

ALASKA LEGISLATURE SPECIAL COMMITTEE/SUBJECT FILES 86/2

2503 SCOMM 109: JNT. COMM. ELEC. UTILITY RESTRUCTURING, 1998

The following outlines the comments received either verbally or in written format from each of the utilities. Black & Veatch's responses to each, follow the comment.

AEG&T:

- A1) Significant inconsistency in variable O&M rates between the various Utilities (AEG&T included) were noted. One would expect a difference for different generation types but the gas turbine variable rates vary considerably between the utilities even though some are of the same type and manufacture. Rates vary between \$1.79 (CEA) to \$3.00 (AEG&T). Although total O&M costs may be close, I have found that the utilities use some discretion in determining what portions of the O&M costs are fixed and variable. Since variable O&M (not total) will be modeled, it is important that the inconsistencies be eliminated otherwise the model will tend to favor operation of one machine over another based on fictitious costs. I suggest that all gas turbines (on N.G.) use the same variable O&M rate for the purposes of this study. I suggest using the medium value by ML&P of \$2.19/MWh (1996 see table 4-1).

Response: An approximate average value of \$2.00/MWh (1996) will be used and escalated as outlined in the report. This change will effect all units for ML&P and Chugach.

- A2) A similar problem exists with the gas turbine start up and run characteristics. There are some major and minor inconsistencies which should be evaluated and "normalized" for this study. One example is the "required minimum on and off line" item for CEA Beluga Units 3 and 5. The CEA 24 hour requirements (table C-2) are inconsistent with how CEA actually dispatched the units in 1996 and it is out of line with similar units (See ML&P unit 8 hours on table C-1). Such discretionary determinations by individual utilities will distort the outcome of this study. Other items such as start up fuel and costs should be comparable for similar machines for the purposes of this study.

Response: Minimum on and off line times were provided by each utility, however, to levelize discrepancies all simple cycle combustion turbines will have minimum on and off times of 1 hour and combined cycle combustion turbines will have a minimum on time of 2 hours and off time of 6 hours. As for start up fuel and start up costs the values seem to be within reason between Chugach and ML&P. Shut down costs at \$200 will be added for ML&P to make them consistent with Chugach and GVEA.

- A3) I note in Table 4-1 that the costs and ranking are based on fuel and O&M costs for 1996. I assume that this ranging will significantly change in future years as the fuel costs balance between ML&P and CEA changes in future years (table 3-3). Please advise if this is not the case.

Response: Table 4-1 was created solely for informational purposes. POWRPRO initially stacks units by the list at the beginning of the study, but immediately changes it based on unit availability, unit characteristics, and load. POWRPRO employs an extensive algorithm which continually modifies the commitment order to obtain the least cost commitment and dispatch.

- A4) Table 3-4 lists loss equations and coefficients for the major transmission lines. Have these assumptions been compared against actual to ascertain if the error is acceptable? AEG&T believes some discussion would be in order here.

Response: The loss equations and coefficients were provided by Chugach and GVEA. Black & Veatch does not have any way to effectively compare the loss values versus actual. In fact, it is probably unlikely that metering exists in a manner than could be used to measure actual losses.

Chugach:

- C1) From the description of the modeling program in the introduction of *Appendix K: POWRPRO Input Manual*, it is not apparent whether the model performs a single-area or multiple-area unit commitment. Chugach believes that utilizing a four-area model is a reasonable approach, given the future transmission and generation plans put forward by the Railbelt utilities. These areas would include:
- A. Anchorage Bowl (*Chugach, ML&P, MEA, Beluga Plant, Eklunta Hydro*)

B. Kenai Peninsula (*HEA, SES, Bradley Lake, Bernice Lake, Cooper Lake*)

C. Healy (*Healy Plant*)

D. Fairbanks (*GVEA*)

While the draft report does consider three transmission system areas as described in 3.1.4 *Transmission System Assumptions*, Chugach proposes that Healy should be modeled as a separate area due to the presence of generation resources and future transmission installations (northern intertie terminal). We believe the most accurate study results would be obtained by applying true multi-area unit commitment and dispatch in the model.

Response: Unfortunately, we do not have a manual for the multi-area aspect of POWRPRO. However, a brief description of how the multi-area version of POWRPRO will be added to the appendices. With respect to the number of areas modeled, Black & Veatch had already decided, upon further investigation, that creating a separate area around the Healy plant would be a more accurate representation of the Railbelt system. Therefore, Table 3-4 and Appendix A will be changed to reflect the addition of another area.

- C2) Recent studies have indicated significant possible benefits from the installation of a northern-area 40 MW battery energy storage system (BESS). GVEA's plans have considered the installation of a 40 MW BESS, but the draft report does not include such a facility in its planned resources.

Given that there are appreciable benefits possible in reduced spinning reserve requirements, reactive compensation and increased transfer capacity (for the northern intertie), and reduced unit commitment requirements, it seems that the study should include modeling of a northern-area BESS.

Response: In the original data request all utilities were asked to include expansion plans. The 40 MW BESS was not mentioned, therefore it is not discussed in the report and is not planned to be included in the modeling.

- C3) Projected fuel availability, utilization, and prices will be of critical importance in the study results. Depending upon projected fuel prices and the resulting system dispatch, some utilities may incur additional costs due to minimum annual fuel take

obligations under their respective contracts. In a pooling environment, what mechanism(s) would "level the playing field" in this regard?

Response: Black & Veatch feels that the fuel prices should be left as is, along as they are reasonable projections. Upon review of the prices and their components, Black & Veatch has found the commodity prices to be fairly consistent. The difference lies in the transportation component. (See response to H2). If a utility is stuck in a long-term contract which is not as favorable as another utility's then their assets are not going to dispatch first. It seems erroneous to artificially levelize fuel prices. However, if numerous contracts are expected to expire half-way through the study, then fuel prices for similar fuels, should be equalized from that point forward.

C4) Within a centralized dispatch/power pool environment, how would the potential market for spinning reserves be handled? In addition, how would reactive supply and voltage control services (from generation resources) be treated?

Response: Spin would be allocated to each of the four areas in multi-area POWRPRO similarly to their current allocation for the individual systems. Black & Veatch might need more specific information on the spinning reserves for each utility -- down to HEA and MEA and not just ML&P, Chugach, and GVEA to ensure that the right amount of spin is allocated in each area. POWRPRO does not model reactive supply or voltage control. Based on current information, projected spinning reserves for each area are:

Kenai = 13 MW

Anchorage = 73 MW

Healy = 3 MW

Fairbanks = 22 MW

Black & Veatch estimated these values based on current individual spinning requirements and allocated the spin to areas based on MW capacity in the 4 areas. For example, Chugach has approximately 436 MW in the Anchorage area and 192 MW in the Kenai area. If Chugach's total spin is 41 MW, then 28 MW goes towards the Anchorage area and 13 MW towards the Kenai area. However, the potential to reduce spinning reserves in an area may exist based on transmission capacity between the areas and units available.

C5) While the model does consider generation plant outages (planned and forced), it appears that the economic dispatch should consider anticipated transmission outages as well.

Response: The modeling of transmission line outages was not included in Black & Veatch's scope of services. The multi-area version of POWRPRO does not have an automatic algorithm for transmission outages. Normally, transmission line availability is very high and not including transmission outages is not expected to change the results of the study. If transmission outages are significant, Black & Veatch needs to have someone provide the outage data and then we can discuss how they should be modeled.

- C6) There is reason to believe that the Soldotna #1 combustion turbine will be converted to a co-generation facility on the Kenai Peninsula, within the study period.

Response: Although Black & Veatch realizes the potential for the conversion of Soldotna 1 to cogeneration, the conversion was not provided in any of the expansion plans provided by the Railbelt Utilities. In addition, Black & Veatch does not have the new unit characteristics and the dispatch schedule for the cogen facility. As such, Black & Veatch proposes to not include the conversion in the study.

- C7) Based on expected facility retirements and additions beyond 2016, Chugach questions the relevancy of the selected 20 year planning horizon. It would seem that a 25 to 30 year study period would capture events and end-effects beyond the 2016 horizon, which should definitely impact study results.

Response: The RFP and scope stipulate a 20 year planning horizon. Black & Veatch also feels that if extending the planning horizon past a 20 year horizon results in a significant change in the study results, it would be unlikely that utilities would implement changes based on benefits being achieved more than 20 years into the future.

- C8) Text does not include any discussion or description of ML&P's share of Bradley Lake Hydro plant.

Response: ML&P's share is mentioned in Section 2.7 and in Table 3-6. However, a brief discussion has been added in Section 2.2 and their energy take has been added to Appendix B, Table B-4.

C9a) Total percentage shares and associated capacity exceed total plant capability, as stated. Total percentage of shares totals to 101.1% and associated capacities total to 118.4 MW; exceeding the 117 MW stated in the text.

Response: The Bradley Lake Agreement does not spell out how large the unit is nor the percentage ownership of each utility. From RDI, the Winter capacity is 120 MW, the summer is 112 MW. I averaged these to get 117 MW and used the percentages reported by the utilities. Upon further review based on discussions with some of the Railbelt Utilities, the Bradley Lake energy will be increased to 120 MW. However, the percentages should be reviewed by each utility to ensure that the correct capacity is allocated to each.

C9b) Seward percentage share is not shown. Seward 1% share (1.2 MW) is not shown, and is not counted in Chugach's stated share of 30.4% (the text indicates Chugach's percentage includes SES, which is not accurate).

Response: Since SES's share was not provided, an assumption was made. The error will be corrected in the text. However, percentages for other utilities must be too high and review by each is appreciated.

C9c) Chugach's counts SES, MEA, and HEA capacity shares (Pg. 2-5, Para. 1). Text should include mention that Chugach's counts MEA, HEA, and SES shares towards its total system capability (capacity).

Response: Black & Veatch will change this in Section 5 for ML&P, Chugach, and GVEA. Chugach's system capability will also include the Bradley Lake capacity of MEA, HEA, and SES and the Eklutna Lake capacity of MEA.

C10) Chugach 1996 demand incorrect. 1996 demand shown as 407 MW. 1996 estimated peak in the data source submitted (1997 Power Requirements Study, Schedule 9-6) was 383 MW.

Response: Chugach provided an *estimated* peak demand for 1996. Their actual hourly load file for 1996, however, indicated an *actual* peak demand of 407 MW.

