

West Coast Overview Overview

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California and Everywhere Else

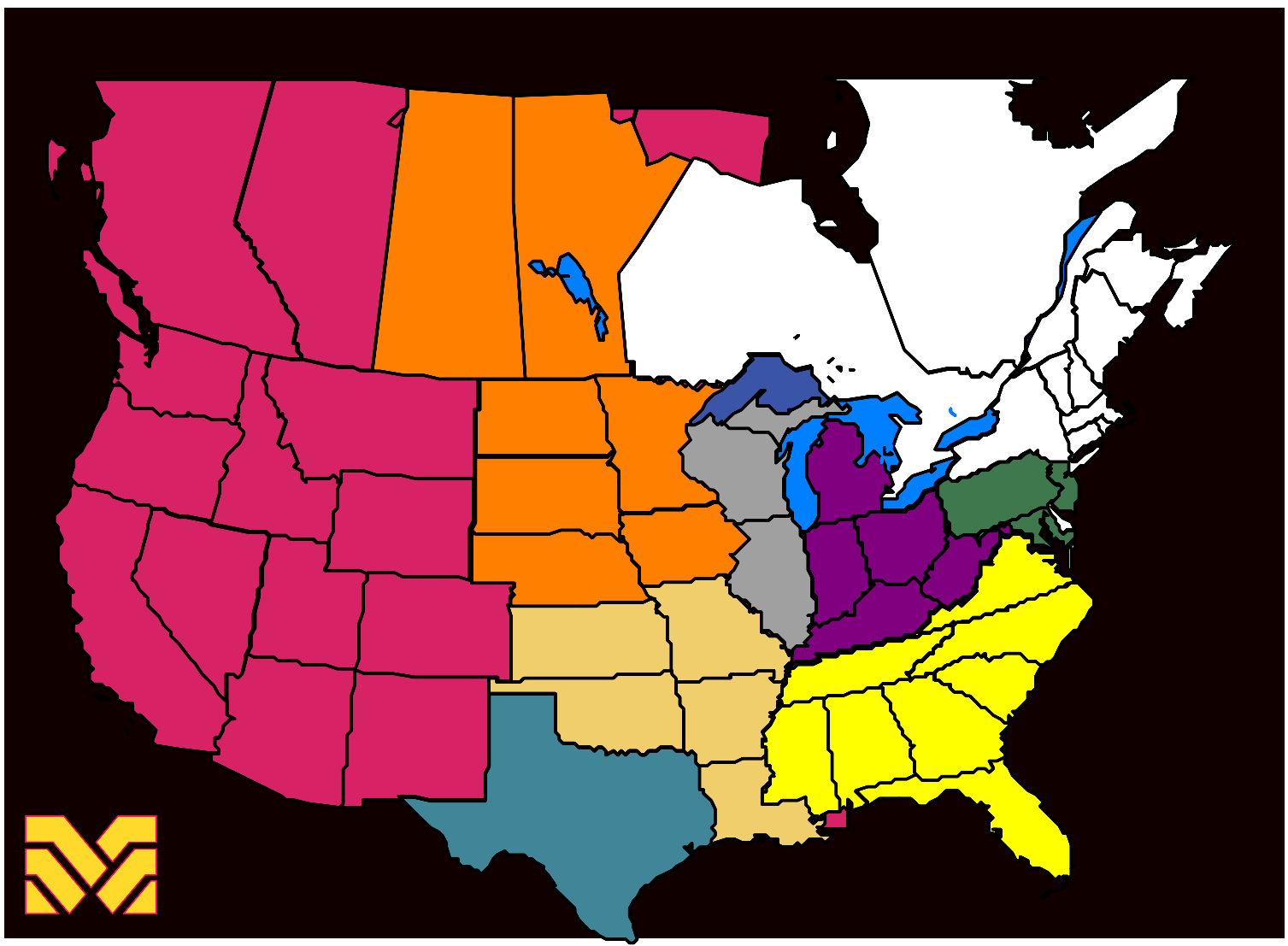
- In the WSCC we usually say that FERC's knowledge of the United States stops at the Maryland border
- Since the advent of the blue book, we can add that the inactivity in California has overshadowed the real developments in the rest of the region
- The last two years have seen the development of an increasingly involved (and probably unworkable) regulatory experiment in California
- It has also seen the advent of the continent's first poolco (Alberta), adoption of widespread retail wheeling (BPA), open market access for a variety of customers (publics throughout the Pacific Northwest), and virtual market access throughout the region



