

HOUSE COMMITTEE ON POWER DEREGULATION

April 28, 1997 Hearing Room E

06:00 P.M. Tapes 126 - 129

MEMBERS PRESENT:

Rep. Jim Welsh, Chair

Rep. Randall Edwards

Rep. Jim Hill

Rep. Ken Strobeck

MEMBER EXCUSED:

Rep. Patti Milne

Rep. Lonnie Roberts

Rep. Cynthia Wooten, Vice-Chair

STAFF PRESENT:

John Larson, Administrator

Julie Neburka, Asst. Administrator

Lynda Sloan, Administrative Support

MEASURE/ISSUES HEARD:

HB 2821 PUBLIC HEARING AND WORK SESSION

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 126, A		
001	Chair Welsh	Calls meeting to order at 6:14 p.m. in subcommittee.
<u>HB 2821</u> <u>PUBLIC</u> <u>HEARING</u>		
		Fair and Clean Energy Coalition, refers to Section 3 amendment to HB

022	Steve Weiss	2821 (previously submitted) and offers new language: "No utility shall offer open access to one class of customers without, on a simultaneous basis, offering open access to all classes of customers. If, for the purpose of a pilot program, access is granted to a portion of any customer class load, an equivalent and simultaneous access must be granted to all other customer classes of the utility." Section 5 add to first line: "except as contained in Sections 8 and 22."
060	Chair Welsh	Notes his copy of amendment does refer to Section 22 and confirms with Weiss that it should have done so.
069	Jim Anderson	PacifiCorp, accompanied by Jim Paine, testifies on HB 2821 and offers amendment to Section 5 (EXHIBIT A).
087	Rep. Hill	Asks what amendment means.
089	Jim Paine	Attorney for PacifiCorp, explains that under current wording, after January 1, 2000, Public Utility Commission (PUC) would not set rates, terms, or conditions for sale of electricity from generating assets, but it doesn't say whether those assets would remain in rate base and whether existing statutes for sale and transfer still apply after transition period. Amendment clarifies that.
099 113 129	Paine	Discusses amendment with committee. * assets removed from books at net book value at end of transition period * reasons market value and net book value converge * calculation of transition charges
151	Ron Eachus	Public Utility Commission, offers testimony in opposition to PacifiCorp's amendment to HB 2821. Discusses reasons for opposing. * Construction of bill assures customers that absent divestiture, if market significantly changes, they will not lose excess to low cost resources of utility. * with amendment, is complete deregulation without divestiture * To end regulation, divest.
205	Eachus	Continues discussion. * not divesting, reasons to continue divesting related to Section 8 and Section 22; PUC proposing same amendments as Fair and Clean Energy Coalition (FCEC) * deregulating generation, except for provisions in Sections 8 and 22
219	Rep. Edwards	Asks if problem is date or principle of divestiture.

223	Eachus	Discusses PUC and FCEC amendments. * Requiring divestiture eliminates integrated resource problem, allows benefits of divestiture of resource to be spread to customers over time, so it is as if they maintain benefits of low cost resources.
276	Eachus	Continues discussion. * PUC feels staged approach of having default supplier and PUC authorizing cost-based rate throughout transition period gives customer protection on availability of resources and level of rates. * Much depends on what is done with stranded costs.
325	Chair Welsh	Says would make it simpler not to allow stranded costs recovery.
330	Rep. Hill	Asks about example of uneconomic investment.
345	Paine	Disagrees with Rep. Hill about use of term "present market". Gives reasons.
358	Rep. Hill	Comments on writing off uneconomic assets.
368	Paine	Says not speaking of writing off; explains positive transition charge.
383	Rep. Hill	Responds with further examples.
400	Paine	Agrees with Hill and describes exception.
412	Rep. Hill	Asks about effect of removing assets from rate base at end of transition period.
Tape 127, A		
001	Paine	Says there is incentive to continue operating generating plants at maximum efficiency because utility wants to get maximum output possible, regulated or not.
008	Eachus	Responds to Paine's comments. * Issue is, who gets benefit of that production? * Section 8 designed to ensure default supplier standard offer customers always receive cost-based offer to reflect benefit as well as market-based offer. * amendment written so that company has incentives to operate plants that make power available to rate payers who paid for the plants through rate-base and transition charges.
030	Rep. Hill	Asks when market value will be set and if they will be readjusted at some point.
		Discusses provisions of HB 2821 that address his questions. * Timeline for Section 13: by 11/1/99 PUC would accept or modify filing from company made by 10/1/98 that include calculation of transition