C11a) Chugach actual and projected net energy for load does not match data source provided: 1997 Power Requirements Study, Schedule 9-4, Mid-Case.

Response: Schedule 9-4 of Chugach's Power Requirement's Study has a footnote which indicates that HEA's Bradley Lake energy is not included in their Net Energy For Load (NEL). Black & Veatch calculated HEA's Bradley Lake share to be 43,920 MWh's and added that to Chugach's "Total Energy Required" column to arrive at the values shown in Table 3-2 of the interim report. The footnote in Table 3-2 indicating that *all* HEA, MEA, SES, and AEG&T loads were included in Chugach's NEL was meant to explain the difference for years 1997 through 2016. In Table 3-2, for 1996 only, Black & Veatch added in GVEA's non-firm purchases to the NEL of the 1996 actual hourly load file. Chugach's net energy for load was increased in 1996 to reflect their serving GVEA through a non-firm agreement. Upon further review, Black & Veatch will not include GVEA's non-firm energy in Chugach's NEL for 1996 in Table 3-2. However, for the POWRPRO runs, Chugach's NEL will be increased based on their 1997 Power Requirement's Study Schedule 9-7 which forecasts economy sales. Black & Veatch will assume that almost all economy sales are made to GVEA.

C11b) MEA energy in Table 3-2 off by factor of 1000 (is shown in GWh not MWh).

Response: A table provided by MEA had been mislabeled. The correction to Table 3-2 has been made.

C12) Existing Eklutna plant ratings. Should reflect current upgraded ratings of 22 MW per machine, or 38 MW combined operation.

Response: The increase in Eklutna ratings is discussed in Section 2.2. However, Black & Veatch will mention the upgrade again in Section 3.3.2. Based on comment M1, the combined operation will be 40 MW.

C13a) Full load base ratings for Chugach units appear to relate to mixed ambient temperatures. Beluga Units 3 through 6/8 & 7/8 full load heat rates are taken at 30°F, where Beluga Units 1 & 2, Bernice Units, and International Units are taken at 0°F. *Note: this does not affect the dispatch order; the order is the same for all machines at 30°F.*

Response: Black & Veatch calculated the full load average heat rate based on winter full load values and the quadratic fuel burn equation provided by Chugach. A note to the table of quadratic equation coefficients states that the coefficients are derived from January 1990 data.

C13b) GVEA combustion turbine data (North Pole, Zehnder) show differing variable O&M costs for 'same type-same location' units. North Pole Units 1&2 show 1.46 MWh, and 3.20\$/MWh variable O&M costs, respectively. Similarly, Zehnder Units 1 & 2 show 2.06 and 3.15 \$/MWh, respectively. Is there an explanation for the disparity?

Response: At the direction of GVEA, Black & Veatch created those values based on GVEA's 1996 RUS Form 12f. Black & Veatch assumed maintenance expenses were variable O&M and Non-fuel operating expenses were fixed O&M. The report provides a plant maintenance expense on a \$/MWh basis. The variable O&M values stated above are from an attempt to allocate total variable cost to each unit. Upon further evaluation, Black & Veatch agrees that the variable O&M should be on a plant level basis since the CT units within each plant are identical and to reduce any extra error incurred by allocating VOM costs. The new VOM costs for the CT's at Zehnder will be 5.21 \$/MWh and for North Pole will be 4.66 \$/MWh.

C14) What is total system production cost differential in actual vs model? POWRPRO output shows significantly greater dispatch of intermediate/peak units (Beluga 1 & 2, IGT) than actual. This may be due to assuming full load heat rates values at 0°F (see above comment). Though total energy and fuel are relatively equal in comparison, what is the system cost differential between the model results and actual data?

Response: As mentioned in the response to C13a, the heat rate coefficients are from January 1990 and Black & Veatch assumed those readings were taken at approximately the same time. If Chugach knows that these heat rates were taken on different temperature days and can provide more consistent heat rates, those newer heat rates will be used in the study. Also, the units are being derated over the summer months yet the heat rate is based on the coefficients from January. Another reason the peaking units may be running too much in the POWRPRO model is that the model has perfect knowledge of the future loads and will dispatch as economically as possible. In actuality, the dispatcher

cannot really know what the load is going to be and may keep base loaded units running longer before utilizing peaking units.

C15) Chugach's planned LM6000PA in the Anchorage area will not be combined cycle mode upon installation. Current plans call for this unit to go to combined cycle operation in 2018.

Response: The confusion is caused by the table provided by Chugach which shows it as a CCCT even though it is initially installed as an SC. Appendix F and the text in Section 5 have been updated.

C16) Capacity through 2014 is shown and 604.8 MW. In 1996 Chugach's counted capacity was approximately 625 MW. For 1997 through 2016, current long range plans project capacities from 625 MW (1997) to 686 MW (2016). See *Projected Generation Resources*. This provided 146 MW capacity above system peak, plus reserve margin (30%), in 1996. Chugach projects its current plan will provide 4 MW above system peak + reserve margin in 2016, with no margin violations through the period.

Response: Please see response to C9c. The tables will also be updated in Section 5.

C17a) Tables B-1 through B-3: Summer and Winter Max. capacities are inconsistent with Matching Rating Handbook values. Many maximum capacity values in the tables are not consistent with those listed the Alaska Intertie 1994 Machine Rating Handbook. In addition, it is not clear what average summer and winter ambient temperatures are assumed for each utility or area. The report does not state what the related temperatures are, and what derating, if any, is applied for summer operation.

Response: For Chugach (Table B2), Black & Veatch used the numbers provided in file ceaeval2.txt which is the input file for their production cost model. The file lists max and min capacities for each unit and monthly deratings. Black & Veatch averaged the deratings for the summer months to estimate an average summer maximum capacity. Their file states that unit max and mins are at 0° F and deratings are based on the average monthly temperature. The summer maximum values are the derated values. ML&P (Table B1) did not provide a machine rating handbook. They provided minimum and

maximum operating levels in their document request via hand written notes (minimums), tables outlining MW output versus inlet temperature(maximum), and typical summer and winter day output (summer versus winter values). GVEA (Table B3) provided a copy of their machine rating handbook. Black & Veatch took the 60° F value as the summer max capacity and the -30° F value for the winter max. capacity.

C17b) Table B-2: Bernice Lake fuel prices inconsistent with Table 3-3. Bernice Lake fuel price of 2.16 \$/MBtu conflicts with 1996 price of 1.46 \$/MBtu shown in Table 3-3. The correct value (as submitted) is 1.46 \$/MBtu.

Response: The correct value was used in the POWRPRO model, however the value in Appendix B was misstated. Appendix B has been corrected.

C18a) ML&P's 1996 Bradley Lake energy production data not shown. ML&P's energy production data is not listed in the table.

Response: Black & Veatch added ML&P's Bradley Lake and Eklutna energy to Appendix B and Appendix C.

C18b) Bradley Lake variable O&M rates inconsistent. GVEA's Bradley Lake variable O&M rate of 0.35 \$/MWh is inconsistent with CEA/MEA/HEA rates of 2.10 \$/MWh.

Response: The \$2.10/MWh came from Chugach's file cea97.gaf. The variable O&M will be changed to \$2.10/MWh across the board.

C19) Appendix F, Table F-1: Planned Generation Additions: Chugach New Plant. Unit Type is SCCT (simple-cycle combustion turbine). Chugach's proposed new 40.5 MW C.T. will initially be simple cycle, to be converted to combined cycle in 2018, approximately. Fuel burn rates, times to start, and times to cool should be modified to reflect this.

Response: Appendix F has been updated.

C20) Appendix E: POWRPRO Output Files-Benchmark. Results do not agree with Table 4-3: POWRPRO's Benchmark of Chugach. Energy output, fuel usage, heat

rates, and capacity factors differ from those listed in Table 4-3. See *Comparison: Table 4-3 vs. Appendix E*.

Response: To our complete surprise, runs from April made it in Appendix E, instead of the runs from May. Black & Veatch apologizes and the correct POWRPRO output files will be in the next report. The values in Tables 4-2 through 4-4 are correct.

GVEA:

G1) Found section 4.0 confusing to follow.

Response: Black & Veatch's standard format for table referencing and placement is to place the table following the paragraph referencing the table. However, if the table must go to the next page due to size, the text continues uninterrupted so that large gaps are not left in the text. Therefore, the write-up for ML&P precedes the table of data for ML&P, and the same for Chugach and GVEA.

G2) SILOS not mentioned in spinning reserve discussion.

Response: The use of SILOS will be mentioned.

HEA:

H1) Table 3-3 Fuel Price Projections mis-labeled Bernice Lake as Units 1-4.

Response: Table 3-3 has been edited to read Units 2-4.

H2) Do the fuel price projections include transportation costs?

Response: For ML&P, the fuel price does include transportation. For Chugach, Beluga and Bernice prices do not separately include transportation as outlined in their contract with Marathon Oil. However, fuel prices for Soldotna, International, and for new plants do include a transportation component.

H3) In Section 2.7, Bradley Lake is listed as 117 MW instead of 120 MW. (Note that Bradley Lake usually does not run more than 90 MW) HEA does receive a total of 14.4 MW from Bradley Lake or 12 percent. Of the 120 MW capacity, 25 MW are allocated for spinning reserve. Each utility takes the same percentage of spin as capacity. Therefore, HEA has 3 MW of spin available from Bradley Lake. How was the spin treated?

Response: As explained in the response to comment C9a, an average capacity value was used. However, the 120 MW capacity will be used instead. With respect to spin, Bradley Lake spin was not taken out of the spinning reserve requirements for the utilities in POWRPRO. Since Bradley Lake energy is shaved before running POWRPRO, the spinning reserve requirements will be lowered in POWRPRO, except for ML&P who states that they use their gas turbines for spin instead of hydro. Also, since Bradley Lake generally does not utilize more than 90 MW of capability, the size of the unit will be reduced in the peak shaving while still shaving the same amount of energy. The text will be updated to reflect these assumptions.

H4) The scheduling agreement between Chugach, HEA, and AEG&T says that Chugach will use Soldotna 1 and HEA's share of Bradley Lake to serve any HEA load above the 73 MW (or 350,000 MWh) partial requirement outlined in the agreement. How was this modeled?

Response: We did not place any restrictions or requirements on Soldotna because HEA's peak demand did not reach 73 MW in 1996.

