 - Dukes, Wilde
	Chair Derfler	Hearing no objection, declares the motion CARRIED. LC 3655 is introduced as SB 1148.
016	Smith	States LC 4065 is submitted at the request of the Northwest Geothermal Company, establishes requirements for electric companies to provide certain percentages of non-hydroelectric renewable energy by certain dates.
020	Sen. Qutub	MOTION: Moves LC 4065 dated 3/2/99 BE INTRODUCED as a committee bill.
		VOTE: 3-0 EXCUSED: 2 - Dukes, Wilde
	Chair Derfler	Hearing no objection, declares the motion CARRIED. LC 4065 is introduced as SB 1147.
023	Chair Derfler	Closes work session and opens public hearing on HB 2022.

HB 2022 PUBLIC HEARING

025	Chris Davie	State Accident Insurance Fund (SAIF) Corporation. Presents (EXHIBIT A) . States HB 2022 is supported by Management Labor Advisory Committee (MLAC). States HB 2022 would remedy benefits for children of dead workers through the Statewide Average Weekly Wage. Discusses percentage differences to a child's benefit if one parent divorces, does not remarry, and then dies, as opposed to if the divorced parent had remarried before death. States HB 2022 is in consequence of the changes made in SB 369. States the need to increase the remarriage allowance for the standard benefit.
075	Davie	States one of the statutes now calls for \$5 per week, which has been unchanged since 1973. States the amount is not beneficial. States the statute should be eliminated. States anyone currently receiving that benefit will continue to receive it.
113	Chair Derfler	Closes public hearing on HB 2022 and opens informational hearing on Power System Issues.

POWER SYSTEMS ISSUES

135	Ron Eachus	Chairman, Oregon Public Utility Commission (OPUC). Presents (EXHIBIT B) . States his discussion will be an overview of the OPUC's restructuring efforts with UE 102 in the Portland General Electric (PGE) case. Believes the PGE case will give the committee an idea of how the OPUC would restructure under LC 1317.
141	Chair Derfler	Clarifies the discussion will cover OPUC's idea of restructuring.
143	Eachus	States UE 102 is specific to PGE. States that UE 102 is not inconsistent with LC 1317 and will give an idea how the OPUC is likely to approach the basic elements of restructuring.
152	Chair Derfler	Asks if he can point out the specifics to PGE during the discussion.
153	Eachus	States, in 1997, PGE filed to open up its territory for direct access. States the decision was issued on how OPUC would accept a PGE restructuring and opening for direct access. States OPUC did not adopt the exact proposal PGE made. States the issues were to what extent PGE should be allowed or required to sell all of its generation assets and to what extent residential customers in PGE's territory should be allowed direct access.
191	Eachus	States the issue of residential customers opened up for direct access is a critical concern because there are low rates in the state. States that residential and small commercial customers would be offered the portfolio option. States the portfolio would include a cost-of-service-based rate, a green/environmental rate (that includes new and renewable resources), a market-based rate (priced differently from cost-of-service), and other offerings from energy service providers.

212	Chair Derfler	Asks what he classifies as "small commercial."
214	Eachus	Responds any commercial customers who use 30 kilowatts or less per month.
222	Chair Derfler	Asks for examples.
225	Eachus	States Safeway or Fred Meyer would not qualify as small commercial customers. States that businesses run out of the home or small shops would qualify. States that residential customers get a cost-of-service rate. States there is no choice to go to direct access under the portfolio. States an option will be made to benefit the retail level, perhaps, giving the option to change portfolio options once per year.
254	Chair Derfler	Asks if the portfolio model would be a regulated rate or if another provider could come in at a lower cost than the current provider.
258	Eachus	States the cost-of-service rate, a bundled rate, would be regulated. States some options may not be regulated. Asks, hypothetically, why an energy service provider would want to take part in the portfolio rather than going into direct access and directly to the customers. Answers that if deregulation is done in the PGE area, which is limited, it could effect marketing costs for limited territories. States OPUC is unsure how economic it is to aggregate customers on a one-on-one basis. States the key element will be the ability to compete with the cost-of-service rate.
293	Sen. Starr	Asks if the portfolio model will preserve the low cost of power for the region.
300	Eachus	Replies that is the case. States that restructuring will change with the industry: competition at the wholesale level, more players in the retail market, and increased competition for generation. States the commercial customers will have a competitive market. States the residential customer is not as attractive for the competitive market.
339	Vice-Chair Dukes	Asks about the small commercial customer and why they are grouped as residential customers.
350	Eachus	States it is because they are small and the differences between small commercial and residential customers are minimal. States the issue is still under scrutiny. States there are no serious objections, but concern is driven by size. States every customer is getting a cost-of-service option. States the small customer still has the direct access option, along with the cost-of-service option.
400	Eachus	States, if customers can go at will from direct access to cost-of-service, the cost-of-service rate will go up. States the need to balance cost-of-service rates and direct access options, and to regulate how often a customer can switch those options.
TAPE 17, A		