044	Eachus	charges. * Transition period not to exceed 5 years; PUC may adjust to longer period if deemed necessary.
076	Rep. Hill	Reads from Section 13. Asks if that means it can be readjusted at end of five year period if company pleads market changes have affected negatively, for example.
089	Eachus	Says recovery period not related to significant changes, but that extension period is for when appropriate for nature of resource or to encourage competitive market, which would have effect of reducing total amount rate payer pays for stranded cost recovery. Reevaluation can occur but not necessarily be related to recovery period, but would relate to significant changes in market.
105	Rep. Hill	Comments that if it were determined November 1, 1999, that for a particular customer class it would be excessive to recover all of designated amount in a five year period and were given ten years to recoup, under PP & L amendment, they would lose the last five years.
114	Eachus	Says he mentioned that section because it appears to be inconsistent; there may be recovery periods that go beyond 2004.
118	Rep. Hill	Repeats that they would lose the last five years because they can't extend beyond.
122	Eachus	Says the effect of the amendment doesn't affect the transition cost collection, just removes from rate base. If prior to 2004 all authorized transition charges have been recouped, removed from rate base.
132	Rep. Hill	Asks for explanation of term "rate base".
133	Eachus	Defines rate base.
140	Rep. Hill	Suggests defining rate base in statute.
149	Eachus	Says he wouldn't try to define unless for purposes of this particular amendment.
151	Paine	Comments * Stakeholders wonder about date for deregulation. * Calculation of stranded costs similar to process potential purchaser would use to determine amount of revenue likely to be generated over life of asset. * Work towards viable competitive market believing that development of viable market can be established, and people will be protected as a result.
175	Rep. Welsh	Asks about purpose of going out to 2011.
184	Eachus	Says two problems: * in position of projecting market rather than selling asset, in which market

		<p>makes the determination</p> <p>* to have complete deregulation, must have complete and true divestiture</p>
244	Rep. Hill	Asks if problem is with desire to return investment to utilities. Asks type of assets being discussed.
259	Eachus	Says important to remember there is difference between depreciated life of plant and its actual life. Assets have been depreciated, but company still owns them, they still operate and become cheaper to operate. That is what market looks at.
279	Rep. Hill	Suggests setting limit on length of operational life of asset when determining stranded costs.
293	Eachus	Says stranded costs not the only concern. PUC believes the utility's responsibility to rate payers continues as long as utility remains integrated, and it can do whatever it wants with stranded assets only after complete divestiture.
330	Rep. Edwards	Asks if work groups discussed divestiture.
334	Chair Welsh	Says work group voted for functional separation, which is not complete divestiture or legal separation.
349	Eachus	<p>Describes functional separation or disaggregation.</p> <p>* separates costs of generation, transmission, distribution</p> <p>* costs reflected in rates individually</p> <p>* costs separated for purpose of providing unbundled services</p>
379	Chair Welsh	Comments paper transaction only.
383	Eachus	<p>Not separating organizationally or structurally. Two types of legal separation</p> <p>* company creates different entities to do separate functions</p> <p>* divestiture</p>
407	Eachus	<p>Comments on concerns about divestiture.</p> <p>* not sure of all implications</p> <p>* Forced divestiture too early may affect value on market or may cause higher stranded costs.</p>
Tape 126, B		
001	Eachus	<p>Continues explaining concerns about divestiture and reason for requiring at least functional separation.</p> <p>* divestiture best in theory, but not most practical</p>

012	Rep. Edwards	Asks if industry feels this is beginning point of divestiture.
016	Paine	Says general view is fewer electric distribution companies in future. Discusses how potential purchasers will evaluate companies. They have problem with continued regulation of generation while open to competition from others.
034	Eachus	Says regulating for purposes of standard offer that default supplier makes to customers.
050	Chair Welsh	Says there will be testimony about continued regulation to 2011.
056	Rep. Hill	Comments on reasons for doing stranded costs. Asks about risk to stockholders for existing assets.
069	Paine	Discusses Rep. Hill's question. <ul style="list-style-type: none"> * Rates based on three things: expenses, return on rate base, rate of return on rate base * shareholders given opportunity to earn return on investment * rate payers have paid return on and return of investment to date * calculation of stranded costs takes into consideration whether gain or loss * if utility's generating assets below market value, no stranded costs or transition charge; utility returns difference to rate payers
105	Eachus	Says stranded costs not being collected for rate payers, but to protect financial integrity of utility that made the investment in resources to meet load.
119	Rep. Hill	Asks if Oregon as a whole will not have stranded costs.
120	Eachus	Says for Pacific Power and Light and Idaho Power stranded costs may be negative. Recovery of stranded costs will be done administratively. End result must be not to lose benefits.
141	Chair Welsh	Asks if another purpose was to protect rates for customers.
151	Rep. Hill	Asks if stranded costs calculation is one-time or ongoing process.
158	Eachus	Says only exception would be if there were significant changes in the market, would not be retroactive but prospective calculation. Five year period; longer if necessary to encourage competitive market. Explains other circumstances under which PUC might review.
193	Rep. Hill	Asks if PUC can go back on their own motion and review again.
198	Eachus	PUC cannot go back on own motion after transition period; would only be in position to do that if it were determined that a different recovery period was more appropriate.

