

HOUSE COMMITTEE ON POWER DEREGULATION

January 30, 1997 Hearing Room 50

1:00 PM Tapes 4-5

HOUSE MEMBERS PRESENT:

Rep. Jim Welsh, Chair

Rep. Cynthia Wooten, Vice-Chair

Rep. Randall Edwards

Rep. Jim Hill

Rep. Patti Milne

Rep. Lonnie Roberts

Rep. Ken Strobeck

Sen. Neil Bryant, Chair

Sen. Randy Miller, Vice-Chair

Sen. Gene Derfler

Sen. David Nelson

MEMBERS EXCUSED: Sen. Kate Brown

Sen. Randy Leonard

STAFF PRESENT:

John Larson, Administrator

Julie Neburka, Asst. Administrator

Jan Nordlund, Administrator

Lynda Sloan, Administrative Support

MEASURE/ISSUES HEARD:

CONTINUATION OF OVERVIEW ON ELECTRIC POWER DEREGULATION 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 4, A		
003	Chair Welsh	Calls meeting to order at 1:10; notes Senate committee members will be joining soon. Introduces Terry Morlan who is continuing presentation begun at 1/28/97 meeting.
<u>JOINT INFORMATIONAL MEETING WITH SENATE COMMITTEE ON BUSINESS, LAW, AND GOVERNMENT</u>		
019	Terry Morlan	Demand Forecasting Manager, Northwest Power Planning Council, submits and presents overview on electric power deregulation issues. Notes he plans to talk about issues of restructuring debate; reviews implications for structure discussed January 28 (see Committee minutes dated January 28, 1997).
050	Morlan	Continues presentation with look at consumer perspective in restructured electricity market (EXHIBIT A, page 2). Discusses: * Electricity generators, independent or current integrated utilities * Different ways people might come into market * Direct purchase; must acquire transmission and distribution to move power * Marketer; buys power, then tailors for customer * Aggregator; buys power for groups of customers; notes that in past aggregators did not exist, services were performed by integrated utility company.
077	Chair Welsh	Asks if there is currently direct access to wholesale level.
078	Morlan	Responds wholesale market substantially deregulated already.
080	Rep. Hill	Asks if any country has deregulated electricity that could be used for an example.
085	Morlan	Says several countries are ahead of us in deregulation, e.g. England, Argentina, Norway.
		Continues presentation commenting on issues raised by

098	Morlan	restructuring of retail side of business (EXHIBIT A, page 2)
115	Morlan	Discusses competition: conditions of well-functioning, efficient market (EXHIBIT A, page 3)
126	Rep. Roberts	Asks if one company wants to buy out another, whether there has to be a process to ensure that it can't control the market.
132	Morlan	Says that he thinks with current processes such a company can be challenged on anti-trust grounds; during growth and development of new retail service market, it would be good to monitor those processes.
138	Rep. Roberts	Comments on California's problems, doesn't want Oregon to have something to be sorry about.
146	Morlan	Continues presentation; discusses well-functioning market; accessibility to suppliers and consumers reason for continuing to regulate transmission and distribution systems (EXHIBIT A, page 3)
160	Morlan	Says monopoly regulated side needs to be separated from competitive side; discusses need for consistent rules and consistency across jurisdictions; is a need for congruence between risk and reward.
194	Morlan	Talks about reliability issue (EXHIBIT A, page 3)
219	Rep. Wooten	Asks about readiness of transmission system for full competition.
222	Morlan	Says process is moving forward.
232	Rep. Wooten	Comments on need for state standards for determination of readiness of transmission system for deregulation and competition, rather than leaving up to Federal government.
245	Morlan	Continues presentation, discussing stranded costs (EXHIBIT A, page 4)
297	Morlan	Continues presentation, discussing stranded costs (EXHIBIT A, page 4); explains chart. Points out that a company can have asset costs that can't be recovered in the market; utilities have constructed generating plants and assets to meet demand under regulatory compact. In competitive market may not be able to get cost recovery.
330	Rep. Hill	Asks if costs related to change in regulations are not simply costs of doing business in marketplace.
345	Morlan	Agrees in part, explains differences: * regulatory compact covers whole operation and investment

