

HOUSE COMMITTEE ON POWER DEREGULATION

March 13, 1997 Hearing Room E

1:00 P.M. Tapes 45 - 46

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

STAFF PRESENT:

John Larson, Administrator

Julie Neburka, Asst. Administrator

Lynda Sloan, Administrative Support

MEASURE/ISSUES HEARD:

STRANDED COSTS

PUBLIC HEARING ON HB 2803

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 45, A | | |
| 001 | Chair Welsh | Opens meeting at 1:17 p.m. |
| <u>STRANDED COSTS</u> | | |
| | | Representing Oregon Public Utility District Association, resumes testimony |

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| 010 | Larry Cable | <p>begun March 11 concerning stranded costs. Discusses relationship of public utilities to Bonneville Power Administration and how it relates to potentiality for significant stranded investment claims public utilities may make. Notes types of debts BPA has obligations to pay from revenues received and methodology it must use to plan its repayment schedule. Says BPA net bill debt must be addressed in order to evaluate how to relate new state laws to whatever obligations may flow from BPA to public utilities or other utilities and potentially form stranded investment claim against retail customer that changes from one wholesale supplier to another.</p> |
| 048 | Cable | <p>Continues discussing Bonneville debt</p> <ul style="list-style-type: none"> * WWPPS nuclear plants as best illustration and accounting for most money * other nuclear projects |
| 100 | Cable | <p>Continues discussing Bonneville debt</p> <ul style="list-style-type: none"> * 1974 Transmission Act that makes Bonneville self-funded agency; Bonneville's rates set as required, and all funds received from sale of any service paid into Bonneville operating fund * Bonneville's pledges when WWPPS debt issued and refinanced that all sums received from any type of sale go into Bonneville operating fund * Bonneville contracts for all public agency loads until mid-2001 * examples of terms of utility contracts with Bonneville * what happens if Bonneville's rates are higher than market rates |
| 150 | Cable | <p>Continues discussing Bonneville</p> <ul style="list-style-type: none"> * scenario for potential stranded investment if Bonneville loses load * potential for Bonneville selling secondary power into market * potential for raise in transmission rates if insufficient revenue recovery for Bonneville to meet debt obligation |
| 200 | Cable | <p>Continues discussing Bonneville issue.</p> <ul style="list-style-type: none"> * As of 2001 all contracts with Bonneville to sell power expire. * Public utilities faced with indebtedness by stranded investment charge passed from Bonneville want to avoid being forced by state law to recover from customer. * If Bonneville decides to pass on stranded investment charges after recovery period has passed, utilities could be forced to prove right of recovery and pass on charges to rate payers. |

| <u>ISSUES DISCUSSED</u> | | |
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| 250 290 306 | Cable | Discusses with Committee * where in total expenditures stranded costs get paid for after deregulation * effects of competition on need to recover stranded costs * debt service on BPA's outstanding bonds |
| 320 | Rep. Edwards | Asks about BPA's annual revenues versus debt service. |
| 330 | Cable | Explains that Bonneville did not need to increase pledge percentage over expected revenue flow because it was required by Regional Power Act to charge rates sufficient to cover all costs. Says BPA owns transmission system; also has right to defer portions of payments to Federal Treasury if under-recovering. Says first thing paid is WWPPS debt. |
| 371 | Rep. Edwards | Asks probability of stranded cost. |
| 377 | Cable | Says Bonneville feels won't be problem with debt; says public utilities should not have to recover WWPPS debt. Says public utilities won't have any problem competing in market. Says important to have effective and fair mechanism for public utilities to compete because good for competition over time. |
| Tape 46, A | | |
| <u>ISSUES DISCUSSED</u> | | |
| 003 014 039 043 | Cable | Discusses with Committee * need for state legislation to address BPA stranded costs in the event Congress does not in Federal legislation * Bonneville's decision making authority, which is subject to review by FERC * expiration of WWPPS bonds 18 years from now * likelihood of other power brokers coming into state with cheaper power than Bonneville can provide and effects on Bonneville |
| 084 | Liston Darby | Representing Clatskanie PUD says there will be trade-offs to keep Bonneville healthy. Says if public purposes and fish and wildlife commitments were taken out of Bonneville's budget now, Bonneville would be below market, even with current debts, including supply system debt. Says these programs have to be paid for by someone or they will be lost. Discusses possible consequences for Bonneville if its proposed subscription |

