State Energy Strategy Advisory Committee
Meeting Notes
Spokane Convention Center
September 17, 2002

Prepared by: Rick Kunkle, WSU Energy Program

Review agenda and meeting objectives – Tony Usibelli, OTED

Impacts of 2000-02 Electricity Price Increases

Low Income: ***Don Andre, Spokane Neighborhood Action Program***

- Handouts "The Fair Energy Bargaining: A Proposal for Universal Energy Service and NARUC Resolution" *(not available in electronic format, contact Karen Dunn 360-956-2096 for faxed copy)*

Impacts:

- The electricity price increases have made an already severe problem worse. People trade-off their basic needs to pay higher electricity bills.
- Assistance for bill payments is used up more quickly. We are watching the benefits of our programs being swallowed up by rate increases.
- The population in need is under represented by definitions of poverty. Only a small portion of those in need receives assistance.
- The crisis has caused utilities to be 'crunched' from all directions, reducing their ability to address this population.

Mitigation:

- The 3 IOU's have programs.
- The state matchmaker budget (for weatherization) was maintained (in the last session?).

Where are we headed:

- There are deeper systematic issues involved that are not part of the SES committee discussion.
- There has been a breakdown in 'the social contract'.
- There are increased needs.
- Utilities will continue to see increased costs.

Actions to take:

- We need to ensure access to basic energy services for all citizens. This needs to be a priority.
- We need to better define the problem. What is the number of shut-offs and what is the cost?
- We need to develop better ways to determine who should receive assistance. The 'energy burden' or portion of income that goes to energy may be a way to do this. Andre shared these values:

Income (% of poverty level)	% of income that goes to energy (electricity?)
0-50%	17-26%
50-100%	8-11%
100-125%	6.2-8.2%

A typical person pays 2-4%(?)

Questions:

- What is the demographic breakout of members of the low-income population?
  - Andre had some data from an evaluation SNAP conducted
- Low-income programs are largely dependent on Federal assistance. Is there something the state should be doing?
  - There is a role – Matchmaker…
- What is the state role for weatherization?

    - State funding – Matchmaker
    - Regulated investments from the IOU's
    - Support for weatherizing the current population more quickly
- What would it take to weatherize the population more quickly?
- What about the public utility role?
    - Provide a $/Btu floor to capture all providers (I did not fully get this?)
- Low-income housing is often rental property. How do you deal with the problem of owners just raising rental rates?
    - There are mechanisms that try to address this – 3-year covenants with owners…
    - The benefits of the energy savings still persist
    - Could address this by developing a provision or requirement that recaptured some portion of the cost of the improvements when the property is sold.
- The number of customers with unpaid bills is going up. We have prospered because of low-cost energy in the region. To address this issue, the problem is not a lack of programs, but that we need to get the prices down and get the economic machinery going again. We need a strong economy that supports a healthy middle class. Without a healthy middle class, we cannot pay for these programs.

Commercial/Industrial: ***Dave Miller, Avista Corp.***

Industrial Impacts:

- Their industrial customers tend to be natural resource industries – pulp/paper, wood products, mining
- Low electric rates provided a competitive advantage. That is now diminished.
- This comes at a time when these industries are facing increased global competition and cost pressures to stay profitable.
- There was a lot of interest to go to the market for electricity (pre-crisis).
- Except for the largest customers, it was difficult for customers to understand the market and difficult for the utility to administer.
- There is not much interest in open access now, except in cases where energy is a significant portion of production costs (6%-7%).
- The benefits of interruptible or time-of-day rates generally do not outweigh the costs
- For industrial customers conservation centers around process improvements. This is often a difficult proposition, but conservation is clearly providing benefits.

Commercial Impacts:

- Their commercial customers include hospitals/health care, higher Ed, k-12 schools, and retail and services businesses.
- Initially the price increases created havoc with these organization's budgets that are already established and not prepared to cover the increased costs.
- The problem is as much adjusting to the increase as the magnitude of the increase.
- There is not much interest in open access from their commercial customers.

Where are we headed:

- We are seeing a transition from natural resource companies to service businesses.
- We need to partner with our customers to produce efficiency and productivity increases.
- We need to be more creative in our use of incentives
- We need to include economic development support in our efforts.

Questions:

- Is reliability a concern of your customers?
    - The top issues are: (1) price volatility; (2) reliability.
- I see a lot of supermarkets operating 24 hours a day. Is there a way to reduce the amount of operation?

