

**HOUSE COMMITTEE ON POWER DEREGULATION**

**March 25, 1997 Hearing Room E**

**1:00 P.M. Tapes 68 - 69**

**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**

**MEMBER EXCUSED:**

**STAFF PRESENT:**

**John Larson, Administrator**

**Julie Neburka, Asst. Administrator**

**Lynda Sloan, Administrative Support**

**MEASURE/ISSUES HEARD:**

**INFORMATIONAL MEETING ON STRANDED COSTS AND 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.**

<b>Tape/#</b>	<b>Speaker</b>	<b>Comments</b>
<b>Tape 68, A</b>		
001	Chair Welsh	Calls meeting to order at 1:17 p.m.
		General Manager, Umatilla Electric Cooperative, offers written testimony regarding stranded costs ( <b>EXHIBIT A</b> ). Discusses

009	Steve Eldrige	<ul style="list-style-type: none"> <li>* differences between investor-owned utilities and electric cooperatives</li> <li>* cooperatives exist solely to serve their owners/consumers</li> <li>* areas that could be stranded by deregulation: generation assets from Boardman Coal-Fired Plant and PNGC's Coffin Butte methane plant</li> </ul>
048	Rep. Hill	Asks whether those assets are sound investments today, irrespective of deregulation.
054	Eldrige	Says both plants above market price currently; says output from coal-fired plant being sold in California. Says methane plant was invested when tiered rates looked probable and because is renewable resource.
065	Rep. Hill	Suggests that regardless of restructuring, there is problem with cost of electricity produced by these investments.
068	Eldrige	<p>Says problems are possibility if contract for Boardman portion not honored. Discusses power sales contracts</p> <ul style="list-style-type: none"> <li>* Bonneville Power Administration contracts with all Oregon cooperatives are in effect through 2001</li> <li>* retail wheeling is violation of BPA contract</li> <li>* BPA would charge 3 - 5 mills kwh of lost sales due to retail wheeling; based on today's market</li> <li>* Bonneville's contracts are take or pay; PNGC contract also take or pay, but they will try to market power</li> </ul>
130	Eldrige	<p>Discusses bypass</p> <ul style="list-style-type: none"> <li>* largest issue for cooperatives</li> <li>* would strand millions of dollars for cooperatives</li> <li>* prevention of bypass by deterrent penalties</li> </ul>
<b><u>ISSUES DISCUSSED</u></b>		
154	Eldrige	<p>Discusses with Committee</p> <ul style="list-style-type: none"> <li>* electric cooperative membership rights and obligations</li> </ul>
200	Eldrige	<p>Discusses other areas that could become stranded</p> <ul style="list-style-type: none"> <li>* gross revenue taxes</li> <li>* city franchise taxes</li> <li>* universal service</li> </ul>

		* systems maintenance
<b><u>ISSUES DISCUSSED</u></b>		
217	Eldrige	<p>Discusses with Committee</p> <ul style="list-style-type: none"> <li>* obligations attached to federal funding, such as requirement for members to purchase energy from cooperative</li> <li>* 30 year pay-off on federal loans</li> <li>* right of membership to sell utility should necessity arise</li> <li>* average residential bill \$64 per month currently</li> <li>* under deregulated market, cooperative membership's bills likely to increase</li> </ul>
287	Eldrige	<p>Continues discussion with Committee</p> <ul style="list-style-type: none"> <li>* Umatilla Electric Cooperative model of deregulated utility</li> <li>* restructuring bringing new rules and regulations</li> <li>* quote from California SB 696, Chapter 5, Paragraph 2783, Section 2 which removes PUC oversight of cooperatives in California</li> </ul>
322	Eldrige	<p>Concludes testimony, saying to safeguard consumers legislate "solid, sound, reasonable, comprehensive law"; urges formation of technical committees to ensure all issues addressed. Also suggests finding a way to offer customer choice to those who want it.</p>
353	Rep. Welsh	<p>Asks if industrial customers presently pay less than residential customers.</p>
355	Eldrige	<p>Says yes, explains industrial customers have high load factor, pay higher percentage of investment, and portion of industrial usage used to buy block of inexpensive energy, and share savings with them, as well as lowering other customer rates.</p>
373	Rep. Welsh	<p>Asks percentage of industrial customers to other customers.</p>
374	Eldrige	<p>Says equal: 20 percent industrial, 20 percent residential, 45 percent irrigation, 15 percent small commercial retail businesses</p>
379	Welsh	<p>Asks if irrigation gets same rate as industrial.</p>
380	Eldrige	<p>Says no, because rates during high use period less than a penny, thus irrigators receive benefit of cost-based services. Says third issue is that nothing in legislation should affect right of self-governance.</p>
<b>Tape 69, A</b>		
001	Rep. Hill	<p>Asks if they will be in trouble if market continues to go down.</p>