MEA:

M1) Eklutna is now rated at 22 MW for each unit, or 40 MW together.

Response: See response to C12. Also, different utilities have advised different capacities for the units combined. Please discuss and provide with an acceptable combined MW capacity.

M2) NEL in Table 3-2 is in the wrong units.

Response: The change has been made.

ML&P:

AM1) In Alaska gas turbines are partially loaded. This causes a big difference in efficiency because heat rates are different at full load versus partial load. Also, the gas turbines are used for spin as opposed to the hydro units because the storage reservoir is so far away. How does Black & Veatch propose to handle this situation?

Response: POWRPRO is a production costing model and will run units as economically as possible. POWRPRO does not have an automatic algorithm that forces individual units to maintain a percentage of their capacity for spinning. Instead, it optimally commits units to provide for the specified spinning capacity and then loads the units based on equal incremental cost and other specific unit constraints such as minimum load and ramp rate.

AM2) ML&P would like the hydro versus thermal scheduling clarified better. Hydro does have a lot of storage, but does not really run and should not be base loaded.

Response: Hydro capacity is modeled by using it in a peak shaving mode limited by its capacity and energy generated. See response to H3 for changes in the Interim Report.

Statement of

Dr. Peter Fox-Penner

before the

**Joint Committee on Restructuring
Legislature of the State of Alaska**

on behalf of the

Alaska Rural Electrical Cooperative Association

Anchorage, Alaska

August 18, 1998

Biographical note

Dr. Fox-Penner is an economist and utility policy expert and former Principal Deputy Assistant Secretary at the U.S. Department of Energy. He is a principal and Washington Office Director of *The Brattle Group*. He is the author of numerous articles and publications, including Electric Utility Restructuring: A Guide to the Competitive Era (Public Utility Reports, Vienna, VA, 1997)

Chairman Sharp, Chairman Rokeberg, and Distinguished Members of the Joint Committee:

It is an honor to appear here in the Alaska statehouse on behalf of the Alaska Rural Electrical Cooperative Association (ARECA). Two years ago I had the privilege of representing the U.S. Department of Energy here, and Alaska appears to me just as remarkable today as it did two years ago.

For the past twenty years, including my three years at the U.S. Department of Energy, I have spent most of my time involved in electric utility research or practice. During this period, I have seen competition in electric markets blossom from an idea on the bookshelves of my economics professors to the dominant policy prescription in the U.S. electric industry.

On balance, this is a positive development. Greater competition will do much to lower electric prices, bring new services to consumers, improve the use of natural resources, and other benefits. However, everywhere we introduce more competition into the electric industry we are learning that this effort is far more complicated, and its results less predictable, than we anticipated. It is extremely difficult to take an industry that has a complex, highly interdependent vertical and horizontal structure that functions well under price regulation and transition it to a de-integrated industry that functions well without it. Given the enormous state and regional differences in and around the industry, it is also not a surprise that we are also finding enormous resistance to a "one size fits all" electric competition policy. In any case, we probably lack the requisite knowledge to develop one even if the political obstacles could be overcome.

As an economic expert, I believe this means that *specific* policies towards the introduction of electric competition should be based on a careful consideration of the technical, institutional, economic, and public policy aspects of the area in which competition might be introduced. As I have not conducted such detailed studies for this state, my comments must be considered preliminary. In a sense, you might say my comments today are based on the fundamentals of the Alaska industry, which I do understand, and my widespread experience elsewhere.

Today I suggest to you that "the fundamentals" suggest that Alaska is not an appropriate place to pursue the model of electric restructuring the rest of the U.S. is moving towards for the time being. To explain this conclusion, let me first describe the most common elements of retail electric competition under development in the continental U.S. -- the "common" or "lower 48" model:

- First, the common model is predicated on a federally-regulated open-access grid. This requires extensive federal oversight, computerized posting of transmission capacity in real time, and other elements required by the Federal Energy Regulatory Commission's (FERC's) Order 888. Recently, this is giving way to a more extensive and complex set of open-access policies involving independent system operators (ISOs) and/or fully independent transmission companies, as well as regional reliability organizations likely to be partly self-regulated and partly FERC-regulated. This regulatory and institutional infrastructure is intended to enable fair and robust wholesale and retail competition.

- The second element of the common U.S. model is price deregulation of generation and choice of generation supply for retail customers, generally on a statewide basis. This creates a group of price-unregulated sellers and intermediaries, who buy and resell generation at negotiated prices.
- The third element is continued state regulation or customer ownership of distribution systems, with an extensive system of state regulations governing distribution rates, universal service, seller licensing, siting, environmental protection, energy efficiency, renewable energy, provider-of-last resort, stranded costs, and other state-jurisdictional aspects of electric service.

Incidentally, it is something of a misnomer to call this common model deregulation, as most aspects of the market remain regulated. But it is fair to call the generation portion price-deregulated, and this is the keystone of retail choice in the common model.

Absent further study, it is impossible to see how this model makes sense for all of Alaska right now. There are three main considerations that lead me to this preliminary conclusion.

First, Alaska has a relatively small, and certainly not a statewide, transmission system. As a matter of engineering economics, it is likely to be costly or impossible for more than one or two generators to compete now to serve many Alaska customers. If so, then during periods immediately following deregulation, customers will not enjoy the benefits of competition, but rather will be at the mercy of one or two sellers. Although the resulting high prices are sure to spur the entry of new competitors if there are no barriers to entry, this will take time. I would be surprised if this legislature would want to subject Alaska electric consumers to electric supplies at prices well above competitive levels, even for short periods of time.

Apart from the physical inability of multiple sellers to compete, Alaska will need to establish rules for intrastate open access and gain experience implementing these rules. This is not an easy or rapid task, but it is a precondition for effective and fair competition here just as it is in the rest of the nation. This is a particularly important task, even absent retail competition, as I understand that some generation suppliers provide all of the present supplies to several distribution utilities. With or without retail access, wholesale transmission access and pricing policies for "transmission-dependent" or single-supplier distributor utilities must be carefully established.

My second reason for finding the common model inapplicable has to do with the short-term tradeoffs between economic efficiency and other objectives attached to modern electricity supply. As CSHCR 34 eloquently states, electricity is viewed today as an essential service. The resolution suggests that affordable access to electricity is essential for the health, safety, and livelihood of virtually all Alaskans, and is an essential element of the state's economic infrastructure.

This is a universal observation by state legislatures, whether or not retail restructuring is underway in their state. In practical terms, this means that legislatures have directed those who implement retail choice to do so while still providing for universal service, affordable access by all customer classes, public benefits such as energy efficiency and renewable energy, environmental protection, and other considerations outside the realm of narrow economic efficiency.

In other states, providing these "public goods" is proving to require considerable ongoing regulation, new market institutions, and administrative costs. While I do not question whether the benefits exceed the costs, and strongly support public benefits, I believe that providing similar benefits for Alaskans will be particularly difficult, and will impose proportionately greater burdens on those who would implement and supervise a retail market here.

Permit me give an example. Under retail choice, it is necessary to provide a "supplier of last resort" who will continue to sell power to customers who fail to choose any supplier whatsoever at the onset of competition. Last-resort providers may also be necessary to provide for the needs of low-income or delinquent customers, who cannot live without power even if they are having trouble paying their bill.

With a statewide electric grid, the loads of all these customers can be aggregated and provided by one or more state-sanctioned sellers. In Alaska, with many remote independent systems, a last-resort supplier would have to be created for each community, perhaps using the generation in place today. It will require considerable effort and oversight to create and regulate last-resort providers in the roughly 175 separate communities in the state with isolated electric systems.

Many of the public or consumer protection benefits are likely to follow this pattern in Alaska. Determining and providing for stranded cost recovery, market power monitoring or transitional mitigation, consumer education, supplier licensing, and the suite of so-called "public benefit" programs will pose significant challenges in this enormous state. I do not mean to suggest that Alaska is not up to this task, merely that it will require a level of effort and perhaps political division even larger than already-large efforts common in the lower 48.

This leads to the third reason why the lower-48 model may not be appropriate for your state. Presently, Alaska as a whole benefits from the fact that its electric system is predominantly integrated, customer-owned, and lightly regulated. While competition will undoubtedly lower some of the costs of electric supply, it will increase other costs, at least initially, in order to establish workable competition in many parts of the state. Regulatory oversight will increase, additional transmission and distribution lines will probably be necessary, taxes may increase, and so on.

In summary, the lower-48 state model is not well-suited to Alaska, and should not be adopted without a careful examination of the likely costs and benefits of implementing this model in an economically and politically acceptable manner. It is possible that Alaska may be the exception that proves the rule, i.e. that competition is beneficial in most but not all electricity markets.

While I cannot endorse the common model for retail competition at present, I emphasize that there are probably many important but different ways the state of Alaska can harness the mighty engine of competition to improve electricity service and lower costs right now. Without the benefit of detailed study, I urge you to consider policies such as the following:

First, ensure that competitive bidding and outsourcing is used to the maximum extent possible when new power plants are built and operated. As the committee undoubtedly understands, retail competition forces prices down when consumers shop for the lowest delivered price of power. But retail customers aren't the only buyers who can use competition to this effect. Those who buy and operate new powerplants should use competitive bidding to get the lowest-cost power from these

plants whenever it is feasible and cost-effective.

Similarly, I think the state should experiment aggressively with distributed generation(DG) technologies, including the enactment of policies that allow it to gain a strong foothold. This is one area in which your state can create a model of electric competition different than, and in some ways ahead of, the lower 48. DG technologies may be cost-effective in remote parts of Alaska long before they are cost-effective in the rest of the U.S. Unlike power plant competition, DG requires a much smaller transmission infrastructure, so it is inherently suited to Alaska. Also, natural gas is inexpensive in the main distribution areas, and where fuel oil is the only source highly efficient DG technologies are proportionately more valuable.

Finally, I hope the committee will recognize that some infrastructure-enhancing policies which may not sound glamorous or even pro-competitive may provide for better, cheaper, and more competitive electric supplies down the road. I understand that the state is studying a power pool, and if such a pool is revealed to be economic it should be pursued. Increased access to natural gas and increased transmission interconnection, where reasonable in cost, should help Alaska's energy future regardless of the specific timetable for retail electric choice. Similarly, research, development, and demonstration of energy efficiency and DG technologies suited to this unique state may provide the biggest payoff of all.

