

HOUSE COMMITTEE ON POWER DEREGULATION WORK GROUP

April 7, 1997 Hearing Room 137

1:00 p.m. Tapes 99 - 102

MEMBERS PRESENT:

Rep. Jim Welsh, Chair

MEMBERS OF PUBLIC PRESENT:

Sarah Baker-Sifford, Oregon Rural Electric Cooperative Association

Gary Conkling, Oregon Energy Coalition

Diane Cowan, Oregon People's Utility District Association

James Deason, Eugene Water and Electric Board

Jay Dudley, Portland General Electric

Jason Eisdorfer, Fair and Clean Energy Coalition

Bruce Hellebuyck, Portland General Electric

Libby Henry, Eugene Water and Electric Board

Denise McPhail, Portland General Electric

Steve Munson, Vulcan Power Company

Paul Murphy, PG and E Energy Service and others

John Savage, Office of Energy

Jim Tarpey, Enron

Brad VanCleve, Oregon Energy Coalition

Bill Warren, Oregon Public Utility Commission

Steven Weiss, Fair and Clean Energy Coalition

STAFF PRESENT:

John Larson, Administrator

Lynda Sloan, Administrative Support

MEASURE/ISSUES HEARD:

DEVELOPMENT OF A CONSENSUS BILL

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 99, A		
001	John Larson	Calls meeting to order at 1:20 p.m. States topic is stranded costs. Notes correction to last meeting's summary concerning stranded costs.
026	Larson	Asks for groups to present propositions for dealing with stranded costs.
036	Jay Dudley	<p>Discusses handling transition costs in deregulation and presents PGE proposal.</p> <ul style="list-style-type: none"> * Disagrees about shareholders' risks; says always has been opportunity for return on prudently made investments. * Says Strawman proposal is equivalent of giving away half of investment, with opportunity for return only on other half. * Competition should provide benefits to all customers. * Proposal is to look at and perhaps lengthen transition period to allow transition costs to be set in a way to allow both free competition and have immediate benefits for customers. Also will allow securitizing transition costs, which would provide further benefits to customers. Urges program that permits Public Utility Commission (PUC) flexibility in setting transition costs and plans for cost recovery (EXHIBIT A).
110	Brad VanCleve	Comments on PGE proposal. Says he thinks intent in Strawman bill is that transition charge relates to uneconomic power supplies; not sure applies to investment in distribution system, which is recovered through cost based charge.
120	Dudley	Disagrees with VanCleve.
125	Denise McPhail	Says 50 percent taking from existing shareholders makes it difficult and expensive to attract new investors.
130	VanCleve	Says stranded costs calculations are confined to past investments; full cost recovery allowed on distribution system investments.
135	Dudley	Says investors will see their investments written off with no return and no assurance that it will not happen again.
143	Steven Weiss	Notes that in proposal PGE suggests there would be no uncertainty associated with valuation determined through arms-length sale. Asks if they are recommending arms-length sale as requirement in determination of stranded costs. Asks, since they want 100 percent recovery and if the sale came out above book, whether they would then return 100 percent to rate payers.

164	Dudley	Says arms-length sale part of flexibility in dealing with transition costs. Negative stranded costs (recovery above market value) would be returned to ratepayers.
186	Weiss	Asks if Enron offer so different from the Enron premium that it would not be included in this.
198	Dudley	Says different issue.
200	Larson	Suggests that group appears to favor advising PUC in developing guidelines for dealing with stranded costs.
205	Jason Eisdorfer	Agrees, and suggests that determining principles would be best use of time.
222	Eisdorfer	Presents new principles for starting place on stranded costs (EXHIBIT B).
244	Work Group	Discusses principle 1. <ul style="list-style-type: none"> * customers better off with legislation than without * benefits for small customers * protection mechanisms against increased risk * Market may not benefit all customers at same time
306	Work Group	Continues discussing principle 1. <ul style="list-style-type: none"> * benefits to default customers also; may not be their choice not to participate * equitable distribution of benefits * no time period or time limit
358	Work Group	Discusses methods of stranded costs recovery. <ul style="list-style-type: none"> * PUC engineering rate reduction coupled with stranded costs recovery by stretching recovery period, disallowing portion of stranded costs, or combination of both * lowering costs of stranded cost recovery through securitization of recovery amount, which is focus of separate bill introduced by PGE * no price decrease for default customers, but default customer no worse off with direct access
Tape 100, A		
001	Work Group	Continues discussion of stranded costs <ul style="list-style-type: none"> * belief that benefits will result from competition * concern that least advantaged not likely to benefit