008	Eldrige	Says he doesn't think they are in trouble.
012	Rep. Hill	Asks what happens if they have to take on Boardman without customers for the electricity.
019	Eldrige	Says several things to take into consideration in writing the law * allowing bypass will kill publics * competition not about fairness * stranded costs need to be taken care of in way not hurtful to cooperatives
060	Chair Welsh	Discusses work group progress; says he asked work group how they are going to take customer choice to their customers to represent them for their good.
078	Eldrige	Says don't make cooperatives uncompetitive by what comes out of the rules.
081	Chair Welsh	Says they need cooperatives to be represented in work groups
102	Ann Eakin	Vice-President of Regulation for PacifiCorp, presents written testimony on stranded costs ( <b>EXHIBIT B</b> ). Says presentation will include * PacifiCorp's definition of stranded costs * standards for recovery of stranded costs * specific proposal for recovery * estimate of PacifiCorp's stranded costs
122	Eakin	Discusses definition of stranded costs ( <b>EXHIBIT B, page 1</b> ). Discusses reasons for allowing recovery of stranded costs * obligation to serve, i.e., having resources available to serve every customer in service area * required acquisition of regulatory assets
144	Eakin	Discusses with Committee * certain costs included as regulatory assets * contracts required to be entered into by Public Utility Commission (PUC) * generation assets required to produce power
		Resumes testimony discussing stranded costs recovery ( <b>EXHIBIT B, page 2</b> ). Says recovery should include

174	Eakin	<ul style="list-style-type: none"> <li>* market power access</li> <li>* reduced complexity</li> <li>* some price stability</li> <li>* encouragement of efficiency</li> </ul>
203	Eakin	<p>Outlines PacifiCorp's proposal (<b>EXHIBIT B, page 4</b>)</p> <ul style="list-style-type: none"> <li>* five-year transition period with price ceiling on overall rates</li> <li>* utilities managing costs efficiently to recover costs during transition period</li> <li>* after five-year period only regulatory stranded costs recoverable</li> <li>* "market power credit" against price ceiling for customers who choose different power suppliers</li> </ul>
239	Rep. Hill	Asks where responsibility for PacifiCorp to mitigate stranded costs in market comes in.
246	Eakin	Says for generation assets, limit to five-year period; this provides incentive to mitigate during and after five-year period, because this plan does not allow 100 percent recovery of stranded costs.
257	Rep. Hill	Asks how to put stranded costs into context of the whole of power deregulation legislation.
258	Eakin	Says probably most appropriate to look at Oregon costs; outcome doesn't need to be same in every state.
295	Eakin	<p>Discusses PacifiCorp's exposure (<b>EXHIBIT B, page 5</b>)</p> <ul style="list-style-type: none"> <li>* likely market price scenario with 18 mills/kwh in 1998 growing at 4.5 percent/year amounts to \$800 million in Oregon</li> <li>* higher market price scenario with 19 mills/kwh in 1998, growing at 5 percent/year, \$350 million for Oregon</li> <li>* less "room" to capture additional efficiencies because prices already very low; previous write-offs for nuclear projects absorbed by share-holders</li> </ul>
360	Rep. Hill	Asks if looking for inclusion of proposal in legislation.
366	Eakin	Says they are looking for policy direction in legislation, that they have someone working on what might be proposed for legislative language.
373	Rep. Roberts	Says concerned about timeline; asks if PacifiCorp in same time range as expiration of Bonneville contracts and potential Federal legislation.
383	Eakin	Says they are still proposing customer choice by end of 2000, possibly with phase in beginning 1998. Says would be useful to have parameters or policy decisions sooner rather than later.

