

# Restructuring Electricity Markets: Let the Future Begin!

by Pamela Lesh

Portland General Electric (PGE) supports Oregon's electricity restructuring plan for retail electric service because we believe restructuring brings numerous benefits to our customers, the environment, and our company.

PGE is Oregon's largest electric utility, serving more than 730,000 customers in a 3,150 square mile area in western Oregon. We are an investor owned utility, which means we raise and invest private equity capital to build the infrastructure necessary to provide our customers with safe and reliable electric service. This infrastructure consists of generation, transmission and distribution facilities, some of which date back to the turn of the last century. We are proud of our more than 100 years of service in Oregon and our strong customer service record, which includes one of the lowest at-fault complaint histories among all Oregon utilities.

Perhaps because of our long history, change is no stranger to us. We have seen many changes during our years of service to Oregon: changes in technology, in public policy, and in consumers' expectations. No one policy, group decision, or individual action has singly effected these changes; on the contrary, they have been the result of many forces. Electricity restructuring is no exception.

The roots of restructuring date back to the 1970s, when technological advances made possible relatively small-scale genera-

tors capable of producing electricity at a cost equal to or less than that of the large, central generating station upon which the industry was relying. These advances led to a political change that allowed companies without customers to build generators, and enabled utilities with customers to buy the output of these non-utility plants. Significant transmission investments opened the doors to the movement of excess power resources from one region to another. With statutory and regulatory changes designed to make access to this transmission available to all, wholesale markets began to grow around these independently owned, excess power resources. When prices in wholesale markets dropped below prices in the still-regulated retail markets, industrial customers represented by Associated Oregon Industries and Industrial Customers of Northwest Utilities began to request access to the wholesale markets, and restructuring was born.

PGE has worked toward achieving a restructured electricity market since 1996. Through the separation of customer classes and services (unbundling), we believed we could provide customers with a better product and operate more efficiently.

In 1997, PGE designed and implemented an experimental program offering both individual and commercial customers in four western Oregon communities the ability to choose different electric

service providers. We worked on the principles of restructuring legislation in the 1997 Legislative session and, in the 1999 session, helped pass SB 1149, the statutory portion of Oregon's restructuring plan. The rules and programs developed since SB 1149's passage helped round out the plan. To PGE, the plan's key elements are:

- The division of retail electric service into several distinct services that have different characteristics and costs. (*unbundling—see glossary -ed.*)
- A system which allows individuals and commercial consumers to choose a new supplier or remain with their existing one.
- A mechanism for funding important investments in energy efficiency and renewable power sources to support greater competition and innovation.

of Oregon's electricity industry. Restructuring is the necessary first step toward an energy marketplace driven by the results that customers want from energy, not by the promotion and sale of energy itself. In many sectors of our economy and for many products and services, we have learned that one size does not fit all. Without restructuring, however, utilities have a very limited opportunity to respond to individual needs for energy usage. Oregon's approach to restructuring encourages customer input without threatening the safety or reliability our customers have come to expect from us. These customers will control the pace of change, ultimately demanding innovation rather than having it thrust upon them.

So, why is innovation good for customers? This is the path—the only path, we believe—to reaching the maximum value

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When PGE began to implement Oregon's restructuring plan, we had two goals: promoting innovation in retail electric service and preserving those features of the existing electric service which customers valued most.

Fundamentally, these are the reasons we support restructuring

from the use of energy. Oregon's plan launches a measured transition from energy investment decisions made by utilities and regulators to decisions made by customers. Restructuring moves us toward less waste and greater efficiency; this approach lowers cost significantly. Because deci-

## Restructuring in Oregon

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sions about how to generate power can have effects lasting more than 50 years, it is critically important to begin the transition to customer-made decisions as soon as possible. Oregon cannot afford another round of 50-year decisions made by others on behalf of electricity customers—such as decisions to build large central generating plants that customers must support regardless of how technology or needs change.

How is electricity restructuring good for the environment? One key is reducing waste by increasing the efficiency of markets. The western United States, including Oregon, increased efficiency considerably after the passage of the Energy Act in 1992, when utilities began to share excess power at the wholesale level. The next big advances in efficiency will require that we link retail customers more closely to the wholesale market and that we provide services that enable customers to get the results they want from these purchases.

How is restructuring good for PGE? We want to evolve too. We want to embrace the values and trends emerging in our communities, not work against them. We are at a crossroads and must choose between two paths: one that allows us to try new things

and one that would require us to adhere to old policies and blend into a regulated background. A great example of a similar “crossroads moment” occurred when buggy manufacturers faced a disruptive change in the form of the automobile. If they saw themselves only as buggy manufacturers, advances in technology eventually caused their

demise. Those who saw themselves in the business of “getting people where they wanted to go” successfully evolved their companies to fit the new reality.

Many in today’s society value individual control and self-determination, environmental protection, and obtaining more from less.

Whether PGE participates in restructuring or not, we realize that our customers must have more ways to achieve the results they want from energy. We would rather support our customers than distance ourselves from their desire to meet their individual needs.

PGE wants to go one step further. We want not only to broaden our view from the “electricity business” to the “energy service business,” but also to define that energy service business in terms of results, not products. In our view, being part of the energy service business is also not enough. To use the horse-

and-buggy analogy again, we want the opportunity to be in the business of “getting people where they want to go.”

Our efforts to change the way we do business have recently experienced setbacks, however. During the 2001 Legislative session, great concern arose about whether Oregon should proceed with restructuring. Our state legislators were greeted by daily headlines about California’s problems following the launch of its deregulation plan in 1998. At the same time, there were warnings of serious power supply shortages throughout the West, and wholesale power markets became more unpredictable than dot-com stocks.

PGE supported a short delay in Oregon’s original restructuring start date of October 1, 2001, because of the magnitude of

these issues in the energy industry and the potential that consumers would confuse Oregon’s restructuring plan with other industry events. By supporting a delay of implementation until March 1, 2002, PGE could focus on communicating with customers about the more immediate issues of power

supplies, prices, and solutions to the energy crunch. Communicating about restructuring during this time would have been distracting. Restructuring is about changing Oregon’s energy policy for the long term. Its goals are well worth a few months’ wait.

How does Oregon’s restructuring plan differ from California’s

deregulation plan? The most significant difference is the driver of change. In California, the State Legislature and regulators made numerous decisions for customers, designing a short-term market for utility-provided retail electric service and mandating the sale of utilities’ existing generation resources. In Oregon, customers will make decisions for themselves. Every customer will stay with a utility-provided electric service much like their existing service—unless they actively choose otherwise. Every customer will retain the economic and physical benefits of utilities’ existing generation unless the Oregon Public Utility

Commission approves a change in the amount, nature or mix of that generation. PGE will continue to plan and acquire supplies for our customers until we receive notice that an individual customer does not want us to plan and acquire supply on his or her behalf. And, of course, Oregon utilities will not be required to sell their generating plants.

Oregon’s restructuring plan will not change the world overnight—for better or for worse. Restructuring only establishes a foundation for change. Whether change occurs and, if so, how extensive it will be, is largely in the hands of our customers and the new energy entrepreneurs who will enter the marketplace. We plan to play a key role in finding innovative products and services we can deliver to customers to increase the value they receive from us. We have already launched a new service that significantly eases the process of disconnecting and reconnecting utilities during a move ([www.TownPartner.com](http://www.TownPartner.com)). We are offering products that facilitate the use of on-site generation and

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