050	Work Group	Continues discussion of stranded costs.
065	Dudley	Asks if principle #1 would be satisfied if transition costs were spread over longer period and IOUs were allowed to securitize costs to make them lower.
070	Work Group	Discusses whether one principle should deal with impacts on customer rates * suggestion that principle could be either better off or no harm * rate setting or freeze might be problem for Bonneville and IOUs * principle with direction to Commission to consider impact on customer rates * narrow principle to impact on default customers
120	Warren	Discusses Section 9 issue, market based rate option as possibility for default customers.
136	Larson	Asks if there should be a principle related to impact on default customer rates:
139	Work Group	Discusses question. * concern about no harm standard that less sophisticated customers may not see benefits of competition * Making choice not to be involved in competition is choice not to get benefits. * Ability to go to market, with default option, is being better off.
193	Eisdorfer	Says sharing stranded costs is appropriate, which would likely result in rate decrease. Feels no harm standard wrong approach, that residential and small business customers will not benefit in short term. Says choice has to be meaningful to provide benefit.
219	Work Group	Discusses Eisdorfer's concerns * ability for customer to choose between market-based and cost-based rates to gain benefits * sharing of stranded costs
245	Larson	Suggests changing language to say rates to default customers will not go up during transition period.
260	Work Group	Discusses suggestion. * instructions to PUC that rates can't go higher * rate freezes difficult, markets unpredictable
310	Weiss	Discusses Principle 2. * most stranded costs generation related

		* Allocations should reflect class costs from which costs originated, not just be treated as percentage of revenues.
360	Work Group	Continues discussion. * no shift of responsibility for recovery through labeling as stranded costs * stranded costs not allocated according to present marginal cost analysis
Tape 99, B		
001	Work Group	Continues discussion concerning stranded costs allocation.
050	Work Group	Continues discussion of stranded costs allocation.
085	Larson	Moves to Principle 3.
087	Weiss	Discusses Principle 3. * long-term valuation of assets, netted against other stranded costs
096	Hellebuyck	Says when valuing assets, look at life of asset, both above and below market, net both types.
100	Deason	Says whose numbers used affects stranded costs amounts; need to be more specific in indexing.
109	Work Group	Discusses Principle 3. * concern about effects on consumer owned utilities * placeholder section with understanding discussion will continue
142	Eisdorfer	Suggests looking at all principles and determining which need to be included, and discuss details later.
163	Hellebuyck	Suggests language for principle. * Valuation would look at assets over life of asset, and assets with positive stranded costs and negative stranded costs would both be included, above and below market assets included.
166	Work Group	Discusses suggested language.
229	Larson	Asks Eisdorfer to develop principle using issue on the page and ensuing discussion.
241	Weiss	Introduces Principle 4 and discusses with Work Group. * equitable sharing of stranded costs or capital gains between customers and shareholders * parameters and policy decision suggestions for PUC

		* method of calculating stranded costs tied to T-bill rate
310	Work Group	Continues discussing Principle 4. * language about equitable sharing insufficient for PUC guidance * PGE and PacifiCorp see sharing as taking.
360	Work Group	Continues discussing Principle 4. * without 100 percent stranded costs recovery, IOUs can't agree
365	Larson	Asks if can be accomplished in way not offensive to utilities but accomplishes objectives.
391	Eisdorfer	Says 100 percent may be offensive to them; asks if sharing or non-sharing is PUC decision or legislative decision.
400	Warren	Points out that clear direction from legislature to PUC is more sustainable in court against potential challenges.
404	Paul Murphy	Says what constitutes sharing may not be clear to all. * Many issues will have to be dealt with in regulatory framework. * Need to decide what kind of advice legislature gives to PUC.
Tape 100, B		
012	Weiss	Notes this is most political issue and committee may need to work it out. Quotes governor's principle number 7: "Any policies which allow for recovery of stranded costs should provide incentives to utilities to reduce those costs, allow for an equitable sharing of those costs, and not discourage competition."
028	Work Group	Continues discussion. * suggested PUC guidelines might include: facilitating competitive service markets, unreasonable financial impacts on utilities, nature of stranded cost, impact on customer rates * creating floor/ceiling for impacts
061	Dudley	Says anything that suggests sharing or potential for Commission to establish sharing is unacceptable to IOUs.
072	Work Group	Discusses IOU position on stranded costs recovery.
118	Larson	Suggests discussing Principle 5.
130	Weiss	Introduces Principle 5 * need to determine what stranded costs charges are based on; i.e., historical or forward looking * no cost shifting among classes when customers escape costs, such as by

