

HOUSE COMMITTEE ON POWER DEREGULATION

March 11, 1997 Hearing Room E

1:00 P.M. Tapes 39 - 40

**MEMBERS PRESENT:**

Rep. Jim Welsh, Chair

Rep. Jim Hill

Rep. Patti Milne

Rep. Lonnie Roberts

Rep. Ken Strobeck

**MEMBER EXCUSED:**

Rep. Randall Edwards

Rep. Cynthia Wooten, Vice-Chair

**STAFF PRESENT:**

John Larson, Administrator

Julie Neburka, Asst. Administrator

Lynda Sloan, Administrative Support

**MEASURE/ISSUES HEARD:**

**STRANDED COSTS**

**REPORT ON WHAT OTHER STATES ARE DOING ABOUT DEREGULATION**

**LESSONS TO BE LEARNED FROM DEREGULATION OF OTHER INDUSTRIES**

**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.**

<b>Tape/#</b>	<b>Speaker</b>	<b>Comments</b>
<b>Tape 39, A</b>		
001	Chair Welsh	Opens meeting at 1:20 p.m. Makes announcement about work groups.

**STRANDED COSTS**

027	Laurence Cable	Representing Oregon People's Utility District, presents testimony regarding stranded costs ( <b>EXHIBIT A</b> ). Discusses  * concepts of stranded investments  * Federal Energy Regulatory Commission's (FERC) role in deregulation  * FERC's view of deregulation as opportunity for all classes of rate payers to take the advantages of competition as best they could  * developing a legislative format whereby everyone has chance to benefit from competition while not leading to default on substantial debts of both public and private utilities
082	Cable	Discusses functional definition of stranded investment recovery ( <b>EXHIBIT A, page 1</b> ). Says allowing too much stranded investment recovery may defeat purpose of legislation because it makes it difficult to choose another wholesale supplier
107	Rep. Roberts	Asks why allowing too much stranded investment recovery makes it harder for a customer to decide to transfer request for service to someone else.
113	Cable	Gives example of what happens when stranded costs occur; and explains how allowing too much to be recovered can stifle competition from ever occurring.
162	Rep. Milne	Asks if reasonable to expect to pick up another customer and recover costs with new customer.
168	Cable	Says FERC guidelines for stranded investments require a company to mitigate when it can or prove it can't, because if it can, it has a duty as a utility to mitigate how much it has to charge.
176	Rep. Wooten	Notes that in the case of PGE and Trojan, Trojan was shut down in advance of full deregulation. Asks how PGE can justify a stranded cost equation with respect to Trojan without full deregulation or competition.
192	Cable	Says model he has been using is a public utility with no stockholders that simply has debt and rate payers in different classifications. However, in stranded investment concepts applicable to Investor Owned Utilities, amount of debt that can be written off is predetermined based on what was prudent investment, amount of depreciation allowed, and rate of return. If determinations have been made when competition is allowed, PGE Trojan indebtedness approved for rate base inclusion may be in stranded investment calculation. Says predeterminations are given respect. Says the same thing can happen with closing of generating facilities in which there is imbedded indebtedness after, or as a result of, competition which results in loss of load.
226	Rep. Roberts	Asks if Investor Owned Utilities "take a hit" on write-offs.

