

provide protection to homes and businesses from surges over electric or telecommunications wires that can harm sensitive and expensive electronic equipment. And, we are investing in new types of generation, including BioMass, which converts cow manure into megawatts.

But Oregon's evolutionary restructuring plan has at least one risk—complacency. Just because no dramatic change will occur does not mean we can relax and let events shape the world around us. To retain Oregon's quality of life and economic health, we must continue to move away from one-size-fits-all utility services and regulatory policies, toward customized energy services within a sound framework of supervised competition. Oregon has had many firsts in its history: one of the first Western states, the first "bottle bill," and the first system for comprehensive land-use planning. Oregon's restructuring plan gives our state a chance at another first: the first to reach a truly 21st-century energy marketplace, through which customers achieve more value by applying less effort. That's one of the reasons PGE is ready to "let the future begin."

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Electricity Restructuring: The View from Oregon's Industries

by Julie Brandis, Association of Oregon Industries & Ken Canon, Industrial Customers of Northwest Utilities

Although rotating electricity outages are new, energy crises and price shocks have been significant factors in every economic downturn in the United States since the end of World War II. Meanwhile, our economy seems to have entered a period in which capital follows ideas and technology, rather than natural resources. It is a time of innovation, with new products and services emerging from the creative thinking of entrepreneurs.

As demand for energy increases, new approaches—such as restructuring our energy markets—seem prudent. Restructuring energy markets in the United States can ensure adequate supply to meet demands, remove reliance on imports, thereby contributing to a reduction in the trade deficit, and reduce reliance upon older, inefficient generating plants. Why would anyone advocate insulating America's energy industry from such fresh breezes?

Oregon Electricity Restructuring

Fortunately, Oregon's political leaders have focused on the future. In spite of calls for repeal or long delays, lawmakers took constructive action during the 2001 session by:

- Encouraging clean, new energy-generating facilities in Oregon;

- Guaranteeing all Portland General Electric and PacifiCorp customers access to a cost-of-service rate regulated by the Public Utility Commission; and
- Delaying full implementation of the restructuring plan until March 1, 2002 to allow more time to inform customers about their energy choices.

By avoiding a long delay in implementation, the Legislature has given electricity consumers more certainty about the future. Lawmakers also rejected actions that could have pushed a final decision on the timing of implementation into a regulatory forum—and ultimately into the courts.

Next March, industrial and large commercial customers now served by PGE and PacifiCorp will have the opportunity to select who supplies their electricity. Oregon's restructuring plan guarantees that these customers, if they choose, can remain with their existing electric utility under fixed, regulated rates. However, these rates will be

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- Continuing and enhancing business incentives to conserve energy;
- Ensuring that electric utilities don't sell off valuable, low-cost generating facilities;

higher—not because of Oregon's energy restructuring law, but from rate increases pursuant to traditional utility regulation. In fact, many companies in Oregon consider PGE's 50 percent rate increase a crisis—and wonder about



Restructuring in Oregon

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the long-term impacts on Oregon's economy. Customers served by consumer-owned utilities will be unaffected by the restructuring plan, because they are subject to rate and competition policies set by local governing boards.

PGE and PacifiCorp residential and small commercial customers will experience no major change as a result of restructuring. Existing utilities will offer more service choices—such as time-of-day pricing and green power. The restructuring plan will also ensure residential consumers continuing access to low-cost generating resources, thus affording them long-term rate protection.

Consumer Benefits of Restructuring

The core reason for restructuring Oregon's electricity market is to achieve benefits for consumers. Here are some of the immediate benefits of Oregon's restructuring plan:

- **Incentive for new generation.** Competition encourages independent power producers to build generating facilities in Oregon and sell electricity to large individual customers or groups of customers. Long-term contracts with end-use customers

secure the capital needed to build efficient, clean-burning combustion turbines or large-scale wind farms.

- **Appealing, comfortable choices.** Residential and small commercial customers will be given expanded choices, such as time-of-day pricing that rewards washing clothes and dishes in

non-peak times when overall electricity demand is low. Customers will be offered expanded options by their existing utility.

- **Useful, profitable choices.** Many commercial customers, from service stations to bakeries, will have greater access to information and financing to conserve energy and become more efficient. Under the current market system, commercial customers rarely attract anyone's attention. In a more competitive environment, they represent a sizable market for innovative services that capitalize future savings to help pay for new, energy efficient equipment.

- **Investments in conservation.** Historically, customers have paid close to 3 percent of their current electric bills to fund utility-sponsored conservation programs. When the restructuring plan goes into effect in March, these utility programs will be replaced by a new set of initiatives funded by a 3 percent "public purposes charge," paid by PGE and PacifiCorp customers and administrated

by a new entity called the Energy Trust. Roughly two-thirds of the money raised from the charge will go for investments in energy conservation, with the goal of reducing overall demand and reducing the number of power plants needed.