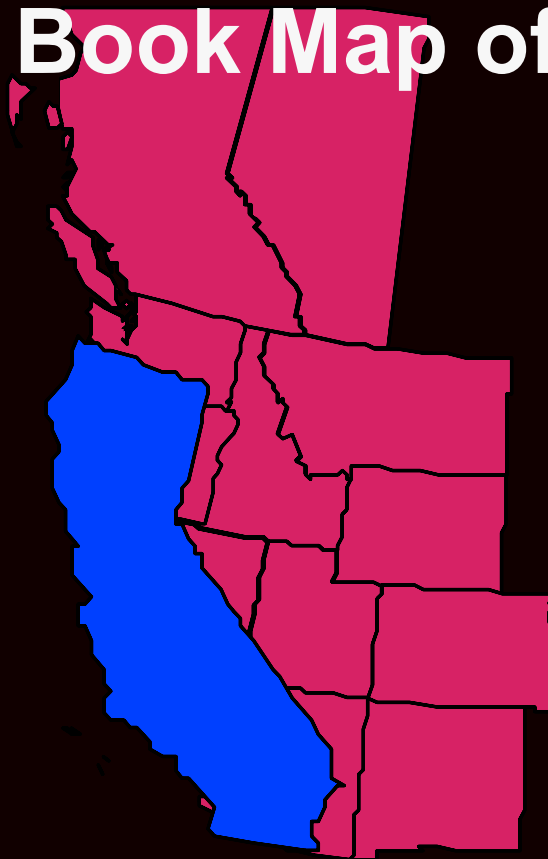
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- How do we tell the CPUC that we are glad that they started early but did a really bad job? →
- Summary of progress in the rest of the region →



