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Higher power prices would harm industries here, study says

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The Bush administration's plan to raise rates for Northwest power from federal dams could cause a loss of 21,000 to 32,000 jobs in Washington state, an energy consultant calculated in a report released yesterday.

In his budget proposal submitted to Congress last week, President Bush called for the Bonneville Power Administration to start basing the wholesale electrical rates it charges on market prices instead of on the actual cost of producing electricity. In the Northwest, the latter is much lower than in the rest of the country because of cheaper hydropower.

Because of the 2000-01 energy crisis from which the state is only beginning to recover, "we are in a very fragile position," said Rep. Jay Inslee, D-Wash., who commissioned the study by Portland economist Robert McCullough and made it public yesterday. "We just came out of this energy pillaging that took \$1 billion of the (state's) economy."

Northwest steel, aluminum, paper and other industries are heavily dependent on cheap energy. The region's congressional delegation, Republicans and Democrats alike, have condemned the rate proposal and vowed to block it.

To underscore the effect it would have on the region's economy, Inslee and Rep. Jim McDermott, D-Wash., held a news conference with officials of Nucor Steel Seattle Inc. yesterday at the company's Delridge plant, which is Seattle City Light's biggest customer.

Nucor Seattle saw its energy rates rise 59 percent during the energy crisis, General Manager Doug Jellison said. Energy makes up between 15 percent and 20 percent of the plant's non-recycled steel conversion costs at a time the company is looking to build a new sheet-steel mill in the Northwest or the southeastern United States.

"Any further (rate) increases would hamper our growth and any future opportunities for growth in the Northwest," Jellison said.

Inslee said one steel mill job is estimated to generate eight spinoff jobs.

The Bush proposal would mean "a \$100 million increase in the utility rates to the people of Seattle," McDermott said. City Light buys 35 percent of its power from Portland-based Bonneville, which sells power in four Northwest states.

McCullough's report noted that the Bush budget proposal is unclear about the timing of and market basis for the Bonneville rate increase. Depending on which energy market the administration would base the increase, he wrote, job losses in the next five years could amount to either 20,987 or 32,099 in Washington and 19,596 or 29,972 in Oregon.

If the administration implements its proposal Oct. 1, the start of the 2006 fiscal year, and equalizes Bonneville wholesale prices with Northwest market prices, rates potentially could rise 77 percent and result in the lower unemployment figures, McCullough said.

If Bonneville rates were based on the higher market prices in California, which is connected to the Northwest energy grid, they potentially would soar 118 percent and result in the higher unemployment levels.

McCullough noted in his report that the 2000-01 energy crisis cost the Pacific Northwest more than 70,000 jobs in primary industries dependent on electricity.

"Until the California (energy) crisis, half of the U.S. aluminum output came from aluminum mills along the Columbia (River)," he wrote. "These mills largely ceased operations during the crisis, and a number are now permanently closed.

"The combination of a mild recession and the California energy crisis has made overall unemployment in the Pacific Northwest worse than the national average.

"Employment in the Pacific Northwest is only returning to pre-California crisis levels today, nearly five years after the onset of market manipulation in the centralized California markets," McCullough wrote.

Northwestern lawmakers and utility officials have said the Bush rate increases would equal or exceed those from the energy crisis.

To avoid price shock, the administration has proposed increasing Bonneville's rates by 20 percent a year.

McCullough said it would mean four annual incremental price increases to equalize Bonneville's rates with Northwest market prices or six years to equalize its rates with California levels.

If the president's proposal becomes law, he said, "The impact on the Oregon and Washington economies would eliminate the recovery over the past year."

The market-price budget plan would affect Bonneville and three other regional power marketing agencies across the country. The budget proposal estimates it would save \$3 billion during the next five years.

McCullough has helped Seattle City Light, the Snohomish County Public Utility District and other utilities try to recover damages from Enron for energy price manipulations.

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