In closing, I urge the committee not to bind itself to a complex and probably inappropriate, or at least premature, approach to competition in Alaska's electric industry. I endorse greater study of the subject, particularly a full analysis of the expected costs and benefits when appropriate public aspects of the industry are factored into an implementation scheme. I do not oppose a retail choice pilot in the railbelt, although I caution that any such pilot should be carefully structured and evaluated, and is no substitute for a thorough analysis of retail choice throughout the state. Finally, I urge the committee to look to other means of promoting competition and lowering the costs of electric supply in Alaska, including increased experimentation with distributed generation.

Thank you very much for allowing me to appear before this distinguished committee.

Alaska Electric Utility Restructuring

Joint Committee on Electric Utility Restructuring

Alaska State Legislature

HCR No. 34



Donn T. Wonnell, *Counsel for*
Municipal Light & Power
Municipality of Anchorage
August 18, 1998

Alaska Electric Utility Restructuring

- The Need for a Sequential Transition

A Recommended Legislative Course



The Need for a Sequential Framework

1. Realization of consumer benefits

Identifying and effecting economies

Establishing sustainable markets

Ensuring nondiscrimination

Ensuring universal service

Availability

Reliability



The Need for a Sequential Team

2. The Avoidance of Serious Harm

Unique Alaskan conditions

No margin for error

No intertie to lower-48

No significant independent generation

No shareholders

and implications...”



The Need for a Sequential Framework

3. Absence of building blocks

No study of State economic impact

Incomplete power pooling study

APUC U-97-140

Absence of wholesale competition

Unaddressed operations issues

"lock-up" contract barriers

Unrealized potential of benefits



Recommended Course

1. Establish parameters

Specify guiding principles

Mandate a sequential approach

Study Economic Impacts

Stage 1: Power Pooling

Stage 2: Wholesale Competition

Stage 3: Retail Competition

milestones, control pace

regulation



Recommended Course

2. Instruct and empower the APUC

Consolidation of proceedings

Sequential inquiries

Reports to Legislature

Budgetary support

Public Commission participation



Alaska Electric Utility Restructuring

Joint Committee on Electric Utility Restructuring
Alaska State Legislature
HCR No. 34



Donn T. Wonnell, *Counsel for*
Municipal Light & Power
Municipality of Anchorage
August 18, 1998

**Remarks of Donn T. Wonnell
Counsel for Municipal Light & Power
Municipality of Anchorage**

**Before the
Joint Committee on Electric Utility Restructuring
Alaska State Legislature
(HCR No. 34)**

August 18, 1998

Introduction

- ML&P previously testified in the Committee's hearings held on August 6, 1998.¹ In that presentation, ML&P addressed five significant issues affecting electric restructuring in this state:
 1. **Basic Principles:** A statement of underlying requirements which any restructuring activity should take into account;
 2. **Industry Restructuring Outside:** An outline highlighting the most significant aspects and assumptions attending the evolution of electric industry restructuring in the lower-48;
 3. **Alaska is Different:** An analysis comparing certain conditions and factors in Alaska to those in the lower-48;
 4. **Additional Problems:** A discussion of three of the many additional matters implicated by electric restructuring; and
 5. **Recommendations:** A listing of specific issues and directions which the Committee and the Legislature may wish to consider.

In the current hearings, ML&P wishes to build upon those comments by focusing on two considerations central to the Committee's further deliberations in this matter:

- A. **The Need for a Sequential Transition:** A discussion of the reasons necessitating a transition from existing market structures toward competitive ones in verifiable stages; and
- B. **A Recommended Legislative Course:** A consideration of the actions which the Committee can recommend to the Legislature for adoption in the coming session.

ML&P respectfully offers these observations in an effort to provide the Committee with useful guidance as it seeks to deal effectively and successfully with electric restructuring issues on behalf of consumers throughout the State.

¹ A copy of the written presentation and accompanying graphics may be obtained from Ms. Lori K. Kell, Public Information Officer, Municipal Light & Power, 1200 East 1st Avenue, Anchorage, AK 99501-1685 (907/263-5277).

A. The Need for a Sequential Transition.

- As ML&P previously noted, the scope of electric restructuring issues is extremely broad. The Legislature in its Resolution creating and defining the work of this Committee took particular note that "...electric utility restructuring is a highly complex issue, carrying with it profound implications for all classes of electrical consumers..."
- Such a highly complex issue should be addressed in defined segments, lest the implementation of an overly broad and untested policy both (i) fail to meet consumer needs and expectations and (ii) result in unintended consequences of potentially critical magnitude. Among the considerations underscoring this need for a reasoned, sequential approach are those described in the following paragraphs.

1. Realization of consumers benefits. Consumers benefit when the availability of goods and services increases and the price of goods and services decreases. Competition, properly structured, can be one way of achieving these goals. But so can regulatory and utility identification of economic efficiencies available but not yet realized in the existing industry structure. The APUC power pooling study already in progress exemplifies this point. This study is a logical first step likely to produce measurable gains for consumers in terms of economic dispatch and coordinated generation planning. Competitive markets may derive from this initial step, but are not required to ascertain and to secure the consumer benefits available from enhanced pooling arrangements.

ML&P reaffirms its view that competition in any market (generation, wholesale, or retail) is warranted only where sustainable and where it produces demonstrable benefits to consumers, and not merely to various of the market participants. Windfall benefits obtained by one consumer group at the expense of another constitute demonstrable detriments, rather than benefits. This is especially true where imbalances creating the windfall also result in price increases for some consumers (who may be unable to afford service) or in degradation in the availability or quality of service offered to particular customer classes or locales.

2. The avoidance of serious harm. The unique conditions attending the generation and delivery of electric energy in Alaska bear serious contemplation. The total railbelt market consumption of electric energy is less than the output of a single standard, economically optimal generation plant in the lower-48. Virtually all such generation in Alaska comes from consumer-owned entities which are regulated utilities. Further, the existing arrangements and facilities for interties between the utility systems, while a significant improvement over the past, are inherently limited in the context of proposed competitive markets and associated energy wheeling.

Equally significant, the railbelt system is wholly isolated from the lower-48 network. Unlike the Alaskan telecommunications, airline, and trucking industries, the Alaska electric industry cannot participate in the lower-48 marketplace. On one level, this limits the availability of market participants and, therefore, the plausibility of competitive mechanisms operating in this State. More profoundly, this isolation means that Alaska is on its own. Policies which are misdirected or which miscarry cannot be remedied by recourse to lower-48 generation sources or power exchange markets. The margin for error in public policy is therefore reduced substantially.

3. The absence of market building blocks. Competition in the lower-48 did not spring full-blown from a single legislative enactment. It evolved in a series of stages that interleaved technological, economic, and regulatory changes. This evolutionary process permitted policy-makers the

opportunity to observe causes and effects over time, thereby permitting mid-course corrections as the emerging empirical evidence warranted.

Alaska is at the very inception of that process. No comprehensive study of the role of electricity in the State economy and the possible effects of changes in the existing market upon this economy exists. The APUC has commenced the initial study of railbelt pooling and the potential for consumer benefit associated with limited changes (as noted above). But that study is not due to be completed until Fall, and additional time thereafter will be required to review and debate the findings thereof.

Most critically, local retail competition (where it is being attempted elsewhere) invariably rests on the foundation of wholesale wheeling competition. There is no wholesale competition in Alaska, nor any of the competitive market mechanisms in place by which to initiate such competition. Current wholesale power sales in the State are characterized by bilateral contracts, generally long term, between two regulated utility entities. The structural elements elsewhere found necessary to create functioning wholesale markets – defined principles of “comparable access,” independent system operators, real-time information systems, power exchanges or other “spot” market mechanisms, codes of conduct – do not exist here. Without evaluation and definition first, the implementation of local retail competition would amount to a blind gamble, presenting a considerable risk to consumer welfare.

- In sum, the Committee has ample reason to conclude that electric restructuring in Alaska requires further consideration, in a logical and sequential way. Neither the Legislature nor the APUC is writing on a blank slate. The Municipality of Anchorage and the cooperatively owned electric utility associations have invested substantial sums in the existing facilities and systems. The economies of each service territory, and the State as a whole, depend upon those facilities and systems. To move from existing conditions, which demonstrably serve consumer interest and the public convenience and necessity, to a new and untested market structure requires a calculated transition. Utilizing a transitional approach will minimize the chance that in seeking new benefits through change, policy makers will inadvertently lose existing consumer benefits without adequate offsets.

B. A Recommended Legislative Course.

To minimize that possibility, ML&P respectfully suggests the Committee consider and recommend to the Legislature a course built upon two plans of action: (i) establishment of policy parameters and (ii) direction to the APUC. The former reflects the Legislature's historical role of setting out broad guidelines governing agency conduct. Unlike the extensive micromanagement of the California Legislature reflected in AB 1890, the Legislature will better serve consumers by establishing the fundamental rules that will move the State responsibly toward restructuring. The latter action both instructs and empowers the APUC to conduct the more particularized fact-finding and analysis which is absolutely essential to securing consumer benefit with minimum consumer risk.

1. Establish policy parameters.

- **Specify guiding principles.** The Legislature should adopt the basic principles which will guide the inquiry into and pursuit of electric market restructuring. ML&P has previously recommended four such principles:

Competitive markets should be developed and competitive principles applied wherever sustainable and wherever the public interest is demonstrably and equitably served thereby.

Change must be synonymous with improvement.

Change must not result in discrimination.

Alaskan issues require Alaskan solutions.

Explication and adoption of such principles provides the basic guidance affecting the participation and conduct of all parties in this process. Without a clear assertion of such principles, subsequent process may dissolve in confusion or, worse, result in determinations which fall short of public needs and legislative intentions.

- **Mandate a sequential approach.** The Committee is keenly aware that not all participants in this process want to begin at the beginning. In order not merely to keep track of, but to keep a hold over the evolution of this critical industry, a clear expression of legislative direction in this matter is essential. The Legislature should direct a staged roll-out for the pursuit of restructuring, proceeding in the following order:

Study economic impacts from statewide, regional, and local perspectives.

Stage 1: Evaluate and implement as warranted power pooling in the railbelt.

Stage 2: Evaluate and implement as warranted wholesale wheeling competition.

Stage 3: Evaluate and implement as warranted local retail wheeling competition.