    - They use this as a way to build customer loyalty. No supermarket wants to be the first one to cut their hours.
- What about interest in green power products?
    - There is interest if it appeals to their market niche
    - But the price increases have already hit the bottom line, so there is little interest in paying more for green power.
    - The Avista customer demographic is different than in Western Washington/Puget Sound.
    - They have 1,100 customers signed up for their green power option.
- Can a renewable power rate option reflect the increased price reliability that green power offers?
    - An option that could be tried is to allow the customer to lock-in the renewable rate for an extended period.
    - Avista looked at this option, but there were a number of confounding factors that make it difficult to offer a long-term fixed rate.
- What are the tradeoffs for a business regarding electricity prices, volatility, and reliability?
    - It depends on how large electric costs are relative to total costs
    - There is a timeframe issue. Also what do we mean by volatility? Natural gas customers have been dealing with the market for a number of years. Electricity markets are new and lack the liquidity and transparency that exists in natural gas markets. They had some of the same problems when natural gas markets first opened. These things do tend to adjust.
- What about the Montana situation. How will it impact Washington?
    - There should not be a disruption. But this could have a significant impact on an Avista hydro plant in Montana.
- What is the impact of price increases on business stability?
    - Continuing globalization and dumping of commodity are making this a difficult market. It is not just electricity.
    - In general the impact is probably minimal. It really depends on the industry. When a business closes or a plant moves, it is not something that happens quickly and when it does you often don't know about it. For example, a foundry might move its plant to South Carolina or a plant shifts marginal production to a lower cost plant elsewhere.

Industrial: ***Ken Canon, Industrial Customers of Northwest Utilities (ICNU)***

Impacts:

- ICNU has about 40 industrial members in the Northwest. They are mostly commodity producers that are affected by global markets.
- There was a limited group of members that were purchasing electricity on the open market. They were hit very, very hard. Few people expected what happened. They have operations that cannot easily be shut down and that are very hard to bring back on-line. Those on PSE's schedule 48 (?) reached a negotiated settlement with PSE. Many of these are back on the market purchasing power. These are both relatively small plants (4 MW) to large plants. They are satisfied.
- The other industrial customers escaped the price volatility, but will be paying high rates for many years.
- The higher rates can lead to a modified utility death spiral – rates go up and large customers leave.
- Relatively low cost electricity was a backbone for industry. That advantage is gone. Plants compare themselves with other plants in the country to make production decisions. In a study of 33 utilities only 2 NW utilities were in the low group while 12 were in the high group. Seven of these 12 were in Washington.

- Low electricity rates helped offset a transportation disadvantage the NW has with other areas closer to market. Without these lower rates, it is easy for plants to shift production to other locations.

Mitigation:

- Those open access members went to self-generation, curtailment, load shifting, and behavior modification. Boeing reduced load by 6% by working with plant staff to reduce energy use.
- Other members want to know how long the higher rates will last so they can factor this in their decisions on how to handle the higher costs.

Where are we headed:

- We had a ramp up of industrial rates from the 70's to after WPPSS (from 3 mills to 20 plus mills?).
- We go through cycles. There are few providers and few options. We always expect where we are today to be perpetual. But it did correct quickly and dramatically. The cycle will continue. We are in surplus but there will be another crisis. The question is when and how big.
- Utilities are experiencing a credit crisis

Actions:

- We need to be cautious. We will be successful if we are only half wrong.
- Need to focus on BPA and NWPPC
- There is a disconnect between retail and wholesale rates.
- SMD is a very important issue.
- It is helpful to foster diversity. Let utilities make their own decisions.
- A regulatory issue is balancing short-term costs (what the customer sees) versus long-term desires.

Questions:

- What is the interest in going back to open access?
    - Some people were on it that should not have been.
    - Some may be enticed back. Not seeing that yet, but it might happen.
    - There are lots of ways a customer can show displeasure with high rates.
- What about the situation were we see industrial customers going to open access to get lower rates and leaving the rest of the retail customers to cover higher utility costs? What are the tradeoffs between these different interests?
    - This decision by an industry is not taken lightly. Basically, if a business shuts down because it cannot afford to operate the social costs are greater than if it is able to continue operating by lowering costs by pursuing such things as lower rates.
- What percent of industrial customers are at risk?
    - Do not really know explicitly, but it is not an inconsequential number. Industries are facing tough times in the NW.
    - For example, Intel, a normally quiet company, has come out strongly against the Oregon rate increases and its impact on their $14 million electricity budget.
- What are firms finding on the market for long-term prices?
    - The electric market is at the bottom of the barrel in terms of liquidity. It will take some time for the market to rebuild.
    - Prices are in the 30 to 35 mill range, but there is a lot of uncertainty into the future. So firms are tending to hedge their bets between short and long-term.
    - There is an open wholesale market. They (ICNU) recently held a forum (?) on the electricity market and 15 providers (?) showed up.