		going out of business, drop in usage
180	Work Group	Continues discussing Principle 5. * change term bypass to uncollectable stranded costs * set reasonable rates that could cover potential uncollectable costs * industrial customer most likely to have uncollectable stranded costs
230	Work Group	Continues discussing Principle 5. * methods for recovery of stranded costs
280	Work Group	Continues discussing Principle 5.
Tape is blank from 300.		
Tape 101, A		
001	Chair Welsh	Moves to Principle 6.
009	Weiss	Introduces Principle 6 and discusses with Work Group. * national issue * stranded cost recovery not protecting old resources which do not meet current pollution standards
070	Work Group	Work Group continues discussing Principle 6. * not allowing creation of future stranded costs
120	Work Group	Continues discussing Principle 6. * no stranded cost mechanism that allows uneconomical plant to continue to run * mitigation obligation
175	Weiss	Agrees to rework portion of Principle 6 concerning stranded costs mechanism for recovery on uneconomical resources.
185	Dudley	Asks for clarification of first sentence, ". . . nor punish utilities for investment . . ."
189	Weiss	Explains this section intended to provide full stranded costs recovery for continuing commitments made during interim from 1994 to effective date of 3 percent public purposes charge to develop renewable resources while cost lease plans in effect.

208	Steve Munson	Supports stranded costs recovery for renewables. Notes also supported by PUC, per staff report of March 25, 1994, which he quotes from. Suggests including costs recovery of renewable resource acquisitions be included in bill for transition period.
225	Weiss	Introduces Principle 7, direction to PUC to encourage mitigation of stranded costs. Suggests wording change to "provide incentives to utilities to mitigate stranded costs."
239 289	Work Group	Discusses Principle 7. * incentives to encourage mitigation * 50/50 sharing to ensure everyone has financial stake in mitigating costs
335	Work Group	Continues discussing Principle 7. * Some assets of utilities valued higher or lower than book. * Stranded costs/benefits should be symmetrical.
385	Work Group	Continues discussing Principle 7. * Ongoing true-up takes away incentive to mitigate unless there is sharing. * suggestion to set recovery level, share mitigation of costs between company and customer * stranded costs amount determined, assuming aggressive mitigation
Tape 102, A		
002	Tarpey	Says successful mitigation includes cost avoidance.
011	Weiss	Asks if principle is acceptable if mechanism is not specified, but ultimate mechanism encourages mitigation.
016	Savage	Notes section concerning mitigation has been agreed on subject to clarification regarding duty to mitigate.
026	Weiss	Introduces Principle 8 regarding mechanism encouraging competitive market.
040	Weiss	Introduces Principle 9, combined with default provider, and should not prevent or provide disincentives for residential and small farm customers to purchase power from BPA or limit ability for future purchase from BPA
066	Work Group	Discusses Principle 9. * maintenance of right of purchase from BPA without rate increase * necessity to keep Bonneville power rates reasonable * preservation of right to purchase from Bonneville
110	Work	Continues discussing Principle 9.