At each stage, a thorough examination of the issues, alternatives, costs and benefits should be undertaken. If change is warranted, the changes should be implemented in a controlled fashion. The result of such changes should be carefully studied, both for corrective action associated with the implementation and to determine whether an appropriate basis exists for moving to the next stage. If such a basis exists, then the cycle should be repeated for that next stage.

- **Set milestones and control the pace of restructuring.** There is little empirical experience with competition at any level within the lower-48. As recent press reports verify, the competitive experience at both the wholesale and the retail level has been less than an undiluted success. Power shortages and severe cost spikes have already appeared in the lower-48 wholesale market. Several companies have become insolvent; others have lost substantial sums of money. In California, major and minor competitors have done less well than anticipated. Some have abandoned the market. Indeed, a movement to reverse the legislatively created competitive local market has surfaced there.

The unique characteristics of the Alaskan market, identified above, suggest that Alaska cannot sustain a back-and-fill approach to restructuring. The Legislature can avoid the mistakes of the lower-48 by establishing milestones, in terms of both dates and events, to maintain control over the evolution of restructuring. Changes should be undertaken where warranted by facts and analysis, rather than slogans and speculation. By so controlling the pace of restructuring, the

Legislature may minimize the risk that it will have to undo things later, assuming they can be undone at all.

- **Reserve Judgment.** ML&P believes the Legislature will serve consumers best by rendering a verdict after the factual evidence is in. Until it has secured a sufficient understanding of the potential causes and effects of the various proposals now urged upon it, the Legislature would be acting blindly on hope, rather than with foresight based on fact.

2. Instruct and empower the APUC. The Legislature should direct the APUC to find the facts, evaluate alternatives, and implement courses consistent with the Legislature's directions. This direction could include periodic Commission reports to the Legislature concerning milestone achievements or proposed new initiatives to be undertaken. That agency has the historical role and the expertise necessary to carry out each indicated transitional stage in an effective manner. The Legislature should also consider the agency's needs for resources and legal authority, when and as demonstrated by the Commission. More particularly, the Legislature could direct the following actions:

- **Consolidate existing proceedings concerning restructuring into a comprehensive docket.** This would promote efficiency and conservation of agency resources, as well as those of the participants. It would also promote the likelihood of consistent and comprehensive findings.
- **Require the full participation of all Commissioners in the proceedings.** The subject here is sufficiently important to warrant a review and decision by the full panel of the Commission. Use of administrative hearing officers or three-Commissioner panels to explore particular subject areas would be appropriate as circumstances warrant. But each stage should be pursued under the aegis of, and final determinations should be made by, the full Commission.
- **Proceed sequentially, utilizing both the guidelines and sequential stages established by the Legislature.** A sequential transition, discussed above, will permit orderly administrative processes. It will also ensure maximum control by the Legislature, as desired, over the evolution of restructuring in the State.
- **Render periodic reports to the Legislature.** Commission reports to the Legislature serve not only to inform, but as well to signal stages in the transitional process. The Legislature need not bind itself to act on any given report, but at least would have the opportunity and the information to timely do so.

In conclusion, ML&P notes again that electricity affects health, education, and the economy in Alaska 24 hours a day, 365 days a year. Safety, reliability and availability are critical issues, easily impacted by the law of unintended consequences. Alaskans currently enjoy safe, reliable, and available power and have not yet experienced the market-created shortages that have already begun to dot the lower-48 marketplace. By pursuing the course recommended here, for the reasons discussed here and in ML&P's previous testimony, the Legislature can best ensure that Alaskan consumers will have the opportunity to secure new benefits without sacrificing the existing ones.



ELECTRIC UTILITY INDUSTRY RESTRUCTURING IN ALASKA

DISCUSSION PAPER #1

OVERVIEW AND ISSUES TO CONSIDER



**Alaska Rural Electric Cooperative Association
ARECA**

**703 W. Tudor Rd. #200
Anchorage, Alaska 99503
August 18, 1998**



Contents

INTRODUCTION.....	1
RESTRUCTURING --THE NATIONAL VIEW	2
RESTRUCTURING IN ALASKA	7
ISSUES TO ADDRESS	12
PERSPECTIVE OF THE CONSUMER-OWNED UTILITIES	15
PRINCIPLES TO GUIDE THE DISCUSSION	16
THE NEXT STEP--A COMPREHENSIVE STUDY	17
SOURCES.....	18



RESTRUCTURING – THE NATIONAL VIEW

Understanding the terms of the discussion

The terms restructuring and deregulation are generally being used to describe organizational and regulatory changes that make it possible for power suppliers and energy service providers to compete for retail customers. This new structure would replace the current system of regulated monopolies, where one utility is provided both the right and obligation to serve all of the consumers in a particular area.

A key element of restructuring is the "unbundling" within and among utilities of the three primary activities necessary to provide electric service - generation, transmission, and distribution. Transmission and distribution utilities would become "common carriers" over which the end-user can purchase from a power supplier, who might be a generator of electricity or a power marketer that buys and sells electricity. Instead of one bill reflecting "bundled" service as now provided by their local utility, consumers would receive one or more bills detailing the costs involved from the different entities involved in providing electric service.

In the discussion occurring nationally, the term "deregulation" is a misnomer. The sale of energy from generation is the only major segment of the industry really being targeted for rate deregulation and retail competition. Transmission and distribution functions are expected to remain regulated monopolies for the foreseeable future, in order to prevent reliability problems. "Deregulation" may actually increase regulation. New regulations are being developed to specify the rules to allow access across transmission and distribution systems for delivery of the energy sold from the generation function. Despite the move toward retail competition, there will still be a need for regulation of the generation function to assure adequate supply planning and protect consumers from vagaries of the marketplace.

Hence, it is clear that the discussion is not about creating free market competition. Few would argue that a "free market" approach would provide the necessary protections to assure that consumers will be able to obtain the basic necessity of electricity at reasonable price and reliability. Rather, the discussion is about whether regulatory structures to promote limited competition within a highly regulated industry would benefit consumers.

The current system was designed for efficiency

In the right circumstances, a competitive marketplace can increase the efficiency of competitors and decrease costs to consumers. However, the existing regulatory structure for the industry was created because competition wasn't accomplishing this goal. Competition had created chaos and unnecessarily high costs. Duplication of facilities to deliver electricity to consumers was inefficient. Larger generators were more efficient, producing lower cost per unit of electricity sold. To prevent costly duplication and take advantage of economies of scale, it was deemed beneficial to the consumer to have one entity serve an area and regulate that entity to ensure consumers received a fair price.

Competition has been a part of this system as well, primarily in the wholesale generation market, where power producers vie to sell electricity to distribution utilities. While discussing whether it is time to resurrect the competitive marketplace for retail customers, it should be noted that the existing system has worked well. It has helped, not hindered, the industry from pursuing and incorporating advances in generation technology and other efficiency improvements. The real (inflation-adjusted) cost of electricity to consumers in Alaska has followed the national downward trend. In fact, we should be proud of the continuing efficiency efforts of Alaska's utilities. According to the National Rural Electric Cooperative Association (NRECA), cooperatives serving rural Alaska decreased residential rates (in real terms) by



40 percent when comparing 1996 rates to 1980 rates, while the electricity rates in the U.S. as a whole decreased just 14 percent.

Financing efficiency improvements has been made easier by the guaranteed revenue stream of exclusive service territories. It has helped Alaska's utilities convince lenders to provide money for improvements; this has been especially important in areas where the economic feasibility of providing electricity is questionable.

So, the discussion is not how to fix a system that is broken; it is rather about whether changing the structure of the industry will further decrease costs and improve service to consumers.

Industry developments provided new competition potential

Development of a nationwide interconnected transmission grid, decreasing costs of new generation, and the separation of functions for the nation's utilities have created the potential that proponents see for effective retail competition in the Lower 48 states.

Transmission

High voltage transmission lines are used to move bulk electricity from a generating plant to a substation where the voltage is stepped down for distribution to and use by consumers. The total miles of AC transmission line (of 230 Kilovolts and higher rating) in the U.S. nearly doubled between 1970 and 1990 and is more than five times greater than in 1960.

The transmission grid is a key factor in the equation of creating an effective marketplace. It allows the means by which multiple competing power suppliers can deliver energy. In reality, energy cannot be effectively "shipped" from one end of the country to another. The loss of electricity in transit would be too expensive. In a simple view, the transmission system is a continuously energized loop into which energy is fed to maintain proper voltage as electricity is drawn out and used at different places.

Most consumers in the U.S. are connected into one of three regional areas of interconnection, one in the eastern half of the country (from the edge of Colorado east), one in the western half, and Texas. Most of the approximately 14,000 generating units that produce the 3.1 trillion kilowatt-hours of electricity used by U.S. consumers each year feed energy into these grids.

Generation

While the transmission grid may help create a competitive marketplace, the savings predicted by those promoting retail competition are expected to come primarily from increasing efficiency in the generation sector of the industry, which now accounts for about two-thirds of the total cost of delivering electricity to consumers. Seventy-two percent of the 745,000 megawatts of generation capacity in the U.S. is owned by the approximately 220 investor-owned utilities. It is thought that encouraging competition among these profit-motivated companies will result both in the efficient use of the most cost-effective generation on the grid and the development of low-cost new generation that will displace older, more expensive, generation. The trend in the Lower 48 states is towards greater use of natural gas turbines for electricity production; natural gas is already the main fuel used for electricity production in the interconnected Railbelt region of Alaska.

Some analysts are predicting that advances in small-scale dispersed generation technologies may, in the future, reduce reliance on transmission systems to deliver cost-effective power to some areas.



Industry Structure

The current discussion of "restructuring" the industry would continue a process that has been underway in the Lower 48 states for some time. Nearly two-thirds of the utilities in the U.S. have no generating capacity; they are distribution utilities only, purchasing power from wholesale suppliers. These wholesale suppliers have usually been utilities that sell their unused excess power, generation and transmission utilities specifically established for that purpose, or independent power producers who only produce power.

The government is fostering competition

The U.S. government has been taking steps to foster competition among power producers and provide incentives for more efficient generation. There have been two major actions by Congress:

PURPA

After a period of rate increases in the 1970's, Congress acted in 1978 to foster generation competition by passing the Public Utilities Regulatory Policy Act (PURPA), which promoted independent power production. The perceived success of independent power generation is one factor contributing to the momentum toward greater competition in the industry.