		<p>* power industry very capital intensive</p> <p>* in private sector stranded investment would be called a loss.</p>
369	Morlan	Defines stranded costs (EXHIBIT A, page 5). Notes important not to eliminate incentives for utilities to mitigate stranded costs; guaranteeing 100 percent recovery of stranded costs will eliminate significant incentive for improvement.
400	Morlan	Continues discussing stranded costs, difficulty of calculating what they really are.
Tape 5A		
001	Morlan	Continues presentation, discussing stranded costs, how companies deal with them (EXHIBIT A, page 5).
022	Morlan	<p>Addresses stranded cost trade-offs (EXHIBIT A, page 5).</p> <p>* No recovery allowed would be unfair.</p> <p>* Complete recovery minimizes advantages of competition. Notes cost shifting could affect regulated customers adversely.</p>
051	Morlan	Talks about stranded costs in regard to publicly owned utilities (EXHIBIT A, page 6).
073	Rep. Roberts	Asks if anything can be done about Bonneville issue.
077	Morlan	Says probably not, but should be aware of impact it has on publicly owned utilities.
081	Morlan	Resumes presentation, discussing stranded benefits (EXHIBIT A, page 6).
092	Sen. Miller	Asks what percent of energy expense on utility bills represents stranded benefits.
094	Morlan	Estimates three to five percent in terms of conservation and renewables.
102	Morlan	Resumes discussion of stranded benefits (EXHIBIT A, page 6).
112	Morlan	Discusses conservation savings (EXHIBIT A, page 7); cumulative amounts of conservation by regional utilities 1979-95; region has had very substantial savings.
129	Rep. Edwards	Asks how regional conservation trend compares to rest of nation.
130	Morlan	Says is generally nationwide; most states have implemented resource planning requirements, balancing construction and conservation.

143	Morlan	Discusses public purposes issues (EXHIBIT A, page 7). Raises questions that the committee, legislature will need to deal with regarding restructuring/deregulation.
159	Chair Welsh	Comments that these issues are the "public policy issues" that the committee has to deal with.
163	Morlan	Resumes presentation; explains the other stranded benefits (EXHIBIT A, page 8). Gives example of what might occur to cause a stranded benefit; suggests if customers share in stranded costs, should share in similar proportion stranded benefits.
187	Rep. Hill	Asks if stranded costs and benefits balance each other out; discussion with committee follows.
209	Morlan	Continues presentation with consumer protection issues (EXHIBIT A, page 8). Issues cover cost shifting, universal access to electricity service, transition to competitive market, reasonable cost, provider of last resort.
261	Morlan	Continues presentation; discusses fair prices, protection against fraud and non-performance, minimum service standards.
284	Morlan	Continues presentation addressing state and local government revenues and other issues.
328	Morlan	Continues presentation; discusses vehicle for getting power to residential and small farm customers, present method vs. possible methods after deregulation; mandated restructuring; reciprocity.
369	Chair Welsh	Asks whether there currently is a prescribed authority, if this is a federal question.
377	Morlan	Agrees probably is, federal legislation proposed last year would have mandated state deregulation under certain conditions.
Tape 4 B		
030	Rep. Hill	Continues discussion re federal legislation on deregulation vis a vis state deregulation.
041	Morlan	Responds deregulation on federal level likely to happen in foreseeable future.
073	Morlan	Resumes presentation referring to Summary of the Comprehensive Review Final Report (EXHIBIT B) concerning electrical industry restructuring. Three guidelines addressed: * Equitable distribution of costs and benefits * Protection of natural resources

		* Assurance of adequate, efficient, economical, reliable power supply system
099	Morlan	Reviews four major areas steering committee addressed (EXHIBIT B, page 2): * Federal power marketing (what to do about Bonneville in power market) * Public purposes issue (conservation, renewable energy, low-income energy services) * Competition and customer choice (retail level) * Transmission system.
110	Morlan	Discusses effects of competition on Bonneville in light of current deregulation issues.
134	Morlan	Continues discussing Bonneville (EXHIBIT B, page 3). Looks at where Bonneville's position in the market has been in the past, is now, and might be in future.
177	Rep. Edwards	Asks Morlan to explain what is driving Bonneville's costs down (per graph of Exhibit B).
180	Morlan	Explains graph.
203		Morlan and committee discuss Bonneville in relation to Washington Public Power Supply System (WPPSS) and how debt gets repaid.
224	Morlan	Resumes presentation covering Federal power marketing key points (EXHIBIT B, page 3), which include:

1) Goals

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[Sigma]2 A[lambda][iota][gamma][nu] [beta][epsilon][nu][epsilon][phi][iota][tau][sigma] a[nu]d [rho][iota][sigma][kappa][sigma]

[Sigma]3 [Iota]u[pi][rho][omicron][omegahat][epsilon] [pi][rho][omicron][beta]a[beta][iota][lambda][iota][tau][psi] [omicron][phi] [Tau][rho][epsilon]a[sigma][upsilon][rho][psi] [rho][epsilon][pi]a[psi]u [epsilon][nu][tau] a[nu]d [nu][omicron][tau] [chi][omicron]u[pi][rho][omicron]u[iota][sigma][epsilon] 3 [rho]d [pi]a[rho][tau][psi] d[epsilon][beta][tau]

[Sigma]4 [Mu][omicron][rho][epsilon] [chi][omicron][nu][sigma][iota][sigma][tau][epsilon][nu][chi][psi] [phi][omicron][rho] [Beta][omicron][nu][nu][epsilon][omegahat][iota][lambda][lambda][epsilon][iota][nu] [chi][omicron]u[pi][epsilon][tau][iota][tau][iota][omegahat][epsilon] ua[rho][kappa][epsilon][tau]

2) Mechanism

[Sigma]1 [Sigma][upsilon][beta][sigma][chi][rho][iota][pi][tau][iota][omicron][nu] [pi][rho][omicron][chi][epsilon][sigma][sigma] [phi][omicron][rho] [rho][epsilon][gamma][iota][omicron][nu]a[lambda][upsilon][tau][iota][lambda][iota][tau][iota][epsilon][sigma]; [phi][lambda][epsilon][xi][iota][beta][iota][lambda][iota][tau][psi] [iota][nu] [chi][omicron][nu][tau][rho]a[chi][tau] [tau][epsilon][rho]u[sigma]

- 255 Morlan Mentions fish and wildlife issues were discussed, and report acknowledges that Bonneville continues to be obligated in this area. The report also addressed mitigating Treasury risk (**EXHIBIT B, page 5**).
Discusses resale of power (**EXHIBIT B, page 5**).
- 281 Morlan * Restriction of Bonneville's competitive role

* Bonneville not expected to acquire new resources or sell to retail customers
- 306 Morlan Discusses river governance, a balancing of all river usage, particularly with regard to salmon recovery, navigation, irrigation, municipal water supply (**EXHIBIT B, page 6**).
Discusses public purposes (**EXHIBIT B, page 6**). Goals include:
- 322 Morlan * Sustains public purposes region is committed to--encourage efficiency in renewable resources; keep environment safe;

* Dedicate 3 percent of electricity revenues to these purposes; most control for funds and their allocation be left to local governments, utilities.
- 350 Morlan Refers to recommendations to state legislatures (**EXHIBIT B, page 7**).
Continues presentation discussing consumer access (**EXHIBIT B, page 7**).
- 411 Morlan Recommendation from report that retail markets be offered to all customers by July 1, 1999.
- Tape 5, B**
- 039 Morlan Continues discussing consumer access; addresses conditions recommended (**EXHIBIT B, page 7**).
- 061 Morlan Suggests changes to make concerning competition and customer choice before full opening of market (**EXHIBIT B, page 8**).
- 089 Morlan Discusses recommendation on transmission (**EXHIBIT B, page 8**).
- 106 Morlan Concludes presentation.
- 120 Rep. Wooten Thanks Morlan for two days of overviews.
- 124 Chair Welsh Thanks Morlan, adjourns meeting at 2:32 p.m.

Submitted By, Reviewed By,

Lynda Sloan, John Larson,

Administrative Support Administrator

EXHIBIT SUMMARY

A - Restructuring, overhead slides, Terry Morlan, 9 pp.

B - Summary of the Comprehensive Review Final Report, Terry Morlan, 9 pp.