



# Energy in Oregon and the Pacific Northwest

## Introduction to Electricity Policy Issue

By Jeff Hammarlund, Mark Hatfield School of Government

**M**ost of us prefer to spend our time thinking about things other than electricity policy. So long as our lights, computers, and appliances turn on, our beer

stays cold, and our power bills don't go through the roof, we are quite content to let the experts take care of it.

This reaction is understandable—electricity policy is undeniably complicated. The common analogies, rules of the game, and other shortcuts that most people use to understand public policy don't always work here. Electricity policy is all the more difficult for both policymakers and lay citizens to understand because of the protective wrapping of techno-babble the specialists have bestowed upon it.

Still, electricity is the most widely consumed product or service in the U.S. and every other industrialized country. As a nation, we spend more per capita on electricity than we do on most big-ticket items such as automobiles, telecommunications, or college tuition. History has shown that our inclination to leave energy policy solely to the experts can lead to serious problems. And so, the staff of *Oregon's Future* asked me to put together a forum that explains many of the issues rele-

vant to all of us who, just by flipping a light switch, make choices that will affect the economy and environment of Oregon and the Pacific Northwest.

When our neighbors to the south experienced waves of rolling blackouts last year, they learned that electricity is the essential oxygen of economic life in a modern technological society. Those of us in Oregon who thought we had a better approach than California's hapless experiment with electricity deregulation also learned a valuable lesson—the massive transmission grid that crisscrosses the Western states guarantees that a major energy crisis does not stop at any one state's borders, particularly if that state is as large and powerful as California. The crisis in California rolled up the coast like a tidal wave, wreaking havoc on our economy and overwhelming our carefully crafted energy policies.

Headline-grabbing energy crises throughout the West and Enron's current bankruptcy are not isolated incidents. They are unintended consequences of a

major transformation of our electric utility industry that began more than two decades ago. Federal legislation passed in 1978 and 1992 opened the door for the most important changes in the



generation, sale, and transmission of electricity at the wholesale level where the Federal Energy Regulatory Commission (FERC) is the primary regulator. The basic shift has been away from cost-based rates and toward market-based rates created by a competitive bidding process.

In general, these laws and other federal actions also shifted more regulatory responsibilities for electricity from the states to the federal government. So far, however, Congress has decided to leave the question of whether to encourage or require competition at the retail level to each state. At this point, 24 states and the District of Columbia have adopted or experimented with some form of retail competition with varying degrees of success.

Just as Enron's bankruptcy has cast a pall on the whole notion of electricity trading at the wholesale level, California's unfortunate experience with competition at both the retail and wholesale levels placed a dark cloud over Oregon's efforts to develop its own approach to retail choice. California's failure raises important questions about how relevant the causes of California's problems are to Oregon. **Steve Grover**, a Ph.D. economist with ECONorthwest, and **Michael Warwick**, Senior Research Scientist at Battelle-Pacific Northwest National Laboratory, have tackled this formidable subject for *Oregon's Future*, illuminating cause and effect and the unfortunate conflicts between good intentions, human nature, and economic theory.

Despite the problems in California, Oregon launched its own approach to retail choice on March 1 of this year. The new plan will not affect those Oregonians who are served by



consumer-owned utilities, but will apply to the 70 percent of the state that is served by Portland General Electric and Pacific Power. If it succeeds, Oregon may become a model for other states that have become disenchanted with more radical electricity restructuring schemes. Since many readers are about to experience firsthand what the Oregon plan's supporters call the "portfolio model" and its detractors call "deregulation lite," we offer six articles that explore the plan's background, pros, cons, and implications.

I begin by placing our state's debate about electricity restructuring in a historical context. It turns out that this is not the first time Oregon has played an influential role as energy innovator. **Congressman Peter DeFazio** reminds us that not everyone is happy with many of the changes that have taken place in the electricity industry in recent years. The man who voted against the key legislation that encouraged wholesale electricity restructuring in 1992 tells us why he also is opposed to Oregon's plan for even limited retail competition. Our next two contributors, **Julie Brandis** of Associated Oregon Industries and **Ken Cannon**, Executive Director of the Industrial Customers of Northwest Utilities, explain why they campaigned to give some of our state's most enthusiastic advocates of retail competition the opportunity to buy on the open market. Three non-utility electricity marketers have been state-

certified to offer electricity to Oregon's larger industrial and commercial customers while others continue to seek certification. However, both the electricity marketers and many of their potential customers are now complaining that the initial high transition or "exit" fees the utilities would impose on these customers would eliminate any potential cost advantages.