008	Eachus	States the generation-service portfolio for direct access would not be regulated. States OPUC has allowed direct access for the larger commercial customers and has deregulated the generation component. States the generating facilities would not be regulated as in the past. States hydro-resources are low cost. States, at this time, hydro-resources should not be sold. States many hydro-resources are in the process of re-licensing and does not know if selling hydro-resources would effect the re-licensing process or if re-licensing would effect the price for the hydro-resources.
031	Chair Derfler	Asks if everyone understands the re-licensing issue.
034	Eachus	States the hydro-electric dams are licensed by both the federal government and the state. States many licenses are up for renewal, causing uncertainties. Asks, if hydro-resources are not sold, who will get the hydro-resource benefit if some customers are direct access while others are portfolio customers. States, regardless of which option is taken, all customers will receive the benefits of hydro-resources.
055	Vice-Chair Dukes	Asks, if a customer chose a portfolio with a combination of wind and solar power, if that customer would still benefit from hydro-resources.
057	Eachus	Responds the customer would benefit. States a green power will not reflect bulk-hydro. States a green product for these purposes would not allow a customer to take existing bulk-hydro and turn it into a green product because it requires a certain amount of new renewables. States stranded costs are costs opened up for a competitive market that the utility may not be able to recover. States in keeping hydro-resources, there is increased stranded costs. States if hydro-resources are sold, the money would be used to offset other stranded costs. States, if benefits are kept for the customer who does not take direct access, every customer should share in the hydro-benefits. States OPUC tried for a system of low rates with hydro-benefits.
101	Eachus	States if PGE gets caught with stranded costs, they will receive 95 percent of either stranded costs or transition benefits. States any benefits would be kept by PGE. States that the stranded costs need to be mitigated by maximizing value through auction and timing decisions. States 100 percent recovery would give PGE no incentive. States the Trojan cost recovery was 87 percent. States there was no need to treat PGE as an inefficient company. States a systems benefits charge of three percent was included for funding energy efficiency, renewable resources, and low income weatherization.
150	Eachus	States a systems benefits charge would ensure that the long-term benefits with short-term price impacts would not be lost when entering a short-term price-ridden market. States these are built into the billing rates.
169	Chair Derfler	Asks why there is an additional three percent if the costs are already built into the billing rates.
171	Eachus	States the public purposes would merge with the systems benefits charge so that the customer would not be billed twice.