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| | | program doesn't work. |
| 107 | Rep. Wooten | Asks if correlation between cost of energy in commodities market and public power prices offered through BPA. |
| 116 | Cable | Says because Bonneville sells so much power, if market is conditioned by supply and demand, timing, and conditions of delivery which drive electricity prices, Bonneville prices will have some effect on market. Says what Bonneville does affects the objectives legislature wants to achieve through deregulation legislation. |
| 146 | Rep. Wooten | Asks for breakdown in Bonneville's revenues between sale of generation and transmission. |
| 149 | Cable | Says he does not know that data. |
| 155 | Cable | Discusses with Committee Bonneville's stranded costs. |
| 201 | Chair Welsh | Asks about possibility of Bonneville selling supplemental power to another state at higher rates than it sells for here. |
| 203 | Cable | Says he thinks there are some safeguards against that because legally BPA has to offer to preferred customers first, i.e. public bodies and cooperatives; new contracts in June, 2001, which have to be as low on cost basis as possible. Says if public utilities don't buy at that cost, Bonneville can probably sell at market, but first must offer in Northwest. |
| 233 | Chair Welsh | Asks if that agreement is in perpetuity or ends in 2001. |
| 235 | Cable | Says current contract for public bodies is 20 year agreements, maximum period Bonneville can contract. Says those contracts don't say anything about stranded investments. |

PUBLIC
HEARING ON HB
2803

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| 265 | Chair Welsh | Opens public hearing on HB 2803. |
| 269 | Ken Canon | Executive Director of Industrial Customers of Northwest Utilities and part of Oregon Energy Coalition. Gives background on Industrial Customers of Northwest Utilities. Discusses HB 2803 (EXHIBIT A). Says question raised by this bill is whether customers should have opportunity to choose their electricity commodity supplier by July 1, 1999. Discusses three primary components of electrical service |
| 300 | Canon | * generation as the creation of the commodity for which customers will have choice of providers * transmission which is and will continue to be regulated by FERC * distribution which includes local streets, poles, wires, regulated by PUC for Investor Owned Utilities or by local boards or commissions of Consumer Owned Utilities |

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| | | Says fundamental aspect of HB 2803 is to provide customers with ability to choose their own commodity. Says competition will bring |
| | | * lower prices |
| 325 | Canon | <ul style="list-style-type: none"> * more choices * more products and services, as well as more customized products and services to specific needs * unbundling power bill to its different facets, e.g., generation, transmission, distribution, public purposes, transition charges <p>Discusses what HB 2803 means for industrial customers</p> |
| 347 | Canon | <ul style="list-style-type: none"> * will continue to pay for regulated distribution and transmission * construction of portfolio of different power suppliers focused on specific power needs of each facility * consequences of mistakes <p>Discusses what HB 2803 means for consumer customers, including school districts, state of Oregon institutional buyers</p> |
| 383 | Canon | <ul style="list-style-type: none"> * ability to aggregate * choices that enable customers to get mix of product services and prices they want * ability to lower costs through aggregation <p>Discusses what HB 2803 means for residential customers</p> |
| 392 | Canon | <ul style="list-style-type: none"> * ability to buy bundled product if desired * ability to aggregate with those who want to seek lower costs or with those willing to pay more for specific aspect, such as renewable resource |
| Tape 45, B | | |
| | | Continues discussion of HB 2803, addressing reasons for timing of deregulation. |
| 001' | Canon | <ul style="list-style-type: none"> * already occurring in other areas * progress from industrial perspective, including special contracts, tariffs, Portland General Electric Schedule 87 * national experiments |