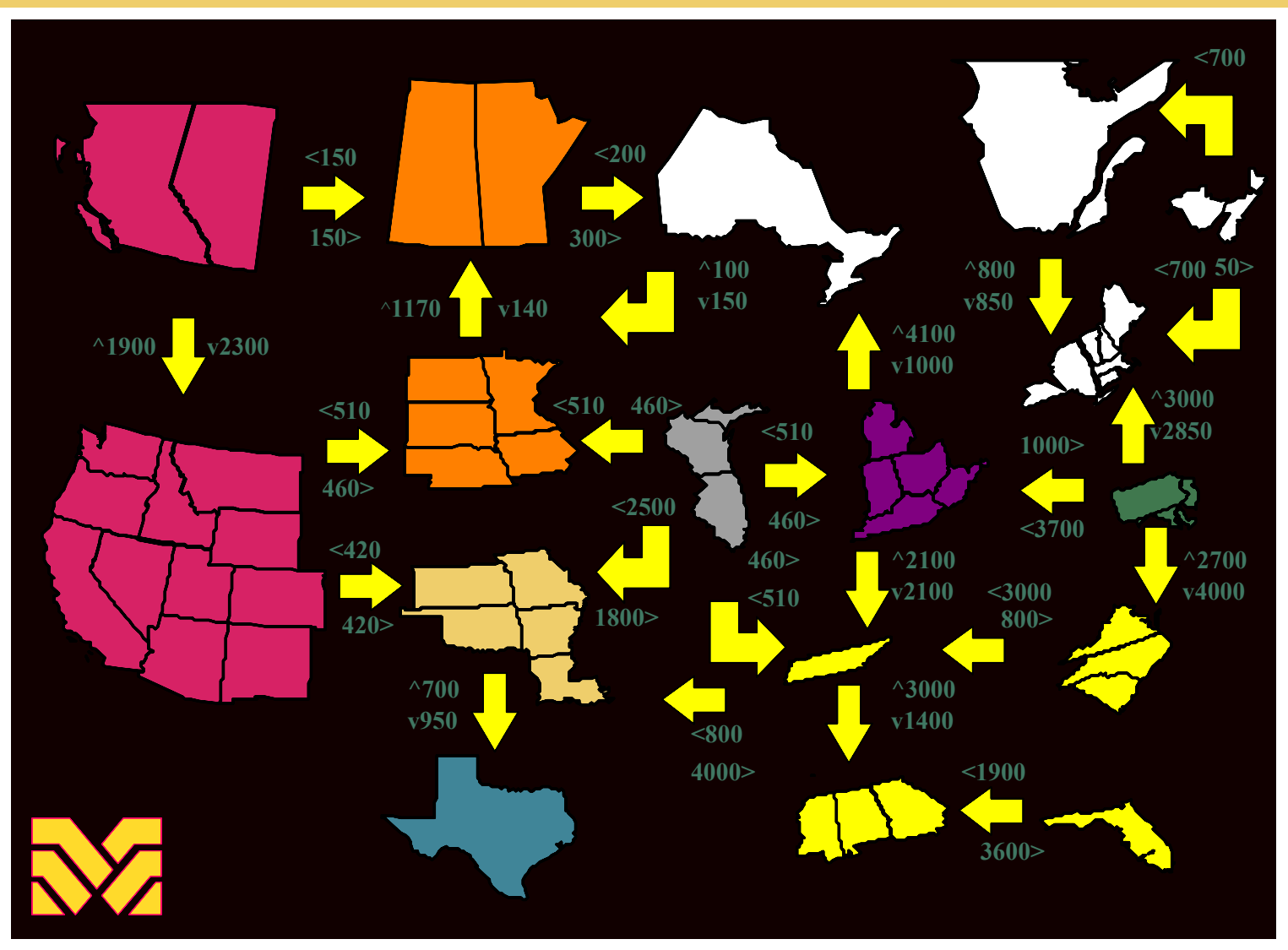


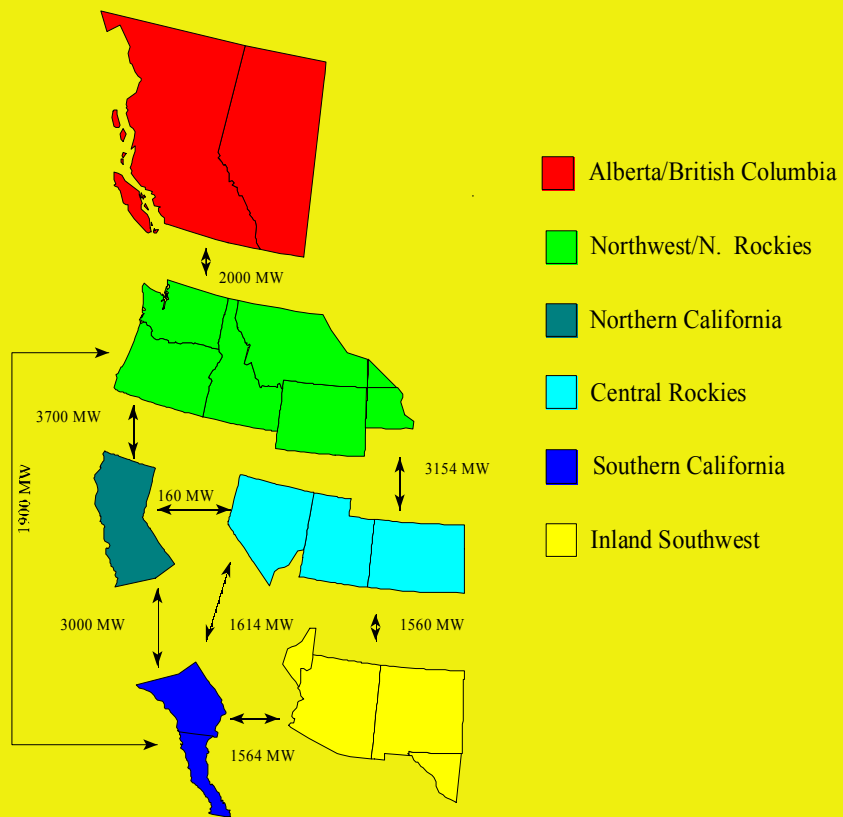
Blue Book Map of WSCC



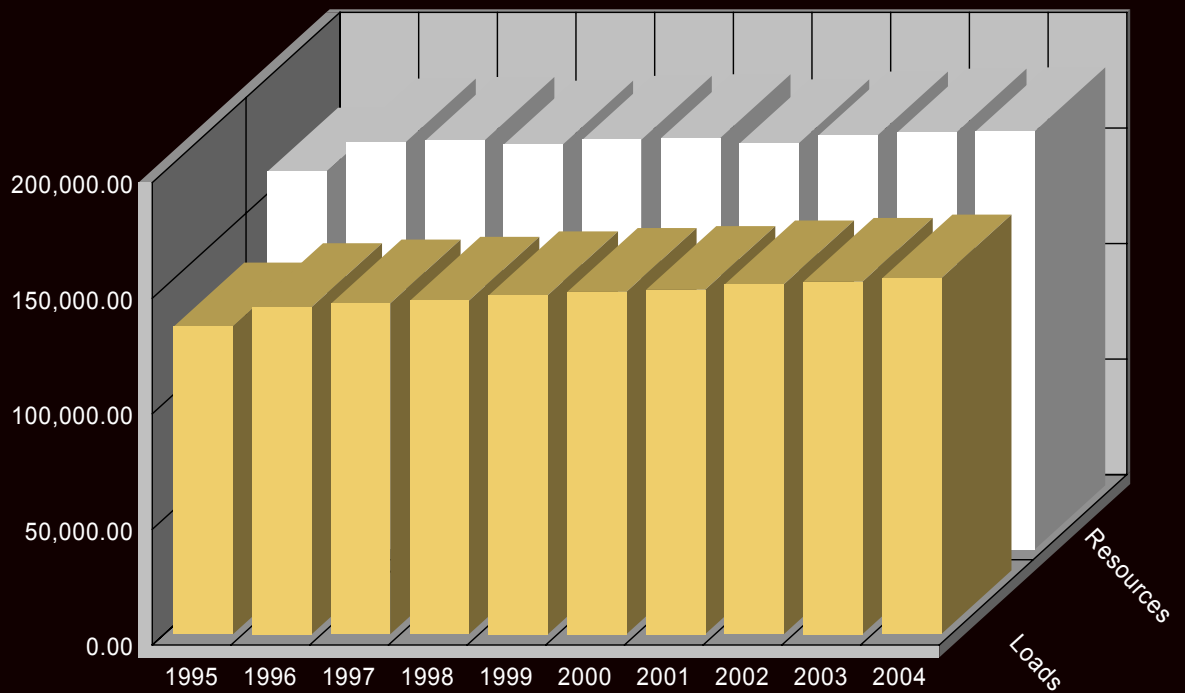
Industrial Access Map of WSCC



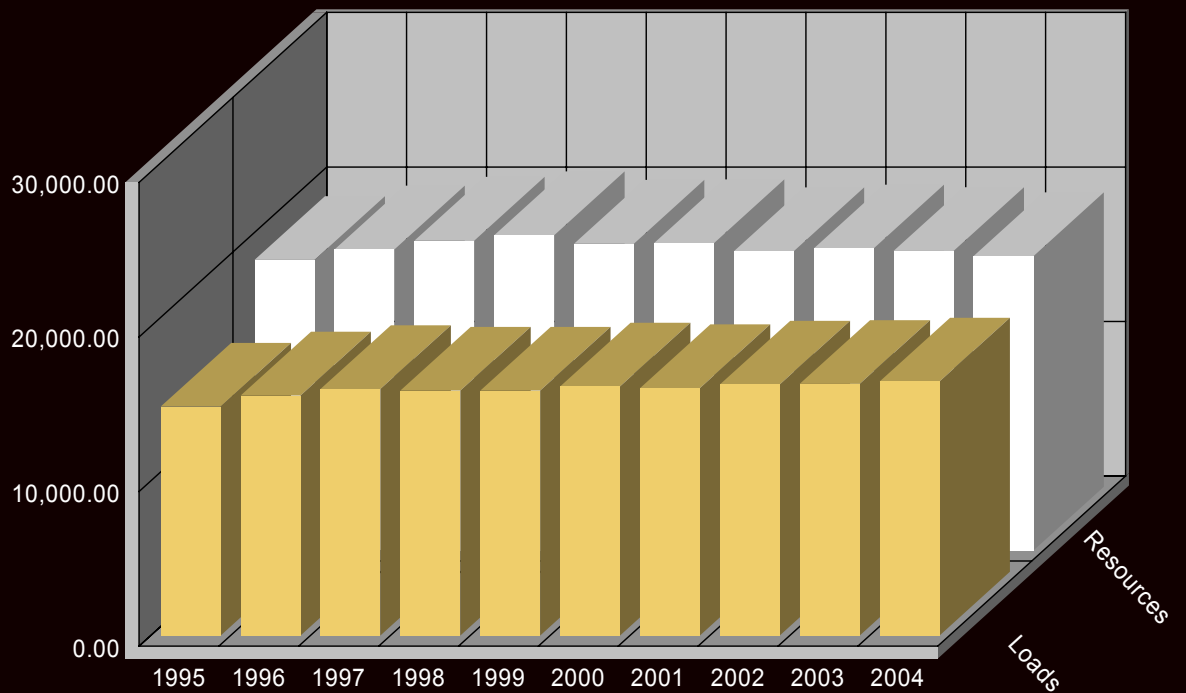




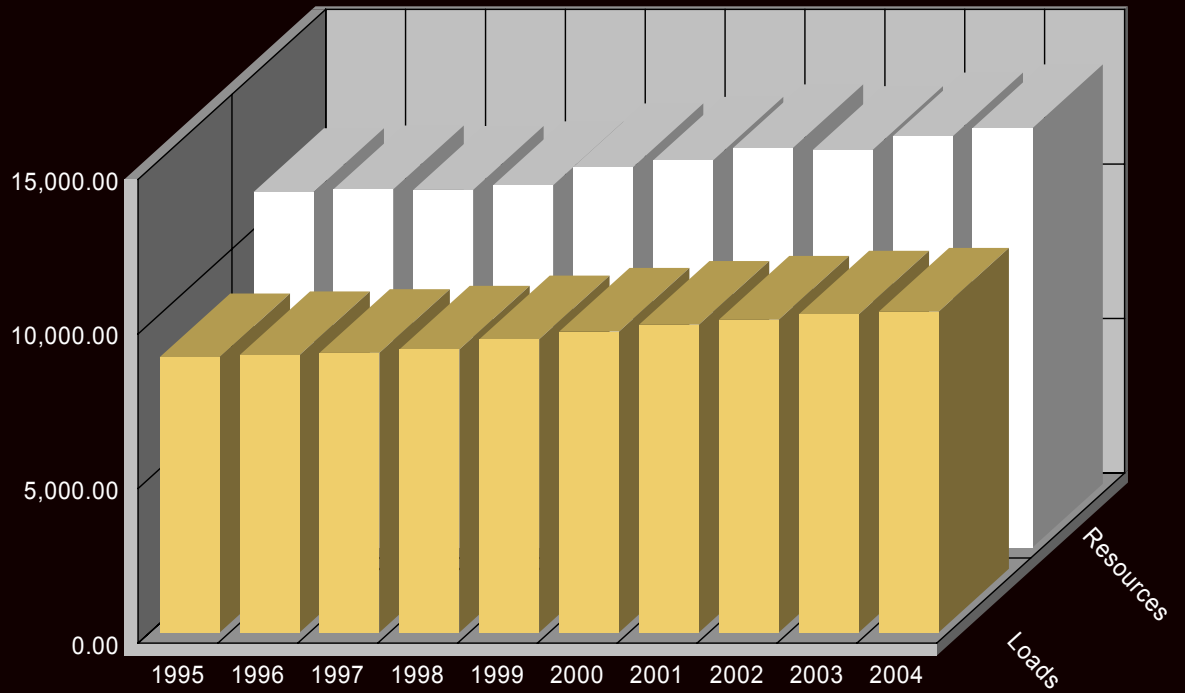
WSCC Loads and Resources



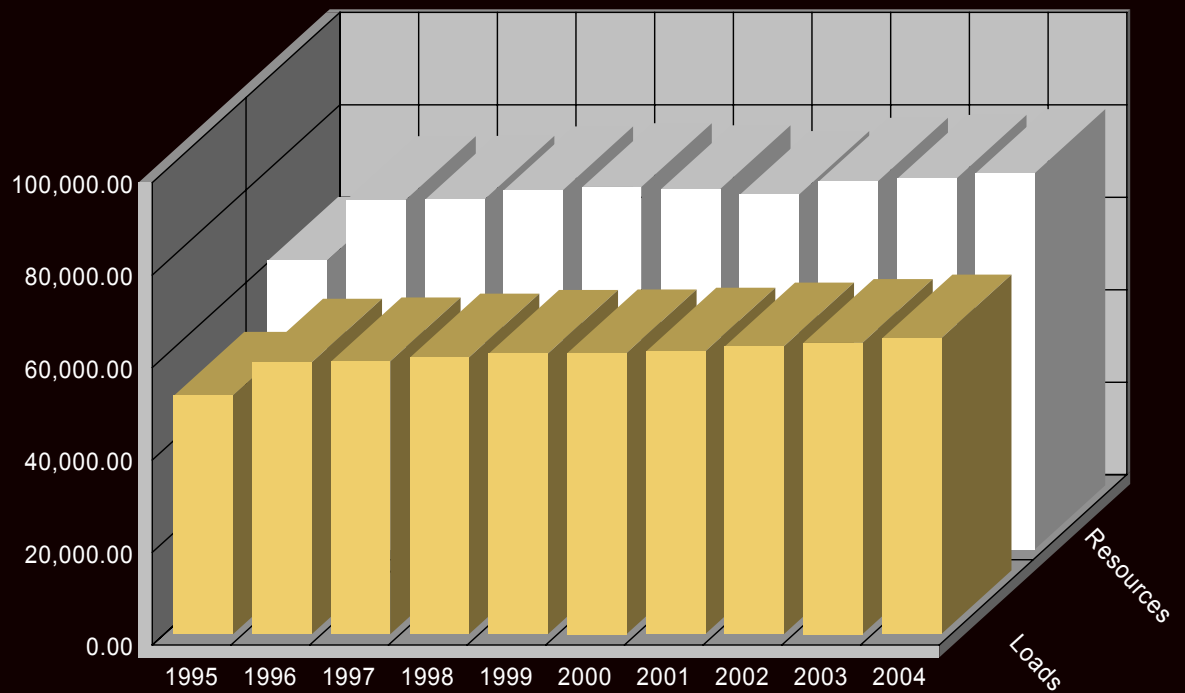
WSCC - Desert Southwest



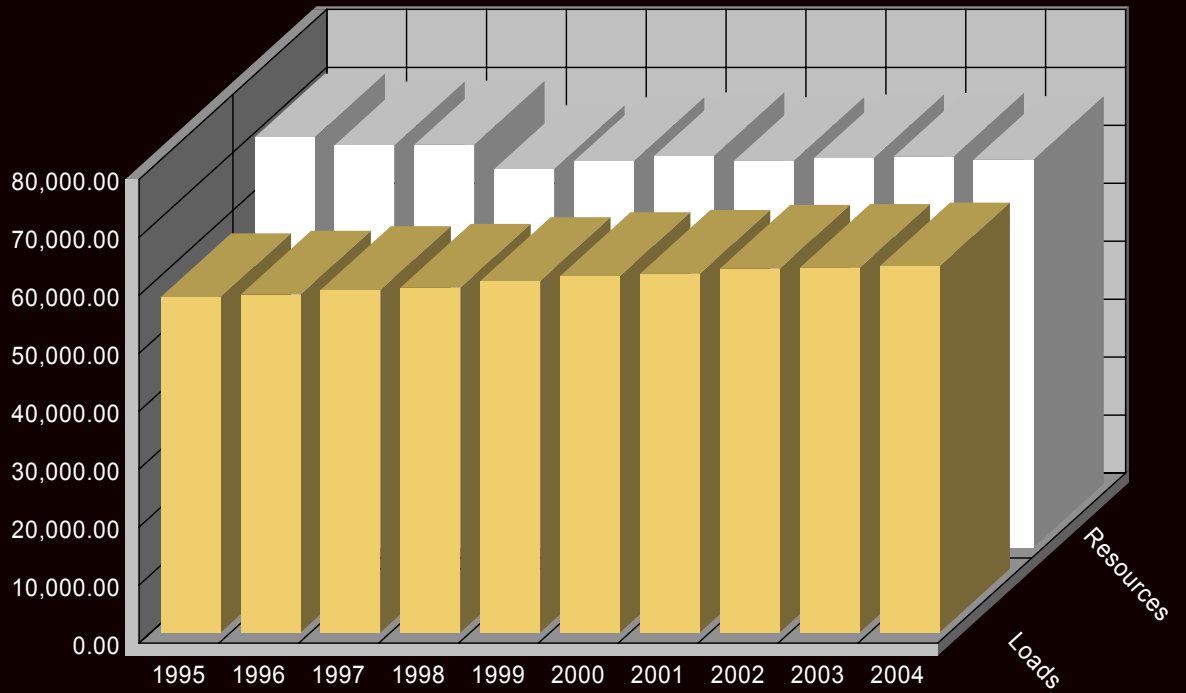
WSCC - Rockies



WSCC - California



WSCC Northwest



Proposal: Let's Ignore the Progress

- After all, the California lessons are that studies are an ample substitute for results
