

**JOINT MEETING OF THE HOUSE COMMITTEE ON POWER DEREGULATION AND
SENATE COMMITTEE ON BUSINESS, LAW, AND GOVERNMENT**

February 6, 1997 Hearing Room HR 50

1:00 PM Tapes 9 - 11

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

SENATE MEMBERS PRESENT:

Sen. Neil Bryant, Chair

Sen. Randy Miller, Vice-Chair

Sen. Randy Leonard

Sen. David Nelson

MEMBERS EXCUSED:

Sen. Gene Derfler

Sen. Kate Brown

STAFF PRESENT:

John Larson, Administrator

Julie Neburka, Asst. Administrator

Jan Nordlund, Administrator

Lynda Sloan, Administrative Support

MEASURE/ISSUES HEARD:

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 9A		
001	Chair Welsh	Opens meeting at 1:10 p.m.; introduces Ron Eachus, who continues presentation begun February 4.

**OVERVIEW ON
ELECTRIC POWER
DEREGULATION ISSUES
BY RON EACHUS**

039	Ron Eachus	Commissioner, Oregon Public Utility Commission (PUC), reviews testimony from February 4 meeting using overhead slide presentation (EXHIBIT A 2/4/97). Continues presentation, discussing basic elements (EXHIBIT A, 2/4/97, page 16) :
092	Eachus	* right to direct access * stranded costs * stranded benefits
098	Eachus	Describes sources of stranded costs as regulatory assets that the utility doesn't own, but from a regulatory point of view, once included in rates are treated as assets; gives examples.
150	Rep. Wooten	Asks about methodologies for determining stranded costs. Explains determination of stranded costs * exit fee, a stranded cost paid when customer leaves a system
153	Eachus	* wires charges on transmission lines, for distribution and for transmission * stranded benefits charge paid to distribution system * write-offs Continues presentation discussing stranded benefits (EXHIBIT A, 2/4/97, page 17); potential in competitive market for loss of some benefits, e.g.

		* energy efficiency
180	Eachus	* renewable resources * environmental protection
		* low income assistance
215	Eachus	Discusses systems benefit charge, which is applied at distribution level; notes concerns include who controls those dollars, what they are used for, how long the charge stays in place. Continues presentation discussing issues legislation will need to address (EXHIBIT A, 2/4/97, page 21). These issues include:
263	Eachus	* timing for implementation of direct access * publicly owned power, what should be mandated and what should be left to local control
315	Eachus	Continues presentation concerning effects of legislation on publicly owned power; notes possibilities of inequities among utilities.
345	Eachus	Notes level of divestiture is issue legislature will need to consider; suggests ways to unbundle without divestiture, e.g. functional unbundling, corporate organizational unbundling, divestiture to separate ownership.
371	Eachus	Concludes discussion of legislative issues (EXHIBIT A, 2/4/97, page 22); describes public purposes as including energy efficiency, low-income assistance, and renewable resources; gives examples of each term.
Tape 10, A		
001	Eachus	Continues discussion of legislative issues; discusses public purposes funding in relation to direct access; notes possibilities of difficulties in competitive equity and conflicting finance methods; summarizes issues for legislation to address. Describes Systems Benefits Charge as methodology for collection; notes benefits of charge (EXHIBIT A, 2/4/97, page 22)
035	Eachus	* takes cost out of commodity charge * charge cannot be bypassed
050	Eachus	Notes consensus on methodology has not been achieved, but a regional effort for market transformation will continue through 1999, and Governor's Blue Ribbon Panel is looking at low-income assistance. Recommends that groups who have been working on these issues bring two or three conceptual models

to legislature; notes there are models available to look at.
Discusses role of regulation (**EXHIBIT A, 2/4/97, page 24**)

* encourage competition

077

Eachus

* protect against market power, i.e. no unfair competition, no undue discrimination, ensuring adequate supply of power at reasonable rate

* enable market to work: provide customer information to make informed choice; process for complaint and redress of grievances

094

Refers to written testimony for examples of rules that might be needed (**EXHIBIT A, 2/4/97, page 25**).

115

Rep.
Wooten

Asks how PUC will respond to complaints.

125

Eachus

Says PUC in process of developing system, will probably use existing authority concerning distribution utility; PUC anticipates that there would be, as a requirement of certification and licensing, a demonstration of capability of responding to customer complaint.

153

Paul
Graham

Oregon Department of Justice, agrees with Eachus; notes there may be different levels of protection for different customers, depending on customer needs.

168

Eachus

Discusses current activities of Public Utility Commission (**EXHIBIT A, 2/4/97, page 26**); notes workshops held concerning direct access to develop utility "road maps" and pilot project proposals; mentions projects Portland General Electric, Pacific Power and Light, and Idaho Power are working on.

190

Bill
Warren

Notes PGE currently has a filing before PUC to provide direct access service on a pilot basis for large industrial customers in Spring 1997; the commission has not yet acted on the filing, but it is proposed to become effective in March or April this year. Says PGE's pilot program is proposed to go into effect late summer, 1997.