**Pamela G. Lesh**, Vice President of Public Policy and Regulatory Affairs at Portland General Electric, is one of the state's and region's most impressive and experienced energy policy innovators. She explains the position of Oregon's largest utility on electricity restructuring and retail choice. **Jason Eisdorfer**, Legal Counsel for the Citizens' Utility Board, explains how and why this utility watchdog group influenced and ultimately supported Oregon's plan.

The Organizing Director of the Fair and Clean Energy Coalition, consisting of nearly 120 of the state's consumer advocacy, environmental, human service, and faith-based groups, is **Jeff Bissonnette**. Jeff recounts the remarkable story of how this unusual coalition of stakeholders, which ultimately grew to include the state's industrial customers

and investor-owned utilities, managed to agree on a plan unlike anything else in the country, get it passed by the state legislature, and finally defend it from those intent on derailing its implementation after California's problems surfaced.

One significant issue that Oregon's restructuring plan cannot address is that salmon have borne the cost of the inexpensive hydropower that has attracted major energy-intensive industries to the Pacific Northwest. Cheap and abundant power has transformed Oregon and the region from an economic backwater into a major economic player. As a multiple-use river, the Columbia offers many benefits including irrigation, navigation, flood con-



trol, recreation, hydropower, municipal and industrial water supply, and critical habitat for fish and wildlife. A political constituency has developed around each, rarely leaving enough water to satisfy

competing demands.

**Don Sampson**, Executive Director of the Columbia River Intertribal Fish Commission, provides a critique of how federal agencies operated the dams during last year's drought and offers an alternative "Tribal Energy Vision." **Scott Corwin**, Governmental Affairs Manager for the Pacific Northwest Generating Cooperative, argues that the "fish vs. power" dichotomy is misleading, and that "degrading our power system" is not the "silver bullet of salmon recovery." **Eric Bloch**, one of two Oregon members of the Northwest Power Planning Council, offers his insights on why the Council's

efforts to achieve equity for salmon recovery and hydropower production required by the Northwest Power Act of 1980 have been so difficult, and how the Council is addressing this dilemma.

While we have our hands full attempting to balance the Columbia's hydropower with other important uses of the river, businesses and

industries in other parts of the country have become jealous of our region's low-cost hydropower, particularly the two-thirds of it produced by the 30 federal dams

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in the Northwest and marketed by Bonneville Power Administration (BPA). The 1937 law that created BPA as a federal power marketing administration (PMA) required that the agency base its wholesale rates on the actual costs of producing and transmitting the

Among BPA's most aggressive critics is the Northeast-Midwest Institute. This policy institute supports the coalitions of congressional House and Senate members who represent these regions. Together, they are attempting to pass legislation to

our region's low-cost hydropower, the fact is that BPA's traditional customers in the Northwest can no longer count on the agency's having enough power to meet their growing needs. As a result, these customers have intensified the squabbles with the agency and among themselves over how to slice BPA's limited power pie that comes from the 30 federal hydro projects, one nuclear plant, and several other smaller plants.

BPA's traditional customers include over 120 municipally owned utilities, public utility districts (PUDs), and electric cooperatives, collectively known as the public power or consumer-owned utilities. They are also known as "preference customers" since federal law places them first in line to receive power sold at cost from the federal dams. The other traditional customers are the region's six investor-owned utilities, and the direct service industries (DSIs), a group of aluminum smelters and other electricity-intensive industries that

electricity. Most of us in the Northwest see this low-cost power as a valuable public benefit. However, some critics from regions not served by either BPA,

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the nation's three other federal PMAs, or the federal Tennessee Valley Authority (TVA), insist that any power produced at federal dams and sold at cost is by definition unfairly subsidized by the federal government.

force BPA, the other three PMAs, and TVA to charge much higher market-based rates. Some Northwest political leaders are even more concerned about the potential for some California politicians to wrest control of BPA and a large portion of the Columbia Basin's hydropower. Last year, four Northwest governors and over 40 state legislators were concerned enough to meet and explore ways to ensure that the region does not lose its regional preference to the Columbia's hydropower.