EPAct

The Energy Policy Act of 1992 (EPAct) expanded wholesale competition, and resulted in orders by the Federal Energy Regulatory Commission (FERC) establishing rules that have opened access to transmission lines for sale of wholesale energy.

Restructuring Legislation

Congress has been considering a number of bills related to electric utility industry restructuring. These initiatives will not be detailed in this paper. Most, however, recognize the value of continuing to allow states to decide the regulatory framework that works best in their areas for meeting the needs of retail consumers. Most of these plans, while pushing retail competition, allow states and non-regulated utilities to choose whether or not to participate in restructuring for retail competition. Regardless of the choice states will make, it is important to be analyzing the options now.

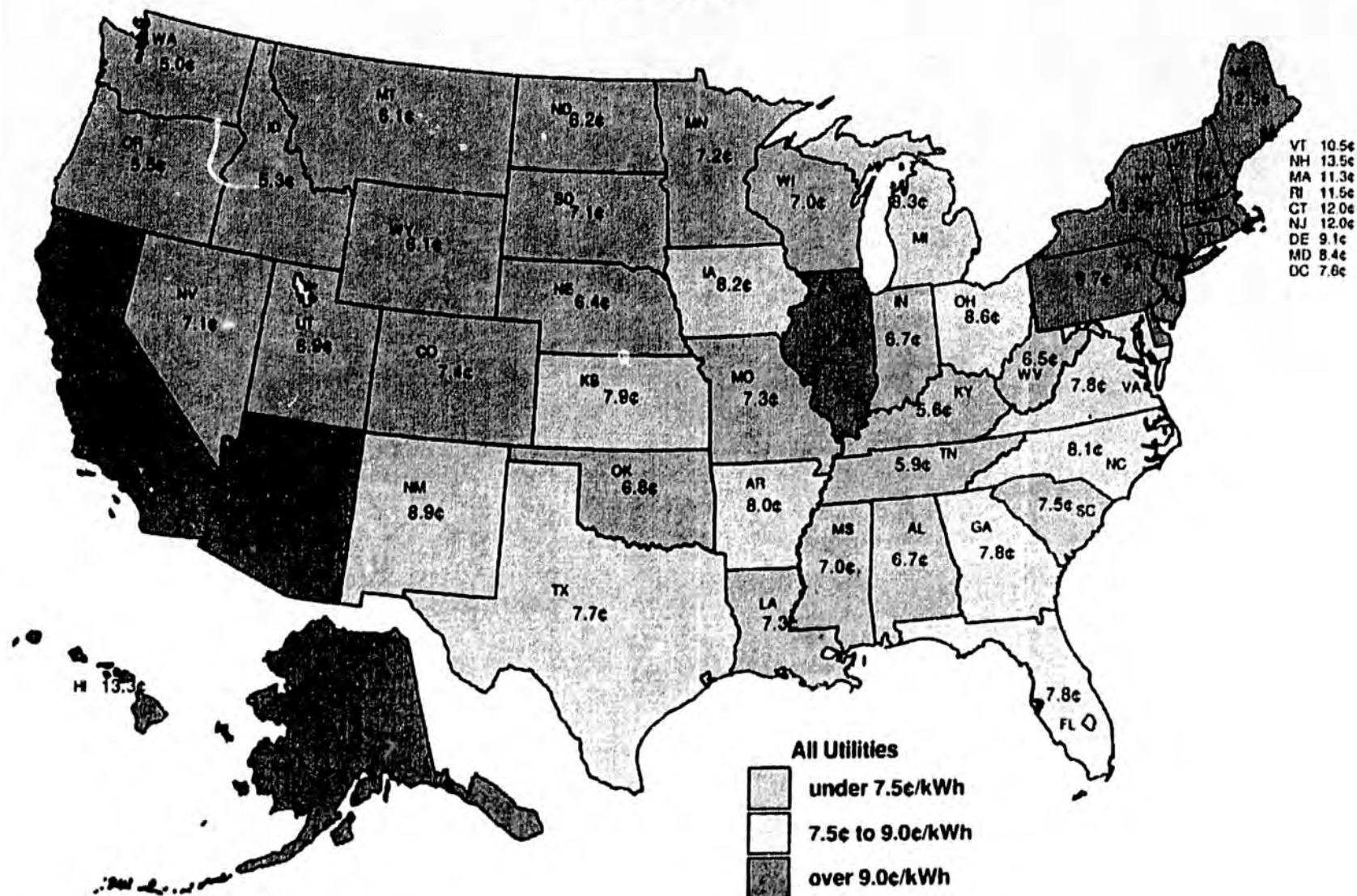
Proponents predict savings

Proponents of restructuring argue that retail competition will create huge savings. Consumers purchased \$212 billion in electricity nationwide in 1996. The Department of Energy (DOE) estimates about a 10 percent drop in rates with the Clinton Administration's restructuring plan. DOE claims retail competition will save consumers at least \$20 billion a year on their electric bills, pegging the direct savings for a family of four at \$104 per year. It calculates potential government savings at \$2 billion per year.

It is important to recognize that restructuring may result in cost-shifting among classes of consumers (residential, commercial, industrial) even if it does offer cost-savings. This cost-shifting may also occur regionally.

A major push for restructuring has come from those with the most to gain. Large power users in areas with high electricity rates want to be able to shop for cheaper power produced elsewhere. The map on the next page shows a comparison of average rates across the country. The states with the highest rates generally correspond to those that have moved quickly to pursue retail competition. Decision-

Residential Rates cents per kWh



67% of co-ops have higher rates than IOUs they compete with.
Co-ops do not typically provide service in relatively high rate states, eg Calif. and New England.
Source: 1995 EIA data



makers in some of the states with lower rates fear increased rates as competition results in sale of their low-cost energy elsewhere. While rates in Alaska, when averaged together, put us among the higher rate states, the lack of interconnection eliminates the opportunity for tapping the lower-cost power in other states.

Ancillary benefits sought with competition

While cost reduction is the primary goal of retail competition, restructuring may open the door for a burst of activity in development of ancillary energy services for electricity consumers. Restructuring may eliminate the need for some regulatory hurdles that have restricted development of such services. The hurdles have come from the need to be sure that consumers are not charged in the rate base for unnecessary services. Competition and the removal of regulatory restrictions may result in a growth of new energy management and other services that consumers may choose to purchase to assist them in managing their energy use.

States are exploring retail competition

Most states in the country have begun exploring the issue of retail competition, and some have moved to implement restructuring, usually after years of developing a plan. As of July, 1998:

- 14 states have enacted restructuring legislation: California (9/96); Illinois (11/97); Maine (5/97); Massachusetts (11/97); Montana (5/97); Nevada (7/97); New Hampshire (5/96); Oklahoma (4/97); Pennsylvania (12/96); Rhode Island (8/96); Connecticut, Virginia and West Virginia (4/98) and Arizona (5/98).
- 6 state public utility commissions have issued comprehensive restructuring orders: Arizona; Maryland; Michigan; New Jersey; New York; and Vermont.
- 26 states, including Alaska, have active legislative and/or regulatory processes underway to study restructuring and propose implementing legislation.
- 5 states, including the District of Columbia, have undertaken little preliminary activity to date.

While the basic principles of unbundling the industry functions and allowing choice of energy supplier are similar in the restructuring efforts, many of the details differ. There are important differences in who is required to participate and who is allowed to opt out of retail competition. Pilot projects generally have involved a small percentage of consumers. While some have reported success, there is strong disagreement among analysts as to whether the pilot projects provide an accurate picture of how true competition would work and whether the savings reported are real. There are also reports of significant consumer confusion.

RESTRUCTURING IN ALASKA

Deciding whether restructuring the electric utility industry for retail competition in Alaska would be good for consumers will be a complex task. The issue is very simple, are the benefits worth the costs? However, identifying the real benefits and costs of restructuring will not be easy. A decision grounded in reality rather than ideology will require a detailed analysis that has not yet been done.

Given the national debate and pending federal legislation, it is good that Alaska is addressing the issue of electric utility industry restructuring. Due in part to our isolation from the Lower 48 system, we may have a greater ability to design changes that meet our particular needs. The goal for public policy-makers should identify the best overall regulatory structure that allows industry to function efficiently in the effort to provide lower-cost reliable service to Alaska consumers as a whole. Restructuring for retail competition is only one option, and like other options that have been proposed, such as power pooling of generation resources, should be studied carefully. It is especially important to consider unique aspects of Alaska's electricity delivery systems as we assess restructuring costs and benefits.

Alaska's systems are different

When looking at the issue of restructuring, it is important to keep in mind that Alaska has distinct differences relative to the economic and technical models being discussed nationally in the restructuring debate. These special features include small market size, lack of interconnection, and consumer and public ownership of infrastructure.

Small Market Size(s)

The size of the potential markets in Alaska is very small, relative to the markets being discussed in the restructuring debate. Alaska, in fact, must be seen as having many distinct markets, due to the lack of interconnection. A key question here is whether the market(s) is(are) large enough that introducing competition would result in lower cost, reliable service. Will these markets draw - not just some - but enough competition to effect the goals of transitioning to a competitive structure?

The following statistics highlight the small size of the Alaska market(s), and the need to assess market potential. Numbers are rounded, not exact. While Alaska is not separated out from the U.S. total, most of the total listed is on the interconnected grid in the Lower 48.

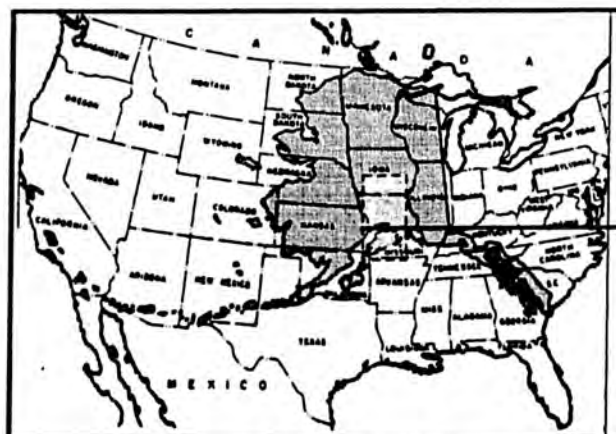
Item	U.S.	Alaska
Miles of transmission line	>119,000 (230 kv and above)	1,800 (most less than 230 kv)
# of consumers	118 million	250,000
Generation Capacity	776,000 MW	2,700 MW

Lack of Interconnection

Alaska's transmission systems are not interconnected with other states, and most of the communities in the state are not interconnected with each other. This exacerbates the problem of small market size; in some communities the market may be 100 consumers or less. The risk is great for these communities that market forces alone may not result in continued universal affordable service.