227	Paine	Comments that if PUC's estimate is wrong concerning amount of stranded cost recovery and assessed amount too low, utility loses difference.
240	Eachus	Says if PUC guessed wrong, and there were significant changes, it would prospectively try to adjust in appropriate direction.
260	Rep. Hill	Asks if utility has option to say it doesn't want stranded costs.
266	Paine	Says they will be submitting alternative to address issue of stranded costs and charges, in the form of cap or freeze for extended period of time.
270	Eachus	Says in October 1, 1998, filing utility may opt not to request stranded costs. Adds that this issue is whether they have total control of resources without divestiture and ability for PUC to set cost-based rate.
283	Chair Welsh	Asks Paine when he will have language.
288	Rep. Edwards	Asks how a new generating asset built during transition period would be accounted for in calculations.
304	Eachus	Says they would probably use integrated resource planning process or modified version to determine whether additional resource necessary, and if so, whether more economical to build or purchase from existing supplier.
367	Rep. Hill	Asks how long it will take for consumers to be sophisticated enough to buy electricity competitively.
399	Eachus	Says for typical residential customer it may take some time; adds that the bill contains provisions for consumer protection and consumer information, and gives examples of provisions.
Tape 127, B		
001	Eachus	<p>Continues response to Rep. Hill's question.</p> <p>* New England study currently being done to prepare for January 1, 1998, direct access for 25 to 30 million people</p> <p>* U.S. Department of Energy (DOE), Federal Drug Administration (FDA), Federal Trade Commission, and other Federal agencies conducting study on types of information and assurances need to be made available.</p> <p>* FDA and DOE working together on informational packets formatted in similar fashion to current food and drug labels.</p> <p>* Make available in early stages information for customer protection, verification process for claims being made for product, and learn types of information customer wants.</p>
050	Eachus	Continues discussing customer information. Says one reason for standard and default options is for retail customers who don't want to choose.
072	Rep. Edwards	Asks how transition charges will be handled for providers who enter competition from out of state.
	Chair	

087	Welsh	Says legislation provides for that.
093	Rep. Edwards	Comments that companies could be competitively disadvantaged by stranded costs charges.
098	Rep. Hill	Asks if those charges would be associated with distribution charge and not with energy charge.
109	Paine	Agrees with Rep. Hill. Says if out of state generator wants to sell in Oregon, transition charge not imposed until it gets to distribution service provider.
124	Eachus	Explains how stranded costs can give someone with very high stranded costs in their native state a competitive advantage when they enter another state's market. Says unlikely to have differences within states and difficult to determine whether those differences will be enough in Northwest states to make someone choose to locate in one state over another.
149	Paine	Agrees. Says California legislation will allow three major California electric utilities to be viable competitors.
153	Chair Welsh	Says important to remember stranded costs will be submitted to stringent tests before being allowed.
195	Chair Welsh	Invites testimony from Frank Gearhart and Clare Donison.
199	Frank Gearhart	Representing Citizens Interested in Bull Run and Bull Run Heritage Foundation, testifies in opposition to HB 2821 in its present form. Provides written materials (EXHIBIT B).
250	Gearhart	Continues testimony.
300	Chair Welsh	Says most of what he referred to is in current law with exception of page 22, line 41, where changes refer to sensitive business records or financial or commercial information.
310	Clare Donison	Representing Multnomah Pomona Grange, testifies in opposition to HB 2821.
336	Gearhart	Suggests PUC will have to increase staff to manage deregulation.
342	Chair Welsh	Moves to Section 6 testimony.
350	Larson	Reads Section 6 of HB 2821.
385	Jim Deason	Eugene Water and Electric Board, testifies on HB 2821. Discusses metering and meter ownership. * allows ownership of meters by customers * Utilities may continue to own meters to retrieve information needed for operation and maintenance of distribution facilities. * Electric utility has option to provide its own meter which would then be subject to PUC or governing body standards for safety, reliability, and accuracy.