Tape 68, B		
001	Rep. Hill	Asks if PacifiCorp is in discussions with PUC about doing any retail wheeling projects like Portland General Electric.
007	Eakin	Says there is an option with PUC for utilities to unilaterally agree to open up service territory, but PacifiCorp prefers more orderly transition so that customers statewide get access at the same time. Says they have service territory in California which will be opened entirely in 1998. Says pilot program planned in Oregon service territory for early 1998 regardless of legislation.
028	John Glasscock	Representing American Association of Retired Persons, presents written testimony opposing recovery of stranded costs via consumers ( <b>EXHIBIT C</b> ).
078	John Glasscock	Continues testimony.
106	Rep. Hill	Asks how PUC can be expected to look out for the best interest of rate payers today when it was PUC policies that required utilities to enter some of the same contracts which are the cause of these stranded costs.
114	Glasscock	Says bad judgments made by many over past several years, that electric needs were overestimated, and things that were not prudent were done. Says important to build parameters into legislation to deal with stranded costs.
127	Harvey Rogers	Attorney on behalf of Oregon Public Utility Districts Association, presents written testimony concerning stranded costs ( <b>EXHIBIT D</b> ). Discusses costs not now existing but that might result from "precipitous deregulation of Oregon's power industry." Makes "seven interesting points" as outlined in Exhibit D.
175	Rogers	Continues testimony.
207	Rogers	Concludes testimony. Notes article from <i>The Bond Buyer</i> ( <b>EXHIBIT D, page 2</b> ). Says article suggests curing the problem he alluded to may require act of Congress, which would be necessary to protect outstanding bonds and perhaps to override IRS actions in May.
216	Rep. Hill	Asks if Rogers has figures on amount financed.
220	Rogers	Says he does not but might be possible to develop it. Says OPUDA, any municipal facilities, and possibly Oregon Department of Energy's small scale energy loan program will be affected. Says existing regulations not likely to apply when IRS applies new rules, but demonstrate complexity of rules. Suggests consulting with Attorney General's office regarding provision that requires funding mandates to local governments.
257	Rep. Wooten	Requests staff to find out value of bonds now issued through municipals and PUDs for financing distribution, and their interpretation and anticipated response to IRS rulings.
269	Rep. Milne	Says she agrees with Rep. Wooten regarding getting more information.
		Government Affairs Coordinator for Eugene Water and Electric Board

288	Libby Henry	(EWEB), presents written testimony advocating recovery of stranded costs ( <b>EXHIBIT E</b> ).
292	Dale Kessenger	Senior Rates and Financial Analyst for EWEB, offers testimony concerning stranded costs. Outlines nine reasons recovery should be allowed ( <b>EXHIBIT E, page 1</b> ).  * Costs were incurred out of EWEB's obligation to serve its customers.  * Governing bodies of utilities not regulated by PUC should retain authority to establish and collect stranded costs; divestiture of assets should not be forced on publicly-owned utilities  * Recovery of stranded costs passed down from BPA should be allowed.  * Recovery of stranded costs, except those from BPA, should be limited to defined transition period.
352	Kessenger	Continues testimony on stranded costs.  * There should be flexibility in period of time for which stranded costs are calculated.  * Recovery of stranded costs should be fair to all customer classes, and no bypass should be allowed.
386	Chair Welsh	Asks how a situation should be dealt with where a single large customer or an aggregated block can prove they are being economically disadvantaged by disparities, and after proving that could access another distribution system.
<b>Tape 68, B</b>		
009	Kessenger	Says would it be incumbent on regulators to ensure disparities don't exist. Suggests mandating in legislation that rates avoid cross-subsidization and result in fair allocation of costs.
028	Kessenger	Resumes testimony ( <b>EXHIBIT E, page 2</b> ).  * Stranded costs should be recovered from customers in manner consistent with way customers have caused such costs to be incurred.  * Common market price forecast should be used by all utilities to calculate stranded costs.
059	Rep. Wooten	Ask if they have set of assumptions they use now to forecast costs for own purposes.
062	Kessenger	Says do have model.
065	Rep. Wooten	Asks what amount of stranded costs from Trojan are forecast for EWEB.
070	Kessenger	Says BPA has contractual obligation to reimburse EWEB for Trojan costs, and those costs are not included in stranded costs calculations. Says he