- If we can safely see this, we find that California's ideas aren't fairing very well in the real world
- The nation's only existing ISO -- the Bonneville Power Administration is in complete disarray and may (rumor has it) have contributed to the major outage on the 24th
- The Alberta pool is operating effectively without real time constraint pricing and a variety of set asides
- Spot prices throughout the WSCC are equilibrating smoothly without regulatory authorities mandating "price flexibility"
- Industrial access to real markets and prices is expanding rapidly throughout the region -- expect in California



Regional Summary



Alberta

- Alberta opened its power pool on January 1st, 1996
- For the past nine months Alberta has operated a single price pool based on the British model
- All purchases from the province's distributional utilities are taken from the pool
- Generation utilities and IPPs must all sell their output into the pool



Arizona

- May 1994 Arizona Corporation Commission opened generic investigation on restructuring and competition in May 1994. (Docket No. 1100094165) An ACC working group on restructuring and three separate task forces began meeting in January 1995 to identify policy options for retail electric competition, to investigate the benefits and disadvantages of competition in electric markets, and to describe implementation of policy options, including how to manage stranded investments and transmission access.
- October 5, 1995 ACC staff issued a progress report on the working group and task force findings. In mid March, the ACC staff issued a set of options for electric industry restructuring. They included full competition, phased in competition, use of a pilot program and retaining a monopoly system with performance based ratemaking.