231	Cable	Says normal framework for stranded investment questions should not reach the write-off stage, which is now determined under Public Utility Commission regulation. Says there is only the right of stranded investment recovery if capital dislocation or need to raise other rates is caused by new legislation, and how it would be handled is being determined in law now.
254	Rep. Roberts	Asks if PUC and legislature would need to establish standards for dealing with differing stranded costs situations.
260	Cable	Says legislative bodies are providing those determinations for private utilities. Says difference for public utility is that it makes the showing, notifies the departing customer of what the utility determines cost is, then normally there is judicial review unless public utility is acting rationally. For problems caused by actions taken by FERC, FERC makes determination. Says it is important to have procedures in place, because if not decided at all and there is right of recovery, that can stop the development of the competitive market.
280	Rep. Hill	Asks about stranded costs when a utility chooses not to compete.
289	Cable	Says would like to go through components section of testimony on what a utility has to show in order to recover anything, then return to representative's question. Discusses components ( <b>EXHIBIT A, page 2</b> ) * timing * amount Continues testimony, discussing
335	Cable	* conditions determining right to recover stranded investments, which includes burden of proof for entitlement to amount sought. * how utility meets burden of proof ( <b>EXHIBIT A, page 2</b> ).
373	Rep. Hill	Asks about stranded costs recovery relative to Federal Power Act of 1992.
408	Cable	Discusses FERC guidelines for recovery of stranded costs and gives example of how they would be used.
<b>Tape 40, A</b> 001	Cable	Continues discussing example.
011	Rep. Hill	Asks about risk involved when investing in Investor Owned Utilities. Also asks about recovery of costs during competition when large number of residential customers decide to leave for another provider.  Says he is referring to instances where there are allowed depreciations, investments, or recovery, and because of law that allows choice, someone chooses to leave the utility as power

025 Cable purchaser and the question becomes what amount of money, under what burden of proof, should be paid by departing customer into the utility to ensure that there is no default on debt and other rates are not driven up exorbitantly.

042 Rep. Roberts Asks if there are examples of this being done elsewhere to establish standards for this kind of cost recovery.

051 Cable Says Energy Policy Act of 1992, 1995 FERC Orders 888 and 889 govern this issue. Cites example of what happened in FERC jurisdiction when a customer wanted to leave Pennsylvania Power and Light.

075 Rep. Welsh Asks if Cable can return to complete testimony at another time because of time constraints of the day's schedule.

096 Ric Gale Manager of Pricing and Regulatory Services for Idaho Power Company, presents testimony on stranded costs (**EXHIBIT B**). Gives background on Idaho Power

- \* serves 300,000 customers in Idaho, Oregon, Nevada
- \* primarily hydroelectric

Discusses

- \* distinction his company makes among potential strandable costs
- \* the difference between investments made based on company management decisions in business operating assets and transmission, generation, and distribution assets versus expenditures required through the regulatory process

132 Gale

- \* no company position on strandable cost recovery for company investments; but for costs incurred to satisfy regulations, believe they should be 100 percent recoverable
- \* three categories of recoverable costs: deferred expenditures for demand side management and conservation expenses, deferred tax, the above-market portion of required purchases from qualifying facilities

156 Rep. Hill Asks for example of something required to do which is above cost.

160 Gale Says example is required purchases from co-generation with small power producers. Says they have no discretion on entering the contracts or price paid for the power. Says the prices paid for purchased power are out of market today, and in their view will be out of market for the long term.

Discusses deferred tax issue (**EXHIBIT B, page 2**). Says Idaho Power would like to have customers participate when tax bills come due. Concludes testimony saying his company will accept its

161 Gale responsibility for transition costs related to business decisions by company management, for generation, and for co-contracts, but in areas where they don't have discretion, ask for 100 percent recovery of that which comes from the regulatory process. Asks that any restructuring action in Oregon consider the different circumstances of different utilities.

**ISSUES DISCUSSED**

199 Discusses with Committee

204 \* Idaho legislature considering deregulation issues

218 Gale \* stranded costs figures

239 \* divestiture and steps prior to cost recovery

275 \* recovery of stranded costs

\* transitional costs, moving from one supplier to another

**LESSONS TO BE  
LEARNED FROM  
DEREGULATION OF  
OTHER INDUSTRIES**

303 Chair Welsh Introduces Ross Bell and Jerry Ellig who present testimony concerning deregulation in other industries.

330 Jerry Ellig Representing Center for Market Processes discusses study done on experiences of deregulation in industries with similarities to electricity and the lessons to be learned during discussion of restructuring in electric industry (**EXHIBIT C**).  
Discusses findings following regulatory changes

\* lowered prices fairly quickly; therefore, not likely to have higher prices in electricity

378 Ellig \* benefits of deregulation fairly widespread, not limited to big business

\* customer choice leads to gains, not cost shifting among classes, as long as all have choice

\* significant reductions in costs

**Tape 39, B**

001 Ellig Continues discussing reductions in costs

**ISSUES DISCUSSED**

In response to several questions from Rep. Wooten discusses with Committee

020 \* how customer choice might affect areas with low cost power

070 Ellig \* likelihood of the Northwest becoming a net power importer in extreme cases

088 \* effects on retail wheeling in the Northwest from aggregators coming into the state to compete with power from under-utilized steam plants

094 Rep. Hill Asks if any of the industries in the study have ever enjoyed stranded cost recovery.

096 Ellig Discusses results of stranded cost recovery for natural gas, long-distance telecommunications, airlines, and trucking industries.