Electricity and Financial Markets

Overview: ***Dr. Youssef Hegazy, R.W. Beck*** *(Presentation Posted at* **www.energy.cted.wa.gov**)

- Example: the perfect project that could not get financing due to issues of creditworthiness.
- The market outlook is poor. There is a lack of a market and lack of liquidity.

- The power supply market is very inelastic.
- The average age of current plants is high.
- There can be significant volatility in capacity availability. The value of capacity varies greatly from surplus to constrained conditions.
- Many plants under development are being cancelled
- Capital markets are closed to merchant energy companies; utilities are seeing their credit rating downgraded.
- Renewable generation is an intermittent source, not dispatchable, and can create instability on the grid if it is more than 15% of supply (note that these points were later questioned).
- Looking to the future:
    - There is a lot of interest in wastewater related generation facilities.
    - Cogeneration plants are more difficult because a larger capital outlay is involved.
    - The largest activity is in wind.
    - Federal incentives are a key driver because of hesitancy in the financial markets.
    - Incentives are favored as having the most direct impact.

IOU Perspective: *Ron Peterson, Avista Corp.* *(Handout Posted at* **www.energy.cted.wa.gov**)

- See handout for detailed points
- There is lots of turmoil and uncertainty in the industry. A variety of factors are causing a great deal of confusion.
- There is a lot of financial uncertainty. If you are an investor you hate to see uncertainty.
- The creditworthiness of the utility industry is being downgraded. Avista is paying a 2 to 3% premium for credit because of a lowered credit rating.
- Access to capital is limited. Two banks that Avista has done business with are no longer providing credit.
- Proposed plants are being cancelled. We may need utilities to build more plants, but they need access to capital. Avista would have difficulty financing a large generation plant today.
- Need to restore the financial health of utilities and make it easier for utilities to obtain credit.
- Avista's tariff rider for conservation has been very helpful – a pay as you go approach.

Public Utility Perspectives: *Paul Norman, BPA*

- We have a hangover from the market disaster. We ran up a lot of debt. This was a result of under investment in infrastructure that led to a fragile system that was vulnerable to the events of last summer.
- We don't want to keep going through the cycle. We need to invest in infrastructure. We need capital.
- BPA has been a huge source of capital for investment in regional infrastructure.
- BPA still has a very ambitious capital investment plan for:
    - Transmission
    - Billion(?) dollars in hydro system upgrades that will result in 700 MW of new hydro capacity.
    - $240 million on energy efficiency
    - Appropriated funds for fish improvements
- Sources of BPA funds:
    - Borrow from the US Treasury. This credit line is not big enough to sustain the needed level of investment.
    - Refinance the debt on the Energy NW nuclear plants.
    - Explore third party sources
- Policy Issues:
    - Support increase in BPA Treasury authority.
    - Support the ongoing Energy Northwest Refinancing Program as a means of enhancing BPA Capital availability.

- Clarify long-term post 2006 rights to federal system power and responsibilities to add resources to meet load growth to ensure utilities willingness to make long-term resource investments.
- Fully explore cost-effective third party financing sources to supplement federal borrowing.
- Give fair and full consideration to BPA Credit Support for resource development by the Aluminum Industry to encourage the industry's increased energy self-sufficiency.
- Enhance the IOU's certainty of state recovery for their infrastructure investments.

Public Utility Perspectives: ***Chuck Wagers, Douglas County PUD***

- They are meeting their needs through local control. They were a full requirements customer.
- They went through an IRP process and in 1996 adopted their first plan. This led to diversifying their resource base.
- They have been able to maintain a strong financial position. This helps keep costs down. They are one of the few utilities to receive an investment upgrade.
- Long-term planning benefits their customers. It mitigates risk.
- Market risk mitigation techniques are not a substitute for adequate infrastructure.
- Local determination best represents a free market.

Questions/Comments:

- What are the current costs for generation?
  - Combined cycle - $20-24/MWh
  - Wind - $30-35/MWh
  - Combustion Turbine - $40/MWh
  - Note: I'm not sure I got these right????
- Clarification comments re: Wind. Wind power in Denmark has reached 22% penetration and they are not having instability problems. Two manufacturers have technologies (AC/DC) that can stiffen the grid.
- The presentations focused on utilities. What are the impacts on IPPs. The IPP industry hit a brick wall in the financial markets after taking the risk (market, regulatory, etc.) to bring most new power on line in the region. How can these risks be shared in the region?
- How are we making wind power work in Douglas County?
  - They are doing wind testing now
  - They do not see any policy limitations now to wind development (they are not developing wind to the exclusion of other possibilities).
  - They are focusing on addressing operational issues.
- The cost of integration of wind is an important policy issue (imbalance charges, etc.). What are the integration costs of wind really? What are the cost components?
  - This is really not the problem everyone makes it out to be because wind is nowhere near what its potential capacity could be.
- What can BPA do with third party financing?
  - Example – a public utility got tax-exempt financing to pay for a transmission upgrade and then leased it back to BPA. In this case the financing was not more costly.
  - Private financing would be more expensive.
- There is a foreseeable need for resources. We have approved facilities as meeting all need and environmental requirements, but the financial markets are not letting these projects go forward. We need to be creative to put financing together to allow some of these to be built. Or we will be back to where we were at before. We need to look at the energy situation now.

Discussion of Guiding Principles

#5. Thought we agreed on language that reflected our discussion about "protect consumer access to low cost energy."

Process questions: How do we keep track of where we are at and what was decided. This is a problem. We did not reach closure on this.

IPP perspective. The principles do not have a sense of balance. We are steering by looking backwards and making gross corrections. Maybe we are over correcting. Going forward we need to think what needs to happen versus what is needed. Issues with risks in markets are not reflected here. How do we move forward to see that these risks are shared. Jim Luce's document is balanced. We need to use the market creatively. This is becoming a shalt-not document. Can we come under some common perspective?

#1

- Shall "all" be there
- Enable – who is enabling. Nancy's language: "ensure acquisition by consumers and utilities."

#2

- This version lacks "cost-effective"
- Prefer to use the word "cost-competitive"
- The forum where these things happen is at the utility level – IRP. No need to call this out.
- Thought our emphasis was on diversity and that renewables are part of this. The current wording implies that renewables mean diversity (goes back to question of balance).

Jim Luce combines 1 and 2 and cites the IRP process
The principles need to be clear about what the goal is behind the principle

#4

- Should be the first one – overarching principle
- There is a premium associated with renewables – this reflects the environment is considered.
- NWPPC looks at different combinations of resources. There are premiums for diversity.

#3

- Addresses the concern that #2 focuses too much on renewables
- This is more a market principle that should go in the next section
- Who are the energy providers – utilities, IPP?
- "cost-effective access" – what does this mean?

Reordering the principles would help perception of this section
Federal capital access is only obliquely in here – maybe something that fits more as a specific recommendation than a principle.

#5

- Maybe this goes in the values section
- Be more proactive. Rather than preserve – promote
- On a statewide basis we want low cost power. Not everyone has cost-based power. There was some disagreement on this. Some felt IOU's are cost-based
- The previous draft did not include reference to cost-based power, but we have a tremendous history there that should be reflected.
- Generation won't happen using a cost-based approach

#6

- Could be subsumed in #5, but this one does mention BPA
- This gets at Sen. Fraser's issue
- Existence of BPA makes WA unique; it needs to be reflected here. It is important enough to the state to call out here
- This puts limits and qualifiers on cost-based versus market-based. This is looking back. It is severely limited. Borrow from Jim Luce's statement – 'enhance cost based and use market forces to provide opportunity'
- Benchmark against market price
- Need to be accurate. Not all people in WA have access to BPA power and its benefits.

#7

- Already talked about – more language about consumers

#8

- Are we talking about retail markets, not wholesale markets? PSE focus is on retail power.
- Unclear about the connection between 'obligation to serve' and 'wholesale markets'
- Language needs tweaks to be more clear
- Statement not a mandate

#9

- Maybe put in values and strategies
- Do we promote any other industries in the state? What industries are we talking about?
- Is this just electricity?
- Ag can be one of the largest promoters of clean energy including electric energy. Do not let this fall through the cracks.
- If you make everything a priority then nothing is a priority. We are going to make some choices that WA is particularly positioned to exploit.
- Biomass should be included.
- Remove parens from clean.
- We need to be sure we have a variety of economic development strategies that contribute to a healthy state.
- A lot of problems are solved if we have a strong vibrant economy.

We need a strong preamble to the principles that provides a context. Then we avoid losing the focus of the document.

#10

- No comments

#11

- Economic not in there (in #10).

#12

- We have not talked about sufficiency of supply. What is sufficient and adequate? Put sufficient before the word safety.
- Why isn't cost in there?
- RCW – abundant power at reasonable cost
- Should we roll these into one principle instead of 3?
- In 1993 we devolved into a discussion of externalities. We may want to define this. Don't want to paint ourselves into a corner.
- Protecting the environment needs to be there.

- What do we mean by 'all electricity policies'?
- 10, 11, and 12 should include policy makers.