One idea, presented here by **Oregon Senate President Gene Derfler**, is for the Northwest states to form an interstate compact and assume management of BPA. Others disagree, including **Jerry Leone**, Manager of the Public Power Council, a trade association representing the common interests of the Northwest's consumer-owned utilities. **Jerry** tells us why she thinks that BPA "regionalization" would be a major political blunder at this time.

While other parts of the country cast envious glances at

have bought power directly from the agency for many years. One proposal for addressing the power scarcity problem, supported by most of BPA's utility customers and other stakeholders, is to exclude the DSIs from further guaranteed purchases of cheap BPA power. While this would free up enough electricity to power three cities the size of Seattle, it also has infuriated some of the DSIs who have played a strategically important role in protecting the region's low-cost power from outside attacks. **Steve Weiss**, Senior Policy Associate with the NW Energy Coalition, and **Eric Redman**, an attorney who often represents DSIs, offer two very different perspectives in this debate.

Our region's transmission system is also the subject of an intense debate over its use and control. Ever since Congress granted federal regulators the lead role in restructuring the nation's transmission in 1992, FERC has used this authority to push for the development of competitive wholesale power markets. In 1996, FERC began to require utilities that owned transmission lines to make them available to all others who bought or sold wholesale power. The utilities could impose only terms and conditions that were no more stringent than those the utilities





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placed on their own transmissions. In addition, those utilities that both market wholesale power and own transmission were required to separate these functions in an attempt to ensure that the utilities' own wholesale power marketing efforts would not receive preferential treatment when it came to transmission.

In late 1999, FERC concluded that more fundamental changes would be needed for competitive power markets to succeed. It issued new orders encouraging, though not actually requiring, the creation of new independent entities called Regional Transmission Organizations (RTOs). Each RTO is expected to establish new rules of the road that provide fair and

non-discriminatory transmission service to anyone willing to pay the price. Northwest stakeholders spent the last two years attempting to sort out how an RTO West that could cover all or parts of eight Western states and British Columbia should be structured and how this might affect our region. **John Carr**, Managing Director for Major Issues Projects at Pacific Power, presents the case in favor of an RTO West, while **Lon Peters**, a Portland-based consultant, tells us why he believes the time for RTOs has not yet come.

FERC issued further orders and statements this past summer and fall requiring utilities to enter into new talks aimed at forming four massive RTOs for the entire country, including one for the entire West, in a "seamless national power marketplace." In response to complaints from many Western stakeholders that they were not ready to be "lumped together" in an RTO with California, FERC officials have hinted that they might allow "sub-regional organizations," including RTO West, to operate under a larger umbrella organization.



**Steve Wright**, BPA's Administrator, offers some specific suggestions on how the region

should proceed to build its energy infrastructure to reduce the likelihood of future electricity crises. High on his list is the need to upgrade our aging transmission system, which is operating close to its technical limits and showing signs of stress. Transmission bottlenecks are becoming more serious. Now that wholesale power prices have dropped dramatically, many sponsors of proposed natural gas and coal-fired plants and wind turbines are having a difficult time securing funding. Even if they succeed, these resources will be of value only if they are connected to the transmission system and can reach Northwest consumers. The Bush administration's new budget proposal would give BPA \$700 million in new borrowing authority for transmission system improvements. But salmon advocacy groups say they will oppose the borrowing increase unless BPA fully meets its legal obligations to restore salmon.

**Wright** also raises a critical policy question for our region: Should we rely solely on independent power producers and the market to build the new generating resources we need when they have no obligation to do so? One option is to return to the vision for BPA from the Northwest Power Act in which the federal power marketer acquires new energy resources to meet the entire region's growing power needs. Another is to adopt **Eric Redman's** vision of

a BPA that supports the development of non-federal power plants to meet load growth.