		doesn't know what would happen if Bonneville was not able to fulfill its obligation.
083	Rep. Wooten	Asks estimate of Trojan cost.
085	Kessenger	Says believes amount is around \$270 million.
087	Henry	Says that contract obligation shifted to Bonneville for them to have benefit of Trojan power, which is a net billing arrangement. Says EWEB gave up its right to Trojan power, and Bonneville has been selling that power since. Says that is first priority of repayment for Bonneville, and EWEB doesn't anticipate that liability coming back to them.
095	Kessenger	Says they have questions concerning BPA's continued ability to recover costs of its obligations in competitive market environment. Says largest share of EWEB's stranded cost exposure is with purchased power contracts that expire in 2001. Says their hydro resources are very low cost.
109	Rep. Wooten	Asks about EWEB's current arrangement with BPA regarding their payment on stranded Trojan costs.
112	Kessenger	Says doesn't affect EWEB as long as they pay.
120	Kessenger	Concludes testimony, saying utilities should be allowed to recover demand side management costs that are at risk of recovery in a deregulated generation market.
158	Rep. Wooten	Asks portion of municipal bonds issued that could be attributable to EWEB's distribution costs.
168	Kessenger	Says he doesn't have exact figure but will provide.
188	Pamela Lesh	Vice-President of Rates and Regulatory Affairs for Portland General Electric, presents written testimony concerning stranded costs ( <b>EXHIBIT F</b> ). Says they have no stranded or transitions costs at present; they will only exist if customers in service territory have opportunity to buy from someone else.
229	Lesh	Continues testimony discussing ( <b>EXHIBIT F, page 2</b> )  * regulatory costs which occur in several categories, such as conservation and Trojan investment  * environmental remediation costs, which are mandated at State or Federal level  * PURPA contracts and other mandated purchases and investments
281	Lesh	Continues testimony discussing ( <b>EXHIBIT F, page 3</b> )  * uneconomic resources, which may be plants they own or contracts to buy from other utilities  * two reasons for stranded costs associated with operating resources: technological improvements and excess power



320	Lesh	Suggests some principles regarding transition costs for inclusion in restructuring bill.
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1. There should be an opportunity to recover full amount of prudently incurred mitigated transition costs.
2. The bill should set parameters for mitigation of costs. Discusses what they believe mitigation is and is not.
3. Recovery of transition costs needs flexibility in proving costs associated with generating resources and in recovery of established amount of transition costs.
4. Bill should include tools to make recovery of transition costs as inexpensive as possible for customers.

415 Chair      Notes that OSPIRG representative handed in written testimony (**EXHIBIT G**).  
 Welsh      Adjourns meeting at 3:07 p.m.

Submitted By, Reviewed By,

Lynda Sloan, John Larson,  
 Administrative Support Administrator

**EXHIBIT SUMMARY**

- A - Written testimony, Steve Eldrige, 4 pp.**
- B - Written testimony, Ann Eakin, 9 pp.**
- C - Written testimony, John Glasscock, 2 pp.**
- D - Written testimony, Harvey Rogers, 5 pp.**
- E - Written testimony, Libby Henry, 2 pp.**
- F - Written testimony, Pamela Lesh, 4 pp.**
- G - Written testimony, Chris Taylor, 2 pp.**