	Group	
140	Chair Welsh	Suggests moving to new presentation.
143	Conkling	Comments on areas of disagreement.
155	Chair Welsh	Responds to comments.
176	Jim Deason	Discusses Eugene Water and Electric Board (EWEB) proposal. Changes based on four areas: * authorization to impose stranded costs charges to recover charges associated with departing customers * methodologies based on individual circumstances * recovery charge up to 100 percent of net verifiable costs * limited period of recovery; exception for stranded costs imposed on COUs outside five year window, as determined by governing body
218	Chair Welsh	Asks if language intended to encompass IOU language also.
221	Deason	Refers to Section 3 which deals with IOUs. Notes modifications made to definition of transition charge. Says they did not deal with definition of uneconomic utility investment.
233	Chair Welsh	Suggests working through language of EWEB presentation.
244	Work Group	Discusses EWEB presentation. * length and scope of recovery period * Netting depends on what is included in uneconomic investment. * whether transition charge would be permitted for utility whose costs substantially below market
294	Work Group	Continues discussion of EWEB presentation. * Length of recovery period affects amount of charges. * proposal written with five-year window; need to rewrite based on how recovery period lengthened
351	Work Group	Continues discussing EWEB presentation. * suggestion to encourage costs mitigation for both COUs and IOUs * COUs always obligated to mitigate

		<p>* Less than 100 percent recovery for COUs results in rate increase to remaining customers.</p> <p>* IOUs note they are also on cost-based rate making principles; no reason to distinguish between types of utilities regarding duty to mitigate</p>
414	Eisdorfer	Comments on EWEB's proposed amendment to Section 18.1 , Electric utilities, which includes investor owned utilities. Suggests changing "impose" back to "propose".
Tape 101, B		
001	Work Group	<p>Discusses Section 18.1.</p> <p>* making sections consistent</p> <p>* suggestion to change language to reflect PUC to oversee IOUs and governing bodies for other utilities</p> <p>* language concerning potential failure to meet contractual obligations</p>
050	Work Group	<p>Continues discussing EWEB's proposed amendments.</p> <p>* Utility means all types of electric utilities.</p> <p>* suggestion to change language to apply only to COUs</p>
100	Work Group	<p>Continues discussion of EWEB's proposed amendments.</p> <p>* effect of arbitrary window without stated amount</p> <p>* need for flexibility in collection or identification in collection of stranded costs</p>
150	Work Group	<p>Continues discussing EWEB's proposed amendments.</p> <p>* Collection of transition charge not inconsistent with competition if non-discriminatory and impacts all consumers.</p> <p>* suggestion to include definition of recoverable charges for COUs imposed outside recovery period time frame</p> <p>* recommendation to strike all of 18. 1; allow window to be reopened to pass stranded costs through</p>
207	Work Group	<p>Continues discussion of proposed amendments.</p> <p>* flexible nature of window of recovery; depends on nature of contracts with Bonneville</p> <p>* obligations to mitigate Bonneville contracts</p>

		* Most Bonneville power sale contracts expire in 2001.
252	Chair Welsh	Comments on expiration of Bonneville contracts and impact on utilities with whom it contracts.
272	Eisdorfer	Asks if Bonneville will be able to impose new stranded costs charges on customers after current contracts have expired, when open access has begun and new contracts, possibly with other suppliers, have been negotiated.
292	Deason	Says that is the reason many COUs request BPA make its stranded costs determinations now. Says if decision is made after open access begins, they feel fair to impose those charges on customers.
303	Conkling	Says COUs should have legal support to negotiate beneficial contracts for both utility and consumers that also don't allow costs that can be avoided.
326	Work Group	Discusses Conkling's comments.
375	Hellebuyck	Discusses similar situation on IOU side. Suggests method for dealing with these types of stranded costs without price increase for specified period of time.
422	Larson	Reads question for vote: "Should any stranded cost imposed by BPA on a COU outside any window for recovery established by statute have the effect of opening the window for recovery of those costs?"
Tape 102, B		
006	Deason	Says okay as general statement of policy.
007	Work Group	Discusses question and suggests modification.
034	Larson	Suggests changing question to read: "Should any stranded cost imposed by BPA on a COU as a consequence of legal obligations incurred prior to the effective date of this Act outside any window for recovery?"
043	Vote	4-1 , in favor
044	Work Group	Discusses vote.
063	Chair Welsh	Asks vote on Section 18.2 as written.
066	Vote	5-0 , in favor
067	Work Group	Discusses vote and schedule for remainder of week.

115 Work Group Continues discussing schedule.

150 Welsh Adjourns meeting 5:10 p.m.

Submitted By, Reviewed By,

Lynda Sloan John Larson

Administrative Support Administrator

EXHIBIT SUMMARY

A - Written materials, Portland General Electric, 3 pp.

B - Written materials, Fair and Clean Energy Coalition, 1 p.