ARIZONA continued

- Parties were asked to comment by late May and make specific proposals for a pilot (Docket No. U000095165). The theme of the comments were that there was not a need for pilot programs and that competition should be phased in.
- Arizona is the site selected for Northstar steel. Northstar has put together an energy solution which includes direct access to spot markets through a local public utility



British Columbia

- British Columbia has adopted an open market for transmission in 1996
- Initial BCH performance under this program has been spotty -- BCH has sold its access to one of its own subsidiaries
- BCH's Powerex has recently announced a power supply transaction with Alumax's Ferndale facility. This direct retail wheeling transaction crosses the U.S./Canadian border



British Columbia

- British Columbia has recently proposed:
 - Direct British Columbia's electric utilities to transfer their generation assets into separate corporate entities.
 - Establish a process for determining the appropriate design of entitlement contracts and horizontal de-integration in generation that would optimize: (1) competitiveness in the electricity generation market both for new investments and dispatch of existing capacity; (2) retention of entitlement rights of British Columbia customers to existing low embedded cost facilities; and (3) co-ordinated operation of all hydropower facilities for economic, environmental and social objectives.
 - Establish a process for determining the appropriate design of a Wholesale Poolco model. The process should focus on how environmental and social considerations will be incorporated in such a model, as models elsewhere have underemphasized this critical concern.



California

- After three years of debate, the California Public Utilities Commission approved a compromise plan Dec. 20, 1995, that would create a mandatory power pool for utility supplies and phase in direct retail access over five years, starting in 1998. It would also allow utilities recovery of 100% of stranded investments using a nonbypassable "competitive transition charge" through 2005. The plan also calls for utilities to voluntarily divest up to 50% of their generation assets and provides for an independent system operator to manage the state's transmission system.
- The final plan was adopted by a 32 vote, with the minority favoring an approach that relied on direct customer access to supplies and made participation in the pool voluntary. The PUC plan will phase in direct access over five years, with participation limited in the first year. The commission was split in May 1995 on the pool vs. direct access issue, and the new plan was an attempt to find a compromise.
- The plan approved by the PUC was the result of compromises between Southern California Edison and San Diego Gas & Electric, large industrial users and independent power producers in the state. But in a last minute switch, the PUC made the pool mandatory. Large user groups accepted the hybrid pool system and stranded costs in return for the prospect of major rate reductions, while the utility industry strongly welcomed the 100% stranded cost recovery. Other state consumer and environmental groups won some ground on the pool issue but still opposed the plan because of the stranded investment charge.
- Following a schedule laid down by the PUC in February, Pacific Gas & Electric and SoCal Ed proposed plans in March to divest 50% of their generation assets. PG&E also won PUC approval in April for an interim stranded cost recovery rule that would protect utilities until full restructuring takes effect in 1998.
- The CPUC is concerned that the independent system operator proposed by the state's three investor owned utilities will not effectively manage the transmission lines. The CPUC filed comments with FERC on August 8 that detailed its position on the ISO and power exchange proposals now before the commission. The ISO, which would assume control of the utilities' transmission systems, and the power exchange were called for in the CPUC's restructuring order issued last December.

California Continued

- The CPUC wants to ensure that, if the system is congested by heavy usage, end users will not be hit with extra costs. It said if congestion occurs, the ISO scheduling coordinator should be able to turn to generation resources that were not included in the preferred bids from the power exchange. The power exchange, or WEPEX, will serve as the spot market by providing a transparent auction for generation with hourly or half hourly price signals. But the CPUC believes that generation not included in the winning bids could be used during periods when the ISO has to clear congestion. Costs related to congestion should be collected from the generators and not end users, it said. And the ISO should also have greater flexibility to create new congestion zones,' the CPUC said.
- FERC should also ensure that the ISO is truly independent, the CPUC said. It was concerned that the governing board in the utilities' proposal contained too many transmission owners. The CPUC also wanted the ISO to be able to participate in renegotiating existing contracts. To further enhance its independence, the CPUC said the ISO should also have the authority to plan or construct new transmission facilities or upgrades.
- The conference committee is working now to address the remaining unresolved issues, including how to allow the state's investor owned utilities to recover their stranded costs within the five year period which the utilities have requested. Pacific Gas & Electric estimated its stranded costs at between \$10.5 billion and \$14 billion until 2001 under the utility's plan for accelerated depreciation, which would speed up the paying off of debt by 14 years. PG&E said nuclear stranded costs and the cost of paying third party power generators each would cost about \$5.5 billion. Southern California Edison estimated its stranded costs at about \$13.5 billion by 2005, but would not provide the reasons behind this calculation. San Diego Gas & Electric estimated its costs at \$1.35 billion due to lower investments in nuclear power and third party suppliers. About \$760 million of its stranded costs are attributable to SONGS and \$450 to third party suppliers.
- California legislators also are trying to ensure that no one customer group is able to bypass its share of the competitive transition charge (CTC).
- The California Legislature approved the state electric restructuring bill at the end of August.