The bottom line to restructuring electricity markets is saving consumers money through lower rates and the more efficient use of energy.

Americans are accustomed to making decisions about the homes they buy and the loans they assume based on price and other economic information. Clear, explicit pricing is critical to making informed choices about the value of goods and services in our economy.

Competitive electricity markets will provide consumers—from homeowners to factory operators—more useful information (such as real-time prices charged during peak hours) about how they use energy and how they can conserve or buy energy more economically. Large individual or group purchasers can negotiate discounts on energy purchases. Commercial customers can find innovative ways to finance new energy efficient equipment.

By shifting some of their energy use to times of low demand, residential customers can help reduce the need for utilities to add more generating capacity just to meet peak use. The avoided cost of new peaking facilities translates into long-term savings on ratepayer bills.

The Good Ol' Days

Congress passed the Energy Policy Act of 1992. The Act made it possible for the Federal Energy Regulatory Commission (FERC), which regulates wholesale energy

and transmission, to adopt a series of new rules beginning in 1996 aimed at restructuring wholesale markets. Since 1996, the Bonneville Power Administration (BPA), the Northwest federal marketing entity, and utilities across America have been operating in a competitive wholesale electricity market.

FERC's intent was to encourage the alignment of energy resources around markets, not geographical territories. Markets that aren't limited by the vagaries of geography and captive customers can be more efficient in their generation and use of electricity.

The actions of Congress and FERC propelled states to restructure retail markets by eliminating electric utility monopolies. With more than 50 percent of American electricity customers already in or scheduled to enter competitive markets, this movement is too far underway to reverse.

Regulated utilities in Oregon and elsewhere are attempting to respond to investor pressures to diversify and find market opportunities with more economic potential. Rates of return fixed by regulators may have satisfied investors in the past, but not anymore. Utilities, like all other businesses, must compete for investment capital, which increasingly chases ideas and innovation. Monopolies never have been, nor are they likely to become, hotbeds for innovation.

Things Are Different in Oregon

Trying to compare Oregon's restructuring plan with California's is difficult because the only thing in common is that both involve electricity.

The goal of the Oregon plan was to offer commercial and indus-



The 24.5 MW simple cycle gas turbine (which does not include a steam turbine) was planned by PGE in response to the regional energy crunch last winter and was brought on line within six months of conception. Known as a 'peaking resource' it can be started and stopped quickly typically between the hours of 6 a.m. to 10 a.m. and 4 p.m. to 8 p.m. weekdays. The plant can power about 20,000 homes under normal

circumstances (spring, summer and fall), or 6,000 homes under high demand (such as in winter). The gray triangle leading to the exhaust tower is the emissions control unit which accounts for \$1 million of the \$12 million price tag. This technology developed from advances in jet engine technology in the 1980s that led to the possibility of competition in the generation of energy which led to deregulation.

trial customers a range of competitive electricity choices while protecting residential and small commercial customers. Business customers are now allowed to enter into deals directly with energy suppliers, or indirectly through aggregated purchasing pools. California prevented its three investor owned utilities from signing bilateral contracts, forcing them instead to go through the state-run Power Exchange. (See "What Really Happened in California" in this issue -ed.)

Unlike the transition in California, the transition to a competitive market in Oregon has been gradual and measured. For example, business customers can remain with their existing electric utility under a regulated tariff rate, so they can determine when-and if-they go to market. That puts customers in the driver's seat, not in the hot seat.

PGE and PacifiCorp aren't being forced, or even encouraged, to sell their generating assets, as were California's investor owned utilities. The rules developed to implement the restructuring require Portland General Electric

and PacifiCorp to create "resource plans" to outline what will happen with each plant, defining which plants will be dedicated to serving residential customers (who remain regulated) and which plants will be maintained for reserve capacity. The resource plan also outlines how commercial and industrial customers who choose to buy power from independent producers will get back the value of the generating capacity they helped develop through their utility's rate system. This value now owned by the utilities will be rebated to customers through "market credits" for transmission controlled by the utilities. For more information, go to either PGE's web page at http://www.portlandgeneral.com/about_pge/regulatory_affairs/filings/2000_resource_plan.asp or to PacifiCorp's web page at <http://newwww.pacificorp.com/autoindex/autoindex3283.html>.

Summary

Restructuring Oregon's energy markets so they are more competitive makes sense because it will stimulate innovation, add service options, and drive down prices.

The energy marketplace will become more robust. Better information and financing tools will help meet consumers' needs. Utilities, power producers, and energy suppliers will compete with one another to the benefit of consumers.

There is nothing to fear from a well-reasoned plan to restructure our energy markets.

We should be more afraid of not acting to address the serious imbalance between supply and demand.



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