#13
- Use 'engage' rather than foster. This is important and needs to hit harder.

#14
- 'access to basic services' is better language. Including heating, refrigeration, hot water,…
- Also telecommunications
- Not sure we want to get into other basic services. (the current language is good)

#15
- Add government procurement of green power
- We need some flexibility given the budget situation. Maybe include this in the discussion in the report.
- Maybe just add support of clean energy

#16
- The state needs to take the bully pulpit. Promote it. See Jim's statement and replace this.

#17
- This seems redundant with other parts. Do we need it again?
- Similar to 12. Add environment there.
- The document minimally mentions the environment. It does not say improve as opposed to just minimizing damage. How can we be more proactive and forward looking?
- To me environment pops up a lot, so it is redundant in this principle
- Maybe the environment needs to be included in the preamble to set the context for one of the reasons we are doing this.

Formed committee to further refine principles – Nancy, Chuck, Bob, Jim Luce, Jim Davis…

Issues and Policy Discussion
- A lot of what we are talking about would take a lot of money. Should we attempt to identify the dollar amounts for things like low-income programs, infrastructure improvements, etc? Is this possible?
    - This merits discussion
- Jim Davis does not have an answer to the question of how many potential PUD natural gas customers are there, but will get this.
- The issue of PUD authority to provide natural gas raises the question of how the committee would proceed on issues like this. Do we want to deal with topics that would be big thorny legislative issues?
- The focus should be on finding some pretty well understood issues where there is agreement. For example, additional borrowing authority for BPA.
- Infrastructure is not included in the list of issues. We are not concerned just about generation?

Siting Infrastructure Facilities Issues
- The EFSEC process is one thing, but it does not capture all infrastructure.
- Do we want to address transmission – upgrades and new?
    - Evaluate the least cost methods for reducing congestion.
    - EFSEC was created because there was a state public interest in siting generation. This also applies to transmission.
    - How does new and incremental transmission get built and who pays. Right now the IPP pays for upgrades associated with a new generation facility.

- Support the establishment of clear, quantifiable standards. If you get over the bar, the process is expeditious.
- Encourage something similar (clear standards) for non-EFSEC generation (advisory for local governments).
    - Not sure what is meant by non-EFSEC standards. Why bring the bureaucracy to smaller projects?
- Do any of these issues/ideas compromise my condemnation authority?

Finance Issues

- Supportive government leadership. For example, Marilyn Showalter's comments to Wall Street. Washington distinguished themselves from California regulators. This is very helpful.
- Provide regulatory flexibility
- See suggestions from Paul Norman and Ron Peterson
- Pursue ways that help ensure utilities have access to the financial markets
    - What does the utility have to do to improve financial rating? There are 5 measures that rating agencies use to determine bond ratings. Identify these measures and ways to bolster utility performance in each.
- Maintain consistent regulatory processes.
    - Recognize the impact the regulatory process can have on the financial markets.
    - Educate Wall Street (don't they already know?)
- We need to dialogue on Federal issues.
- The BPA request for increased borrowing authority.
- SMD issue is very important. There are three potential responses:
    - Okay, but heavily adapted for the NW.
    - Someone else needs to try it first.
    - Just say no.
- What are the financial consequences of RTO?
- Support the ability of utilities to manage their portfolios on a prospective basis. Need to support the ability of utilities to buy long-term power as part of their portfolio. This helps provide long-term resource stability.
- Need clear standards and direction from the WUTC. (quote of WAC rules?)
- Support market transparency
- High cost of insurance – dry hole risk insurance. If a utility can't take the entire load themselves, they have to buy this insurance. For Nine Hole Canyon, this insurance was 11% of the project cost.
    - This would require a statutory fix or appeal of the MDL(?)(put in place after WPPSS?).
    - We need to be sure there are no unintended consequences if we do this.
- If a utility obtains a take or pay contract, they need assurance that the load they are serving will be there to use this power. We need to look at territorial allocation and define areas to be sure utilities have the ability to serve the customers they are buying power for.
- We need to decide the issues we have the ability to deal with and take off the table those that must be debated at the legislative level.

Other:

- Look at the resolution passed out after Don Andre's presentation. Be sure to look at rate structures and ways to support low-income folks (disconnect, non-payment, etc.). The WUTC is collecting some data on disconnects (?).
- The state tax structure has a large impact on IPP. The business tax on labor is significant.
- Need to be sure to include the environmental impacts from natural gas generation.

Next meeting at to be held at the C.H.E.F. Facility on October 8, 2002, 9 am – 4 pm.
Agenda with meeting location map and directions will be sent to all Committee Members and other parties via e-mail during the week of September 30th.