Still another option under consideration rejects the entire notion of BPA's acquiring more generating resources. Instead, BPA would be a steward of existing federal power resources, and its customers would purchase a "slice" of BPA's existing pie. Each customer would pay a percentage of BPA's total costs depending on



the size of their slice. Since there generally would not be enough power to meet everyone's needs, each customer would be responsible for making up the difference or would have BPA do it for them at market prices. Major questions remain. Would the DSI be included in this deal? How would BPA's statutory mandates to support energy conservation and renewable resources work within this approach? If a community served by an investor-owned utility chooses to form a consumer-owned utility instead, how could it receive preference from BPA for low-cost power if all of the "slices" have been taken?

## The Future of Northwest Power—the Energy Web

While we labor in the shadow of a potential transmission crisis, many are working to push the electric industry across the

threshold of the next technological revolution. Some call this next phase the “energy web,” which will replace the old “mainframe” model of large centralized power plants distributing electricity over massive transmission lines with an “internet model” where many energy producers and consumers are linked together in a “smart network.” Distributed generation provided by such clean technologies as fuel cells, solar panels, advanced power systems, wind turbines, and other micro-power devices will be the foundation of the new energy web.

Implemented correctly, the energy web will help us address many of our existing transmission and supply problems, and reduce the size and severity of the negative “environmental footprint” that our current power system has created. Just how this will all sort out is far from clear, but many of the best minds in electricity R&D are enthusiastically exploring the options. As **Judi Johansen**, the former BPA Administrator and current CEO of PacifiCorp, explained in a 1999 op-ed in the *Seattle Post-Intelligencer*:

“A technological revolution is breaking out in the electric utility industry. It promises to turn the world upside down, making reliable, low-cost generators available to virtually every customer. Utilities will either help make it happen or risk being swept aside.”

Two of our contributors unpack two important components of the energy web. **Margie Gardner**, Executive Director of the Northwest Energy Efficiency Alliance, describes how important energy efficiency is already and will continue to be in the future. **Rachel Shimshak**, Executive

Director of the Renewable Northwest Project, explains the key role that intermittent renewable resources such as wind and solar are beginning to play.

**Rachel** also warns that the promise of wind and solar options could be derailed if utilities continue to use traditional rules about how to value intermittent resources. These rules may unduly penalize renewable technologies that generate electricity only when the wind blows or the sun shines, rather than when customer demand is the greatest. If these penalties are large enough, they could quickly put a wind developer out of business.

BPA is conducting a wind power system impact study that explores several key issues: the capacity of the hydropower system to support wind generation; the impact of wind generation on the operation of the Columbia for hydropower, salmon recovery, and other uses; and how to make the best use of this electricity when it is not needed. In theory, the massive reservoirs behind the storage dams on the Columbia and its tributaries should be able to act as giant batteries that store potential electricity (in the form of water) when the wind is blowing, and generate it (in the form of hydropower) when the wind is not. Unfortunately, as is almost always the case with a river that provides multiple benefits, serves multiple constituencies, and is often oversubscribed, the search for the “correct” balance among competing uses is sure to be difficult and politically charged.

Clean energy is already a \$1.4 billion dollar industry in Oregon, Washington, and British Columbia. More importantly, according to a new report commissioned by *Climate Solutions*, in partnership with BPA and other

prominent utility, government, and foundation partners, “the Pacific Northwest has the opportunity to be a global leader in the technology-based clean energy industry.” This emerging industry will bring valuable jobs and economic development to the region much as the information technology and biotechnology sectors did 20 years ago, and improve our environment. **Patrick Mazza**, staff writer-researcher for *Climate Solutions*, provides a glimpse of these intriguing possibilities on *Oregon’s Future’s* web site. To find out more about the next stage in our electricity evolution, look for links at [www.oregonsfuture.org](http://www.oregonsfuture.org).

All of our contributors to this issue have done their best to remove the wrapping of electricity techno-babble from their articles to help you understand many of our state’s and region’s electricity policy dilemmas. Because some unusual terms are unavoidable, we have included a user-friendly glossary.