172	Chair Derfler	Clarifies this would not raise the rate, but separate the costs.
173	Eachus	States the total rate may raise depending on how much is currently being spent. States the fluctuation of energy rates go above and below three percent. States the desire is to provide a stable form of funding that is competitively neutral. States, in UE 102, OPUC created a non-profit board to administer funds with the assistance of the Oregon Office of Energy. States there is a need to build in flexibility as changes occur in the future. States the need for consumer protection, rules for certification, billing information, and participation in the market beyond the basic utility.
221	Chair Derfler	Asks if OPUC has the ability to make changes now, without new legislation.
222	Eachus	States there are some things OPUC cannot do now. States there is the need for legislation to distinguish between an energy service provider and a utility. States there needs to be a definition of direct access. States a system benefits charge can be made without legislation, but for renewable resources he believes they need legislation to create the three percent systems benefits charge. States that legislation will be submitted specifically regarding PGE and not as an alternative to LC 1317.
253	Chair Derfler	Asks why LC 1317 could not incorporate the PGE needs.
254	Eachus	States there are no major inconsistencies between LC 1317 and what OPUC has done with PGE. States the residential customer will get the cost-of-service option from portfolios. States the portfolios will be managed by the utility offered by the distribution company. States some energy service providers may not see the hydro-benefits.
292	Chair Derfler	Asks, if PGE is in the energy service provider business and acting as the utility, would PGE have information regarding their energy service supplier component that would allow them to eliminate the competition.
300	Eachus	States that would not be possible through the portfolio option. States it takes a request for the bid to be on the portfolio and the energy service provider must define the product within the portfolio. States the incumbent distributor cannot exercise undue market power over the energy service provider. States PGE wants to become a wires-only company and does not want responsibility as a supplier. States if PGE sells all assets except the hydro-assets, the cost-of-service option can be bid out. States someone other than PGE could end up being the default supplier.
350	Eachus	States the portfolio can be a transition to direct access. States as the customer becomes used to dealing in the deregulation market, one might see a change in how the portfolio is offered. States the customers are offered the best options, with little risks.
400	Chair Derfler	Asks who is in opposition.

403	Eachus	States he is unsure if there is any significant opposition. States some things are still being worked on. States the general reaction is good.
TAPE 16, B		
006	Eachus	States PGE has the most objections, but they are willing to work with the changes, should the legislature give OPUC the power to implement the changes.
013	Chair Derfler	Asks about the differences between UE 102 and LC 1317.
015	Eachus	States an issue with OPUC is the uncertainty of customer access of the federal system through the Bonneville Power Administration (BPA). States BPA is in a subscription process allocating power to publicly-owned utilities, investor-owned utilities, and to the direct service industries. States access to BPA is through the utility. States the residential customers do not have the right to direct access through BPA. Asks what the risks are for the residential customer and if they lose the benefits. Suggests adding a section to authorize the PUC to delay implementation of provisions for electric companies that would jeopardize rights to federal hydro-power.
075	Eachus	States the bill does not exempt energy service suppliers that are not electric utilities from public utility regulation. States OPUC would introduce regulation in which an energy service provider that is not a utility is not regulated by the commission. States it takes time to cover the issues with all the parties involved. States the existing rates and rate structure is not applicable for deregulation. States PGE is already in the market and wants to restructure. States PacifiCorp participates in the market, but does not have an interest in selling its assets or restructuring. States there are issues with rule-making, should LC 1317 pass. States there are rules for market power concerns. Suggests extending the 2001 date. States LC 1317 requires direct access for residential customers by 2006.
131	Chair Derfler	States 2006 did not appear to be a problematic date because there will be a legislative session convening before that date and changes can be made at that time, if needed.
133	Eachus	States that is a possibility, but it is more difficult to change something through the legislature than to leave it the way it is. States there are limited choices in the portfolio and customers are only given a chance to change options twice per year. States LC 1317 creates confusion in the amount of public purposes and what the fund will be used for. Suggests that the funds be administered with end goals in mind, such as the development of a healthy private market for competition.
183	Eachus	States some other entity besides the local utilities are responsible for the expenditure of the funds collected and the PUC needs to oversee any expenditure of funds by the utilities. States this may be accomplished by creating an advisory board. States the utilities need to be held accountable.
205	Vice-Chair Dukes	Asks if he is referring to a pool or if each utility would have someone responsible to manage the funds.