The Interconnected Area - Railbelt Generation and Transmission

Most of Alaska's consumers live in the interconnected area of the state, and receive electric service through the transmission system generally referred to as the Railbelt grid. This grid is limited due to the lack of multiple lines. Except for transmission lines that bring power from individual hydro-electric projects to isolated communities in other areas, the Railbelt has almost all of the transmission line in the state. The map below shows the relatively small distance this covers, compared to the transmission lines that span the country coast to coast.



Alaska's Railbelt Area

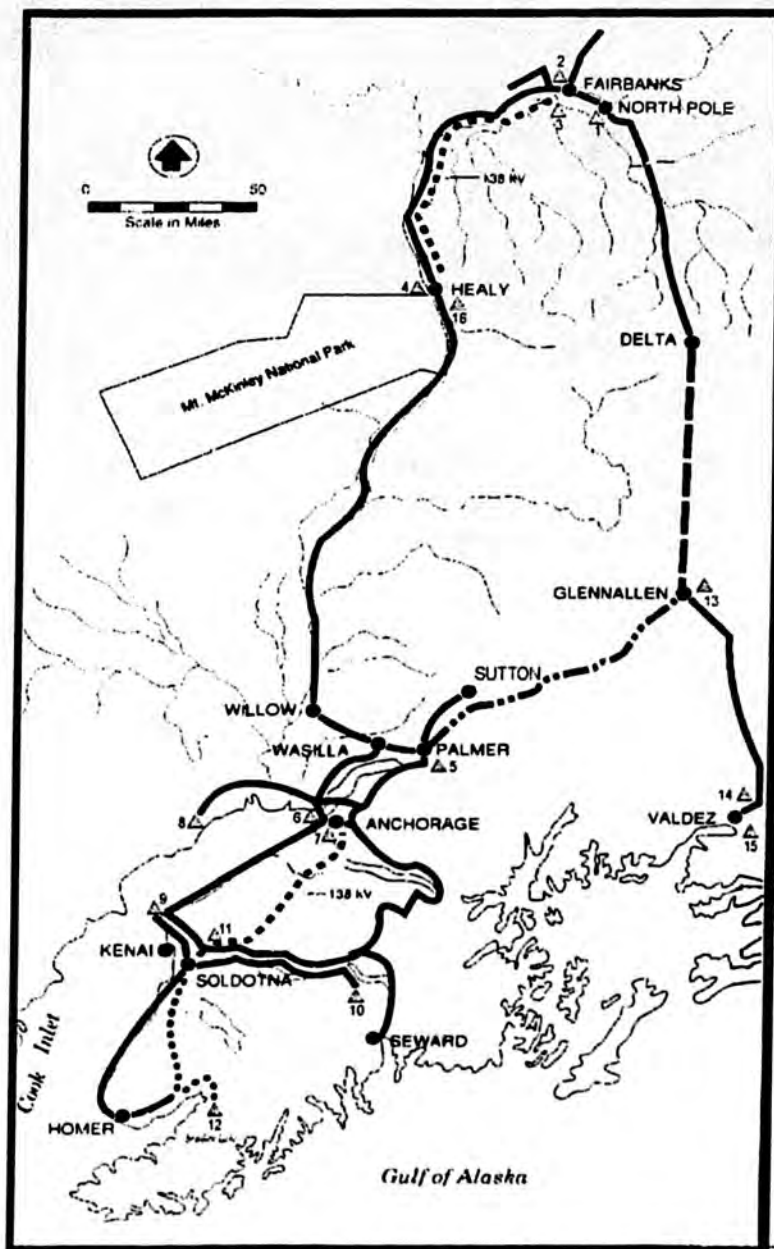
There are 15 non-military generating plants that are now linked to and capable of providing power to this grid. These plants are owned by three cooperatives, two municipalities and the State of Alaska. The existing generation capacity is expected to be sufficient for many years to come. The load is now about 700 MW and there is about 1300 MW of capacity.

While the rest of the nation is converting to more efficient natural gas, in Alaska's major populated area, the industry has long been reliant on what is considered an emerging major fuel source elsewhere. More than 60 percent of the electricity used in Alaska is produced using natural gas, compared to nine percent nationwide.

Rates among Railbelt utilities are similar:

	Residential ¢/KWH	All Class ¢/KWH
<u>U.S. Average</u>	8.4	7.6
<u>Alaska*</u>	11.2	10.1
CEA	9.5	8.4
ML&P	9.8	8.3
GVEA	9.8	8.8
Rural	>40	

* Chugach Electric Association (CEA); Anchorage Municipal Light and Power (ML&P); Golden Valley Electric Association (GVEA).



Railbelt Generation and Transmission Systems

- Community
- △ Generation Station
- 2 Generation Station Identification Number
- Existing Transmission Lines
- Bradley Lake Transmission Lines
- - - Proposed Northern & Southern Transmission Lines
- . - Proposed Sutton/Glennallen Intertie
- - - Proposed Glennallen to Delta Intertie

1. Oil Fired Generation – 121.8 mW – Golden Valley Electric Association – North Pole
2. Oil Fired Generation – 40.6 mW – Usibelli Coal Mine Inc. – Fairbanks
3. Coal Fired Generation – 28.6 mW – Golden Valley Electric Association – Fairbanks
4. Oil Fired Generation – 51 mW – Golden Valley Electric Association – Fairbanks
5. Coal Fired Generation – 25 mW – Golden Valley Electric Association – Healy
6. Hydroelectric Generation – 30 mW – Jointly owned by MEA, ML&P & CEA – Eklutna
7. Natural Gas Generation – 330 mW – Anchorage Municipal Light & Power – Anchorage
8. Natural Gas Generation – 49.4 mW – Chugach Electric Association – Anchorage
9. Natural Gas Generation – 360 mW – Chugach Electric Association – Beluga
10. Natural Gas Generation – 81.7 mW – Chugach Electric Association – Bernice Lake
11. Hydroelectric Generation – 17.4 mW – Chugach Electric Association – Cooper Lake
12. Natural Gas Generation – 38.5 mW – Alaska Electric Generation & Transmission – Soldotna
13. Hydroelectric Generation – 90 mW – Alaska Power Authority (State) – Bradley Lake
14. Oil Fired Generation – 10.4 mW – Copper Valley Electric Association – Glennallen
15. Oil Fired Generation – 7.2 mW – Copper Valley Electric Association – Valdez
16. Hydroelectric Generation – 12 mW – Alaska Power Authority (State) – Solomon Gulch
17. Coal Fired Generation – 50 MW – Alaska Power Authority (under construction) – Healy

The Non-Interconnected Area - Four Dam Pool and PCE Communities

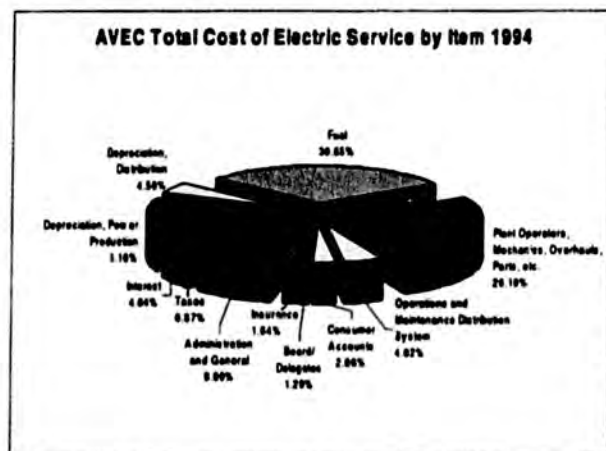
The area outside the Railbelt is generally not interconnected, though there are some small intra-regional connections. For instance, Valdez and Glennallen are interconnected. Most of the communities in the non-interconnected area rely on one main power source or plant, though larger communities may have several plants. Rates for power provided to communities from the state's Four Dam pool projects are set by a long-standing contract with the state. Other generation for these and other communities was typically developed by and is owned by the local utility.

In the nearly 200 small communities off the grid, there is usually only one main power plant. Diesel generation remains the most cost-effective method of generating electricity in most of these communities. Great strides have been made to increase the efficiency of diesel generators. Rates vary tremendously in these communities, depending largely on the cost of buying and getting fuel to the communities and the potential economies of scale provided by the customer use of electricity. Competition already exists in these communities in the form of the option of self-generation by large power users. Loss of even a single large account, such as a school or cannery can significantly increase costs to other consumers, as the economies of scale of both generation and service are affected and fixed costs are spread among the remaining customers.

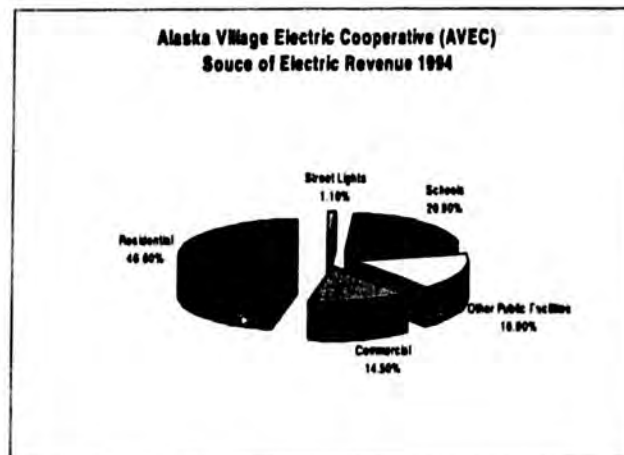


175 isolated rural communities are eligible to participate in the Power Cost Equalization program.