COLORADO

- The Colorado Public Utilities Commission (PUC) has not begun a formal investigation into electric utility restructuring. The PUC staff, however, has completed an informal, informational report on retail wheeling, competition, and restructuring of the electric industry.
- On January 29, 1996, the Chair of the House Business Committee introduced HB 1234 (Shauer). This bill would allow retail wheeling, unbundle rates, authorize the recovery of stranded investment, introduce a wires charge to help fund energy efficiency, low income assistance, and renewable technology programs, and allow competition among electricity and natural gas providers. The bill has stalled in committee.
- HB 1318 would direct the General Assembly and the Governor to solicit the participation and the financial support of private sector organizations to 1) conduct a study of the Colorado retail electric and natural gas markets and 2) solicit input by private sector organizations to suggest legislative approaches to dealing with restructuring.



Idaho

- January 1996, the Idaho Public Utilities Commission started an investigation into competitive changes in the electric industry (Order No. 26312). The PUC did not suggest any actual changes but said that it was necessary to begin a dialogue among industry participants.
- Monsanto Chemical recently received a new contract from Pacific -- details are sketchy but the contract appears to be in the low 20s



Montana

- In January and February of 1996, round table discussions on restructuring Montana's electric industry resulted in a set of ten principles intended to guide the process of electric restructuring. (Docket No. D95.7.96) The Commission asked for comments on these principles and the extent to which various restructuring proposals are consistent with these principles.
- As part of the PSC proceeding, Montana Power outlined a plan under which it would divide itself into separate energy supply and energy services units under common corporate administration. The supply group would be unregulated and would eventually compete with other suppliers to serve the company's retail customers.
- Montana Power would allow a five to 10 year transition period to open retail competition and would maintain a universal service charge to fund conservation and low income programs.
- Columbia Falls Aluminum purchased new supplies on the open market -- in part through their own power brokering subsidiary



Nevada

- In July, 1995, Assembly Concurrent Resolution 49 (ACR 49) established an interim committee to study the "sale and transmission of electric energy." The PSC opened a new investigation into restructuring explicitly to assist the legislative committee's review (Docket No. 9411030). The review was completed in July 1996 concluding that the Legislature should neither mandate retail competition nor forbid it. The suggested approach is to authorize the commission to require unbundling, if and when it can benefit Nevada's customers.



New Mexico

- In late 1995, a key legislative committee concluded that there was no need for retail wheeling or electric industry restructuring in the state at this time. But the panel asked the Public Utility Commission to continue reviewing the issues and recommend whether any changes were need in current state regulations.
- The PUC opened a inquiry into changes in electric utility regulation and initial comments were submitted in February (Case No. 268).



Oregon

- The Oregon PUC held the first of 4 workshops on restructuring the electric industry beginning in July 1996. The first workshop addressed public policy and public purposes examining where other states are in the restructuring process and looking at various models. The second workshop discussed roles of the distribution companies with subsequent workshops discussing stranded costs and public purposes.
- At this time the PUC is listening to utilities and consumer groups but is not expecting to propose retail wheeling legislation when the legislature convenes in January 1997.
- PGE and Enron have announced a merger, creating a national gas/electric utility
- PGE has announced a spot pricing tariff
- Numerous industrial customers are served on a "virtual access" basis
- Northwest Aluminum was the first BPA customer to unilaterally adopt retail



Utah

- Stakeholders in Utah continue to hold informal, informational meetings on electric restructuring. A number of state agencies, Pacificorp, and interested industrial customers have been involved to date. There is no explicit time frame or end product associated with this process, but some observers expect a formal process to ensue after its completion.
- Utah has had five large industrial customers buying on a spot indexed basis since the late 1980s



Washington

- The commission opened a competition docket in December 1994 and issued a draft set of competition principles in August 1995 (Docket UE 94940932). On Dec. 13, 1995, it issued final guidelines calling for gradual introduction of retail choice and recovery of some but not necessarily all stranded investments. These include the conclusion that all customers should have reliable, reasonably priced power, developing competitive electricity markets should not undermine public policies favoring environmental protection, energy efficiency and resource diversity, the long term integrity, reliability and quality of bulk and retail electric services should not be compromised, and that noneconomic bypass and inappropriate cost shifting between customers does not constitute fair and efficient competition and is contrary to the public interest.
- Rhetoric aside, the WUTC has recently approved 100s of megawatts of innovative tariffs for industry with prices in the mid-20s
- Puget and Washington Waterpower have adopted spot pricing and open access tariffs
- Major publics have adopted retail wheeling

