

**HOUSE COMMITTEE ON POWER DEREGULATION**

**March 4, 1997 Hearing Room A**

**01:00 P.M. Tapes 24 - 26**

**MEMBERS PRESENT:**

**Rep. Jim Welsh, Chair**

**Rep. Cynthia Wooten, Vice-Chair**

**Rep. Randall Edwards**

**Rep. Jim Hill**

**Rep. Patti Milne**

**Rep. Ken Strobeck**

**MEMBER EXCUSED: Rep. Lonnie Roberts**

**STAFF PRESENT:**

**John Larson, Administrator**

**Julie Neburka, Asst. Administrator**

**Lynda Sloan, Administrative Support**

**SENATE COMMITTEE ON BUSINESS, LAW, AND GOVERNMENT**

**MEMBERS PRESENT:**

**Sen. Neil Bryant, Chair**

**Sen. Kate Brown**

**Sen. Gene Derfler**

**Sen. Randy Leonard**

**STAFF PRESENT:**

**Jan Nordlund, Administrator**

**MEASURE/ISSUES HEARD:**

**Presentation on Electric Power Deregulation by Mike Katz**

**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
<b>Tape 24, A</b>		
001	Chair Welsh	Calls meeting to order at 1:17; makes announcements.
<b><u>PRESENTATION ON ELECTRIC POWER DEREGULATION</u></b>		
044	Mike Katz	Economics professor at Portland State University, Chairman of the Oregon Energy Facility Siting Task Force, and former Chairman of the Oregon Public Utility Commission, presents written testimony in support of deregulation of the electric power industry. Gives background on electric industry ( <b>EXHIBIT A</b> ).
095	Katz	Continues presentation, discussing history of economic regulation and deregulation of many industries ( <b>EXHIBIT A, page 2</b> ).
150	Katz	Continues presentation, discussing justification for competition and industry regulated tariffs ( <b>EXHIBIT A, page 3</b> ).
220	Katz	Continues presentation; discusses natural monopolies ( <b>EXHIBIT A, page 4</b> ).
271	Sen. Bryant	Asks what percentage of power Independently Owned Utilities disseminate.
275	Katz	Says in Northwest and in Oregon 75 percent of customers, generating capacity, kilowatt hours sold, revenue received, are from IOUs. However, he says in Washington state 60 percent of customers are served by publicly owned or cooperative utilities, 40 percent by investor owned.
295	Katz	Discusses the Regulatory Compact ( <b>EXHIBIT A, page 4</b> ) * local utilities given monopoly status  * utilities guaranteed opportunity to recoup prudently incurred expenses
<b><u>ISSUES DISCUSSED</u></b>		
330 340 370 384	Katz	Discusses with Committee  * competition in declining cost industry  * comparison of electric power with other formerly regulated industries  * natural monopolies

400	Katz	Resumes presentation, discussing "public utility responsibility" , the requirement to make necessary investments to meet loads.
<b>Tape 25, A</b>		
001	Katz	Continues presentation, discussing reason for push for deregulation ( <b>EXHIBIT A, page 5</b> )  * increase in fuel prices as result of 1973 Arab petroleum embargo and overthrow of Shah of Iran in 1979  * high energy prices that led to deceleration in growth of demand for energy and increase in substitution, conservation, and production of gas and oil  * cost-lowering technologies concerning fossil fuels and electricity generation
050	Katz	Continues discussing push for deregulation.
100	Katz	Continues presentation, discussing high cost stranded investments ( <b>EXHIBIT A, page 6</b> ).
<b><u>ISSUES DISCUSSED</u></b>		
143 150 186 224	Katz	Discusses with Committee  * stranded costs recovery in other deregulated industries  * reductions in costs of electricity to wholesalers and consumers  * Pacific Power energy costs
265	Katz	Resumes presentation, discussing investments made in good faith ( <b>EXHIBIT A, page 7</b> )  * inevitability of deregulation, federal if not state sponsored  * transitional mechanisms to ease the pain
335	Katz	Continues presentation, discussing expectations of competition ( <b>EXHIBIT A, page 8</b> )  * examples of experimentation  * expectation that consumer choice will happen
370	Katz	Continues presentation, discussing uncertainties in utility regulation ( <b>EXHIBIT A, page 9</b> ).
<b>Tape 24, B</b>		
		Continues presentation, discussing transmission and distribution ( <b>EXHIBIT A, page 9</b> ). Also discusses

001	Katz	<ul style="list-style-type: none"> <li>* purpose of Public Utility Commissions under deregulation</li> <li>* risks of premature deregulation</li> <li>* purpose of economic regulation being to protect consumers from lack of competition</li> </ul>
<b><u>ISSUES DISCUSSED</u></b>		
061 066 080 102 127 152 204 235 277 320	Katz	<p>Discusses with Committee</p> <ul style="list-style-type: none"> <li>* market failure</li> <li>* competition in generation and distribution</li> <li>* what Congress might do regarding deregulation</li> <li>* how it is in interests of Oregon and the Northwest to enter competitive market with already low rates</li> <li>* regional preference for federally generated lower cost electricity</li> <li>* how deregulation benefits Oregon residents</li> <li>* possibility of equalization of rates in West</li> <li>* risk averse safety net to maintain rates at present low</li> <li>* lack of incentives for utilities to cut costs</li> </ul>
398	Rep.Edwards	Asks who potential casualties in process might be.

**Tape  
25, B**

001		Discusses with Committee
003		* winners and losers in deregulation
029	Katz	* aggregation of smaller providers for low-cost power resources
052		* potential for averaging rates or "postage stamp rates" for power from Bonneville to disappear
070		Discusses with committee
073	Katz	* cross-subsidization explanation, e.g. charging commercial customers more than residential customers and potential discontinuance under deregulation
101		* public purposes, e.g. low-income assistance, conservation, renewables

131		* low-income assistance not in form of lower rates, but rather in cash
143		* application of principles from <b>EXHIBIT A, p. 3</b> to market
149		* competition and discriminatory pricing
194	Steven Weiss	Asks why anyone would pay higher prices for electricity when a combustion turbine could be built inexpensively and quickly.
205	Katz	Explains stranded costs as high cost facilities built at another time which now cannot sell power at previous high prices.
212		Discusses with Committee
231		* use of fossil fuels, which are nonrenewable resources, in production of power vs. Bonneville, a renewable resource
244		* abundance of natural gas resources
300		* possibility of artificially raised prices for natural gas
313	Katz	* assurance of long-term continuation of Bonneville power
322		* future sources of power
350		* protection of power resources
363		* alternative sources of power through competition or regulation
387		* effects of competition on degradation of environment
<b>Tape 26, A</b>		
001	Katz	Continues discussion on degradation of environment.
015	Chair Welsh	Adjourns meeting at 3:05.

Submitted By, Reviewed By,

Lynda Sloan, John Larson,

Administrative Support Administrator

**EXHIBIT SUMMARY**

**A - Written presentation, Mike Katz, 10 pp.**