202

Eachus

Continues presentation, stating goal of pilot projects is to learn what it takes to do direct access; notes activities being undertaken by PUC concerning obtaining this information (**EXHIBIT A, 2/4/97, page 27**). States he feels it is more important to do legislation right than to do it right away.

253

Eachus

Presents legislative outline which describes how legislation might be constructed (**EXHIBIT A, 2/4/97, page 29**):

1. Definitions of terms

2. Findings and Goals

3. Timeline for direct access; includes questions to consider concerning customer issues and publicly owned utilities

4. Aggregation

5. PUC Regulatory Authority--what should be given to the commission

300 Eachus Continues discussing PUC regulatory authority

337 Eachus

6. Stranded costs, whether recovery should be allowed, how prescriptive legislation should be **(EXHIBIT A, 2/4/97, page 30)**.

358 Eachus

8. Market requirements; says this critical area should address whether PUC or another agency will be given authority to regulate; give direction for developing rules concerning service and consumer information; and specify certification and licensing requirements **(EXHIBIT A, 2/4/97, page 31)**.

TAPE

9B

001 Eachus Continues discussing market requirements.

020 Rep. Wooten Asks if PUC has begun to develop standards and licensing requirements, assuming PUC will be implementing body.

026 Eachus Notes this information is covered in written presentation, quotes from presentation **(EXHIBIT A, 2/4/97, page 31)**; notes this generally deals with reciprocity; says it is not exclusive to out-of-state providers, but includes any non-utility marketer.

041 Warren Comments that the state has been through restructuring before with the natural gas industry.

047 Chair Bryant Introduces Jock Mills of Bonneville Power Administration.

067 Rep. Edwards Explains he has distributed to the committee an editorial from *The Oregonian* concerning macroeconomic impacts of deregulation on the country as well as the Northwest.

077 Jock Mills Oregon Liaison for Bonneville Power Administration gives overhead slide presentation on BPA **(EXHIBIT A)**.

Discusses BPA system **(EXHIBIT A, page 2)**

* international system, reaches into Canada

094 Mills * 15,000 miles of transmission system, covering about 300,000 square miles of territory

* 200 wholesale customers

* federal dams owned and operated by Corps of Engineers and Bureau of Reclamation; BPA markets power from them
Presents some basic facts about Bonneville (**EXHIBIT A, page 3**); discusses attributes of hydroelectric power system

* responds quickly to demand; can follow hourly load quickly

- 132 Mills * navigation
* irrigation
* flood control
* recreation
- 166 Mills Discusses rates (**EXHIBIT A, page 4**); explains rapid rise in rates in 1980's.
- 180 Mills Continues discussing rates (**EXHIBIT A, Page 5**); notes reasons for BPA's relative stable rates in last 15 years.
- 198 Mills Describes what BPA has done to try to contain costs (**EXHIBIT A, Page 6**); notes BPA is fixed cost entity, little flexibility for dealing with most costs.
- 208 Mills Shows slide of BPA employment (**EXHIBIT A, page 7**); notes 1980 many new employees due to increased conservation work; agency currently much smaller than 1980.
Discusses BPA impact in Oregon (**EXHIBIT A, page 8**)
* 20 percent of utility load in Oregon from Bonneville
- 226 Mills * residential exchange program
* fish and wildlife expenditures \$85 million
* approximately 2000 employees with payroll of \$80.4 million
- 240 Mills Shows map of utility territories which includes public customers of BPA (**EXHIBIT A, page 41**); notes public customers were created because much of state wasn't being served.
- 273 Mills Discusses types of customers of BPA (**EXHIBIT A, page 10**)
Describes public customers of BPA (**EXHIBIT A, page 11**)
- 290 Mills * non-profit, governed by publicly elected boards and commissions
* diverse
Discusses utility loads (**EXHIBIT A, Page 12-13**)
- 327 Mills * Publicly Owned Utilities and Investor Owned Utilities serve same types of loads
* Oregon has more IOUs than publicly owned utilities as opposed to Washington State which has more publicly owned utilities

Addresses issue of "getting stuck with" Bonneville contracts (**EXHIBIT A, page 14**)

* historically municipalities have purchased about 77 percent of power from Bonneville

355 Mills * under existing contracts, BPA forecasts about 40 percent of power coming from Bonneville

* BPA has been making changes in the ways they will be serving customers for the next five years

373 Rep. Wooten Asks about readiness of the system and system loads.

365 Mills Says he will be addressing that issue more thoroughly later in presentation; discusses reliability of intertie; rating is about 7900 megawatts, but has been cut back through actions by Western Systems Coordinating Council to about 5200; upgrading to 6250 for environmental reasons.

430 Mills Discusses direct service industries (DSIs)(**EXHIBIT A, page 15**); says they are primarily aluminum companies; five companies buy about 80 percent of power directly from BPA; describes some controversial aspects of contracts with DSIs.