207	Eachus	States the need for a review by the PUC of the expenditures of the public utility. States some of the utilities could contribute to a pool, but it needs to be approved by the PUC or some other entity that is set up to approve the expenditures. States the allocation in LC 1317 differs from the recommendation of the regional review and the decision of OPUC in UE 102.
259	Chair Derfler	States he is unsure where the figures in LC 1317 came from.
263	Eachus	States there needs to be reconciliation in subsections 1 and 3 of LC 1317. States the difference is the inclusion of low income bill assistance. States low income weatherization is included in the rates. States low income bill assistance was not included in the regional review, nor included as part of the public purposes. States the effect creates greater competition for funds. Asks if low income bill assistance should be included as part of the public purpose charge. States the assumption was there that low income bill assistance would be funded. Concerned about adding fees to a bill and making those fees appear as an additional tax.
340	Eachus	States in LC 1317 direct access customers would pay a separate three percent charge, but it is unclear whether the portfolio customers would pay the three percent charge. States the utilities' revenues should all be revenues from either the utility or the service provider. States the end to the three percent charge in five years may not be enough time to have the direct access market deliver the purposes needed to maintain the current level. States in LC 1317 there is a listing of what should be in the portfolio option. States there needs to be a definition of what is an environmental practices rate.
389	Chair Derfler	Asks if that refers to green power.
391	Eachus	Believes the intent is related to green power. States the issue is requiring green power to include new renewables for the purpose, or taking the existing hydro and renewable power out of the existing cost-of-service mix and transferring it to a green product. States there needs to be a definition of green product.
TAPE 17, B		
008	Eachus	States Section 6 covers providing incentives for divestiture of generation assets or functional separation of such assets. States the section needs more thought and explanation. States Section 8 covers transition costs and benefits. Asks if the portfolio customer would pay the same transition cost charge or receive the same transition cost credits as direct access customers. Asks if this issue will be left up to the PUC. States the language in Section 9 covering aggregation is confusing.
050	Eachus	States that direct access will become available at different times. States industrial customers have asked if they have direct access, if they can aggregate power to their employees. States Section 11 needs clarification on reciprocal services. States Section 14 covers consumer protections and there needs to be statewide rules for electricity service suppliers. States there needs to be one set of rules for all types of utilities. States marketers are having difficulties with different rules applying to their different territories. States LC 1317 does not make it clear whether the PUC has the authority to require other information on the bill if the

		PUC believes it is necessary for informed choice. States a major issue is whether the local utility is responsible to maintain the meter services.
100	Eachus	States LC 1317 needs to be clarified and reviewed.
131	Carol Fleischman	BPA. Presents (EXHIBIT C). States BPA is a federal power marketing agency within the Department of Energy. States BPA provides power to Oregon, Washington, Idaho, Western Montana, and small parts of Wyoming, Nevada, Utah, and California. States BPA provides 70 percent of the region's capacity. States BPA is self-funded and provides power at cost. States BPA pays the federal treasury over \$2 million annually. States their statutes provide that BPA only sell wholesale power. States the statutes give preference to public bodies and cooperatives. States BPA pays investor-owned utilities to lower rates for the residential and small farm customers.
181	Fleischman	States over the 20 year term of BPA's existing contract, they have paid \$3.2 billion to investor-owned utilities in exchange benefits. States BPA's fish and wildlife expenditures in 1996 were \$85 million. States 20 year contracts are expiring in July 2001. States their goals under subscription are to: spread the benefits of the Federal Columbia River Power System as broadly as possible, avoid rate increases, keep rates below market level, fulfill the fish and wildlife responsibilities, and provide market incentives for conservation and renewable resource efforts.
225	Chair Derfler	Asks that anyone in the audience who has changes or thoughts on LC 1317 are to contact the committee administrator. States Sen. Derfler's goal is to release the bill sometime in March.
239	Chair Derfler	Closes the informational hearing and adjourns the meeting at 8:42 p.m.

Submitted By, Reviewed By,

Rachel E. Halupowski, Brian E. Smith,
Administrative Support Administrator

EXHIBIT SUMMARY

A ñ HB 2022, written testimony, Chris Davie, 3 pp

B ñ Power Issues, written testimony and flow charts, Ron Eachus, 6 pp

C ñ Power Issues, written testimony and maps, Carol Fleischman, 7 pp