150 Ellig Continues discussing stranded investment recovery. Concludes that no industry received 100 percent recovery of stranded investments.

### ISSUES DISCUSSED

169 Ellig Discusses with committee expectations of stranded cost recovery for electric utility industry. Says if electric utility industry gets any recovery of stranded costs, it should consider itself lucky.

216 Ellig Discusses how prices are affected by costs of operations, capital, other overhead costs falling. Gives example of how increase in productivity in railroads industry resulted in lower rates for all classes of freight customers.

262 Rep. Wooten Asks what productivity increase meant in terms of job loss and where job losses occurred.

271 Ellig Says job loss was significant in railroads; airlines employment went up; gas unknown; telecommunications higher overall.

288 Rep. Roberts Asks if competition led to decrease in quality of maintenance.

303 Ellig Says railroads actually improved maintenance; airlines difficult to accurately assess, but air travel has gotten progressively safer; says most studies show no effects from deregulation on this trend. Notes that deregulation has covered entry into market and prices in the industries, but that there is still regulation of safety in transportation industries.

349 Ross Bell Gives background on American Legislative Exchange Council (ALEC) and its involvement in electric industry restructuring; submits written materials on electric industry restructuring **(EXHIBIT D)**.

400 Bell Continues discussing ALEC involvement in electric industry restructuring.

### **Tape 40, B**

Discusses ALEC model bill for electric industry restructuring; says bill has been introduced in 10 states. Reads portions of bill

		concerning
		* open access
		* unbundling
001	Bell	* stranded costs, transition from regulation to competition
		* implementation dates
		* level playing field
		* environmental/social programs
		* legislative oversight clause
030	Bell	Continues presentation, noting states where ALEC model bill has been introduced, and states that have already looked at implementation and either have legislative implementation or commission orders. Says ALEC feels study is appropriate measure to start process, but not to leave on indefinitely because studies can be way to delay implementation. Says pending federal legislation contains dates certain for implementation on interstate commerce of December 15, 2000.
		Discusses benefits anticipated for states that have already enacted legislation
070	Bell	* Rhode Island: savings for companies, 17 percent; residential 14 percent
		* Pennsylvania: overall savings of \$2.5 billion in competitive marketplace; new jobs created
078	Bell	Discusses pending legislation in Texas.
087	Rep. Roberts	Comments on forced deregulation and asks reason for the six no votes on the ALEC model bill.
102	Bell	Says probably lack of education on issue as well as other influencing factors.
130	Rep. Hill	Asks if they have any estimate of cost savings for Oregon.
131	Bell	Says he didn't but could provide when information available.
142	Chair Welsh	Asks cost shifting, especially in rural areas.
154	Ellig	Says every level should have opportunity to provide services at lower cost, the exceptions possibly being entities who have equivalent of bad investments or stranded costs, or have contracts for high-priced power.

## ISSUES DISCUSSED

178		Discusses with Committee
199	Ellig	* factors affecting electricity rates
		* where stranded costs charges and recovery
244	Chair Welsh	Adjourns meeting at 3:00 p.m.

Submitted By, Reviewed By,

Lynda Sloan, John Larson,

Administrative Support Administrator

## EXHIBIT SUMMARY

**A - Written testimony, J. Laurence Cable, 6 pp.**

**B - Written testimony, Ric Gale, 3 pp.**

**C - Written materials, Jerry Ellig, 4 pp.**

**D - Written materials, Ross Bell, 25 pp.**

**E - Written materials, Sandra Flicker, 2 pp.**