TAPE 10 B

001 Mills Continues presentation discussing DSIs; notes DSIs given access to market over 15 years.

036 Rep. Wooten Asks how and if DSIs should participate in public purposes.

041 Mills Says he realizes this question has been an issue in the regional review, doesn't know how it has been resolved, doesn't want to speak on behalf of DSIs.

044 Rep. Wooten Asks if there are provisions in their contracts that would alter the contracts if additional requirements were imposed on DSIs.

046 Mills Says he is not aware of any, but that a percentage of revenues derived from DSIs go to some significant public purposes, e.g. fish and wildlife spending and conservation funding.

078 Mills Explains PGE residential exchange program (**EXHIBIT A, Page 17**); notes this is how BPA's small farm and residential customers get access to low-cost federal power. Gives history of residential exchange program; notes it has resulted in over a billion dollars in rate relief to PGE ratepayers over the scope of the program.

126 Mills Continues discussing residential exchange (**EXHIBIT A, Page 18**), notes Pacific Power and Light has lower average system costs, therefore benefits to PP&L and their ratepayers aren't as much as PGE's. Notes BPA is in discussion with PP&L about how to change this so that yearly rate case issue can be resolved.

145 Mills Notes that one of the public purposes BPA serves is conservation costs (**EXHIBIT A, page 19**); says in 1994 Energy Information Administration did a survey of utilities and found New England Electric System dedicated highest percentage of revenues to conservation, BPA was not surveyed, but if they had been included, would have been second highest in the country.

163 Mills Overviews fish and wildlife costs (**EXHIBIT A, pages 20-21**)

- 193 Mills Notes BPA has refinanced its debt, the issue of federal subsidies to the Northwest is done **(EXHIBIT A, Page 24)**.
- 209 Mills Discusses surplus and nonfirm sales **(EXHIBIT A, Page 23)**; notes surplus power in the Northwest is actually power that is unwanted in the Northwest; notes that out-of-region sales are about 10 percent of BPA revenue.
- 237 Rep. Edwards Asks if BPA is guided by federal law on selling out of region.
- 244 Mills Says BPA is not precluded from marketing out of region; notes contracts can be negotiated to guarantee power from other sources if it should become necessary. Discusses Regional Review recommendations **(EXHIBIT A, Page 29)**
- * retail access by July 1, 1999
- 275 Mills * July 1997, 3 percent of revenues dedicated to public purposes; \$210 million regionally
- * three percent charge based on gross revenues
- * legislation being sought to provide consequences if fee is not charged Shows example of Public Purposes Funding **(EXHIBIT A, Page 31)**
- * Oregon's 17 Cooperatives would devote \$6.1 million based on 1995 revenues.
- 314 Mills * Based on 1994 rates and sales, BPA raised \$7.9 million for conservation.
- * Utilities are accustomed to paying for public benefits charges.
- 339 Mills Notes that under the Regional Review, the recommendation is that under the subscription process, IOUs would buy Bonneville power, market it, use the funds generated by marketing for rate relief for their customers, i.e., monetizing the residential exchange. Says another alternative would be actually passing power through to residential and small farm customers. Notes there would still need to be monitoring to ensure benefits are truly going to the customers.
- 365 Mills Discusses mechanics of retail wheeling **(EXHIBIT A, page 32)**; notes regional utilities need to address complex technical issues e.g., number of transactions over transmission system; meetings are being held in February to address these issues; BPA will do everything it can not to hold up pilot projects; BPA will not provide retail wheeling until states take action.
- 400 Mills Describes possible consequences if legislature chooses to impose retail wheeling on BPA's customers before contract expiration in 2001 **(EXHIBIT A, page 33)**.
- Tape 11, A**
- 010 Mills Discusses BPA revenues **(EXHIBIT A, page 35)**; notes contracts with utilities end in 2001; fish and wildlife agreement also ends in 2001.
- 021 Mills Describes future focus **(EXHIBIT A, page 36)**; notes present market is below BPA current costs, so energy may cost more than out on the market. Notes issue is who owns the power, and who will benefit from the power.

Points out potential effects on Bonneville of efforts to reduce federal budget deficit
(EXHIBIT A, Page 38)

- 042 Mills
- * pressure for market-based rates
 - * increased interest in sale of Bonneville's assets
- Concludes presentation describing Bonneville's preference with regard to restructuring **(EXHIBIT A, Page 38)**
- * no mandate of retail access prior to 2001
 - * allow recovery of stranded costs by retail utilities
- 063 Mills
- * if mandated, right to recover costs of wholesale utilities
 - * rules for retail access facilitated small farm and residential customers
 - * no worry about reliability
 - * consistency among four Northwest states
- 096 Chair
Welsh
- Makes announcements; adjourns meeting at 3:05 p.m.

Submitted By, Reviewed By,

Lynda Sloan, John Larson,

Administrative Support Administrator

EXHIBIT SUMMARY

A - Outline of Testimony, Jock Mills, 44 pp.