415	Rep. Hill	Asks if it should be on distribution utility rather than electric utility.
419	Deason	Says electric utility is defined as utility owning distribution system.
Tape 128, A		
001 018 025 030 043 052	Committee	Discusses with Deason * definition of electric utility * entity responsible for providing meter * maintenance of system * alternative language * option for customer to own meter * reasons for customer owned meter
062	Karla Droste	Springfield Utility Board, discusses reasons for utilities to retain meters and customers to own them.
080	Deason	Mentions customers may want to own meters for own purposes.
084 096 112 120	Committee	Discusses with Deason and Droste * customer ownership of meters * option for every distribution utility to provide its own meter * protection of integrity of system * suggestion for more specific language
152	Eachus	Discusses language crafted by work group concerning meter ownership and use. Mentions metering pilot projects presently in progress.
189	Deason	States EWEB's position is to work with customer to meet needs of both EWEB and customer.
199	Chair Welsh	Requests Deason and Droste work on language.
204	Jim Tarpey	Enron, discusses metering concerns; disagrees with requirement for distribution utility to own meter from which information gathered for utility.
236	Rep. Hill	Discusses example when consumer might be compelled to have more than one meter.
253	Tarpey	Says if consumer's meter does not provide information utility needs, utility provided meter should remain, but customers should not be forced into changing meters unless necessary.
308	Chair Welsh	Asks Deason if need for further information on language regarding metering.

312	Deason	Says they intend to supply a meter to have guaranteed access to information necessary to operate system, continued ability for disconnection and reconnection, and other things necessary to operate system. Need more than assurances that necessary information can be provided from third party providers.
335	Chair Welsh	Asks group to work out acceptable language.
340	Jason Eisdorfer	Citizen's Utility Board and Fair and Clean Energy Coalition, suggests metering issues might be better deferred to task force to work out.
367	Chair Welsh	Asks if he disagrees with direction panel was going.
376	Eisdorfer	Discusses Section 6, Subsection 3. Reads section. * conflicts with attempt to have cost-based rate for default provider * should reflect that no generation costs should be put in distribution portion of rate * change to read, "No electric utility shall levy or impose any distribution fees or charges related to the costs of generating assets or transmission facilities."
407	Eisdorfer	Discusses Section 6, Subsection 2. * ensuring benefits to residential and small commercial customers
Tape 129, A		
001	Eisdorfer	Continues discussing Section 6, Subsection 2. * add phrase to last sentence Subsection 2 that adds further direction to Commission, ensuring all classes of customers benefit from restructuring * price cap attached to cost-based rates
028	Rep. Hill	Asks how it is possible to guarantee that all people will benefit from restructuring, even when people choose not to make a choice.
036	Eisdorfer	Discusses how price cap will benefit customers choosing not to go to the market. Default provider would offer two choices, a cost-based rate and a market-based rate with price cap.
072	Rep. Hill	Asks how cost-based rate can be capped if costs go up.
073	Eisdorfer	Says ways to develop rate-cap mechanism; will provide information on mechanisms next meeting.
093	Anderson	PacifiCorp, offers and describes amendment to Section 6 (EXHIBIT C).
131	Paine	PacifiCorp, offers testimony on amendment to Section 6. * present form precludes possibility for PUC to authorize alternative form of rate-making with incentive to reduce rates; amendment corrects

		* allows utility to bill for generation services not part of transition charges * addresses certain metering charges
168	Rep. Hill	Asks cost of residential meter.
170	Anderson	Discusses cost of residential meter.
178	Rep. Hill	Asks about records concerning meters, why not covered under stranded costs.
184	Paine	Says covered in Subsection 4, quotes section.
191	Rep. Hill	Asks if utilities charge to connect to electricity.
193	Paine	Says charge for metering and installation incorporated into distribution rates.
206	Del Isham	National Electric Contractors Association (NECA), Oregon chapters, offers testimony on Section 6 (EXHIBIT D). * prohibits cost shifting that allows a utility to compete with other businesses on an unequal basis * ensures utilities not exempted from requirements of Electrical Safety Law
240	Eachus	Comments on NECA amendment; language may need to be made more specific.
268	Isham	Says would agree to limit to business related activities.
275	Chair Welsh	Adjourns at 9:07 p.m.

Submitted By, Reviewed By,

Lynda Sloan, John Larson,

Administrative Support Administrator

EXHIBIT SUMMARY

A - HB 2821, proposed amendment, Jim Anderson, 1 p.

B - HB 2821, written materials, Frank Gearhart, 1 p.

C - HB 2821, proposed amendment, Jim Anderson, 1 p.

D - HB 2821, written testimony and proposed amendment, 3 pp.