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| | | * competition good for customers |
| | | * state control prevents one-size-fits-all by Federal government |
| 031 | Canon | Discusses reasons for implementing July 1, 1999; says date came from Comprehensive Review and is tied to implementation of public purposes. Discusses three types of contracts public utilities have with Bonneville. Says they have some doubts about Bonneville stranded costs. Says under all three contracts, whether stranded cost is decided now or in future by Bonneville, they believe diversification cost is ongoing legitimate stranded cost that people exercising customer choice will be required to pay. Says publics are uniquely positioned to promote customer choice and explains why. Discusses stranded costs relative to HB 2803 |
| | | * utilities netting high cost resources against low cost resources |
| | | * utilities responsibility to mitigate high cost resources |
| | | * limits Investor Owned Utilities recovery to 50 percent |
| 088 | Canon | * allows Publicly Owned Utilities 100 percent recovery |
| | | * unbundling for education purposes |
| | | * bill is silent on public purpose |
| | | Says they are interested in a public purpose component that has three percent cap, non-bypassable, with mid-term review, and conservation at local level. |
| 137 | Canon | Discusses California situation, saying after transition period of five to seven years will not be much different from Northwest. Says even after their nuclear power plants go off-line, substantial surplus of generation exists in west which keeps prices low. Concludes presentation saying customers should be allowed choice instead of someone else making choices for them and expecting customers to pay for choices they did not make. |

ISSUES **DISCUSSED**

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| | | Discusses with Committee |
| 187 | | * silence on public purposes in HB 2803 and conservation expenditure tax credit |
| 215 | Canon | |
| 227 | | * differences between his position on public purposes and what exists in Comprehensive Review |
| 242 | | * non-bypassable charges for public purposes funding |

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| 289 | | * amounts paid by various industries for electricity |
| 337 | | * anticipated savings for industry after deregulation |
| | | * timing for implementation for industrial, urban, and rural customers and potentiality for differences in benefits among customer classes |
| 408 | John Glasscock | Representing American Association of Retired Persons, presents written testimony opposing HB 2803 (EXHIBIT B). |
| Tape 46, B | | |
| | | Continues testimony, stating eight reasons for opposing view (EXHIBIT B , page 2) |
| 001 | Glasscock | <ul style="list-style-type: none"> * failure to provide mechanism for equal access * failure to provide for conservation of energy and development of renewable resources * no provisions for prevention of redlining Continues discussing reasons for opposition to HB 2803 |
| | | * does not provide direction for separation of generation assets (EXHIBIT B, page 3) |
| 050 | Glasscock | <ul style="list-style-type: none"> * default supplier provision leaves incumbent distributor as provider of last resort * does not define standard offer of basic bundled package for residential and low-usage customers * fails to provide mechanism for prevention of bypass of franchise charges * lacks consumer protection provisions Senior government affairs representative for PacifiCorp, presents written testimony concerning HB 2803 (EXHIBIT C). Areas of agreement include |
| 105 | Jim Anderson | <ul style="list-style-type: none"> * same goals as Oregon Energy Coalition to bring competition to electric industry * support including customers of public power, cooperatives, and municipals * default provider provisions * mechanism for functional separation of generation, transmission, and |

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| | | distribution |
| 124 | Anderson | Discusses recommended modifications (EXHIBIT C, page 3) * date for implementation sooner than July 1, 1999 Continues recommended modification |
| 175 | Anderson | * stranded cost recovery mechanism price freeze now through 2001 or provision for slight increases that remain under level of inflation * assurance of comparable reciprocity * inclusion of public purposes for conservation, renewables, and low income assistance |
| 220 | Anderson | Discusses concerns about bypass provision (EXHIBIT C, page 5). Notes they are pleased with work being done on this issue. Notes bill is silent on franchise fees, but know that other committees in the House are discussing this issue. |
| Written testimony on HB 2803 submitted by PacifiCorp after meeting (EXHIBIT D). | | |
| Written testimony regarding public purposes submitted after meeting (EXHIBIT E). | | |
| 240 | Chair Welsh | Adjourns meeting at 2:58 p.m. |

Submitted By, Reviewed By,

Lynda Sloan, John Larson,

Administrative Support Administrator

EXHIBIT SUMMARY

A - HB 2803, Preliminary Staff Measure Summary, Staff, 1 p.

B - HB 2803, written testimony, John Glasscock, 4 pp.

C - HB 2803, written testimony, Jim Anderson, 6 pp.

D - HB 2803, written testimony, PacifiCorp, 4 pp.

E - Public purposes, written testimony, Mike Graine, 2 pp.