AVEC Total Cost of Electric Service by Item 1994

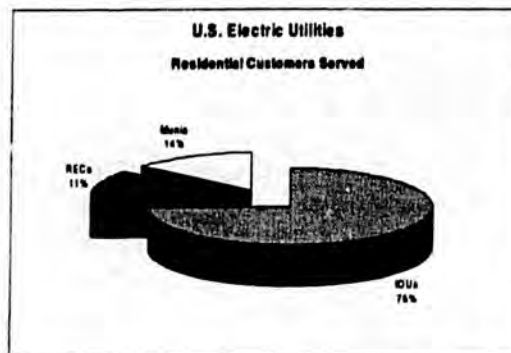
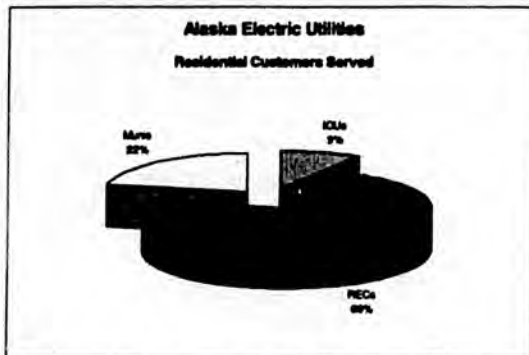


**Alaska Village Electric Cooperative (AVEC)
Source of Electric Revenue 1994**

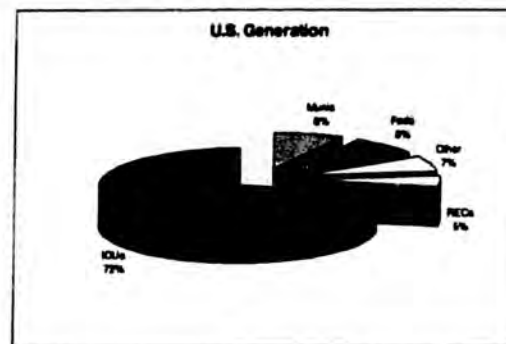
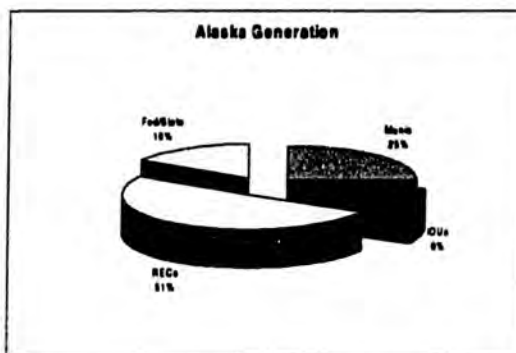


Consumer and Publicly Owned Infrastructure

Consumers have an unusual stake in the restructuring debate in Alaska -- hundreds of millions of dollars. They own most of the assets and most of the utilities. Important issues will need to be addressed about how restructuring could affect consumer equity in and consumer control of utility actions. Alaska has the highest percentage of the population (approximately 69%) served by consumer-owned cooperative utilities (RECs) of any state in the nation. Most of the rest of our electricity consumers are served by publicly-owned power systems (MUNIS). Relatively few are served by investor-owned utilities (IOUs).



Altogether, more than 90 percent of residential consumers receive electricity from a utility they own and more than 90 percent of the electricity generated each year is produced by these utilities. All of the generation and transmission infrastructure in the interconnected area of the state (the Railbelt) is consumer or publicly-owned. Almost all of the infrastructure in the rest of the state is as well, though there are a few private hydroelectric projects and a number of communities with private diesel generation plants and distribution lines.



Another way to look at this is that consumers own most of the equity in Alaska's utilities — hundreds of millions of dollars in value. Consumers get equity credited to them as capital credits, which are eventually returned to them. Capital credit (equity) payments are issued every year by cooperative utilities. Setting wheels in motion that could devalue consumers' equity could take money directly out of their pockets. An assessment of restructuring should include how it would affect the ability of consumers to retain the value of their investments and continue to receive the other benefits of ownership that they now receive.

Most consumers now have a direct voice in their utilities. Consumer-members of cooperatives elect directors, vote on bylaws and voice their opinions about utility policies at annual meetings each year. Voters elect assemblies or community boards that oversee the operation of municipally-owned utilities. This direct consumer control has helped guide utilities and provided incentives for efficiency not available in a system dominated by investor-owned utilities. It has provided strong incentives for rate reductions and incorporation of community values in the operation of local utilities.



ISSUES TO ADDRESS

What follows is a summary of some of the important issues that need to be addressed if Alaska is to implement restructuring for retail competition. Many of the issues are interrelated.

Potential for Effective Competition/Monopoly Power

Industry leaders in Alaska disagree about whether an effective competitive retail market can be created in Alaska. An independent economic analysis would be prudent before enormous resources are invested in attempting changes that may not yield desired results. Those raising concerns argue that competition may simply create monopolies that regulators can do less to control in the interests of consumers than they can under the existing regulatory system.

Effective competition will require at least the following:

- It should be technically and economically feasible for a variety of suppliers to provide the service;
- It should be economically beneficial for multiple rivals to compete to provide this service.
- Generation, transmission and distribution functions now vertically integrated for most Alaska utilities would need to be unbundled.

Unbundling

How will unbundling of Alaska's generation, transmission and distribution services be accomplished? Alaska's electric utility is more vertically integrated than the utility system in the lower 48. Only about one-third of the 3,100 utilities in the Lower 48 have generation capacity. Most utilities in Alaska produce the power they sell. Can or should divestiture of generation assets be required or would functional (accounting) unbundling serve to provide a fair competitive marketplace?

Market Power

Consolidation of market power among supplying companies can effectively stunt competitive pressures. A restructured system should prevent such market power.

Stranded Consumer Investment

Stranded costs or stranded investment, as discussed in the national discussion should be seen in Alaska as stranded consumer investment, since consumers, not shareholders, own nearly all of the assets.

Nationally, the primary "stranded costs" of restructuring are expected to be the value of generation assets invested in under the current regulatory system which prove to be less efficient as new, lower-cost generation comes on line and causes unused capacity/mothballing of old systems. These costs may be in contracts, not necessarily in the form of actual generation assets.

They are considered part of the "transitional costs" of moving to an industry structure that encourages more efficient generation. Because the investment was essentially required of utilities under the regulatory system being replaced, it is viewed by many as unfair to burden these utilities with these costs. The question becomes, who pays - shareholders, bondholders, departing consumers, entrant suppliers? In Alaska, it must be remembered that there is not currently much of a distinction between shareholder and consumer.



The potential for stranded costs also calls up the question of whether competition is the least-cost method - to consumers in Alaska - of transitioning the industry to more efficient generation. This issue is of particular concern in rural communities. Increasing use of new dispersed generation technologies, as they become more cost-effective, may be beneficial. But public policy-makers should be concerned about the potential overall cost to consumers of duplicating generation facilities in a small community instead of scheduling cost-effective efficiency transitions through utility operations.

Cost-Shifting

Differences in market power can result in cost-shifting among classes of consumers. This may or may not be desired, but should be anticipated and mitigated where not desired. In Alaska, cost-shifting could also take the effect of shifting costs between regions or communities, particularly within the Railbelt. Without safeguards, the least attractive consumers (residential and small business) may be denied access to the lowest-cost power and improved customer service benefits.

Regulatory Costs

Compared to other states, Alaska is relatively deregulated now, due to the dominance of consumer and publicly-owned utilities, whereby consumers have more direct control, and less need for intense regulatory control of utilities. Transitioning to a competitive environment may result in tremendous increased regulatory costs. These should be identified and considered as part of a cost-benefit analysis of the value of restructuring.

Tax Issues

Alaska's consumers now enjoy tremendous financial benefits from the consumer-owned non-profit status of cooperatives and the ability of municipalities to issue tax-exempt bonds. National legislation may eclipse Alaska's opportunity to protect these benefits, but some versions of restructuring might require reissuance of bonds and loss of tax benefits only if utilities participate in competition. Alaska may have the opportunity to protect these benefits by declining to restructure for retail competition. If so, the potential financial loss to consumers of these tax benefits should be considered a cost of restructuring in any cost-benefit analysis.

The tax benefits of nonprofit status and tax-exempt revenue bonds are primarily federal tax benefits. Alaska's consumer-owned utilities pay state and local property taxes. An analysis of restructuring should include consideration of potential property tax consequences for Alaskan communities due to changing valuation of utility assets. The potential for increased taxes should be another important part of the analysis.

Wholesale Energy & other Existing Contracts

Restructuring should address whether utilities will have to honor existing contracts and/or how to transition to a fair competitive structure considering existing contracts. Some utilities receive some or all of their energy requirements from other utilities. Such utilities typically have wholesale "all-requirements" type contracts with the provider. In the view of some, these contracts were entered into during a time when the industry was defined with a specific set of operating rules and requirements. Industry restructuring will change those rules. Hence, according to these participants, restructuring should allow for an open reexamination of the wholesale contracts. Others, however, dispute this view. A restructuring of the industry should include assessment of this issue.



Coordinating Mechanisms

Who will control and operate the transmission system? Many areas are exploring development of Independent System Operators (ISOs) for this purpose. Also at issue is how power supply contracts will occur. Two different models include the POOLCO, where a power pool purchases power from bidding generator operators in order to meet demand, and Bilateral Contracting, where contracts occur between parties. In either case, some process must be developed for coordinating demand and purchase to assure availability of capacity to meet consumer demand.

Reliability and Power Supply Planning

One of the great concerns about moving to a competitive industry is how to assure that effective reliability and long-term capacity planning occur.

Licensing Providers

All energy providers licensed to compete in any retail wheeling program should meet the same standards as electric utilities. The electric system is designed to meet standards involving reliability, power quality and safety. Although most consumer-owned utilities in Alaska are not interconnected, it has been suggested by some that dispersed generation and related technologies could provide benefits. There may be such benefits. But it is essential that if alternative power suppliers are connected to the electric system, they must meet the same service and quality requirements and standards as utilities.

Universal Service/Consumer Protection

All consumers must have universal access to affordable service. Customer choice through retail competition limits or eliminates many customer protections. Any plan for restructuring must address the need to ensure that all consumers have access to affordable electricity.

Provider/Supplier of Last Resort/Obligation to Serve

To assure universal service, a provider of last resort must be identified for those consumers who either do not choose or are unable to access the market due to limited market power. The role of "supplier of last resort" must be clearly defined. Retail wheeling gives customers choice of power supplier. As usually defined, retail wheeling also gives power suppliers the option to serve or not serve consumers. Because of Alaska's limited generation and transmission facilities, and because of its unique environment, there is a need to define a power supplier of last resort and an associated mechanism for revenue recovery.



PERSPECTIVE OF THE CONSUMER-OWNED UTILITIES

While many utility leaders continue to study the issue and develop opinions about the value of restructuring, managers of the consumer-owned utilities have identified items they believe deserve special attention as we begin the debate about restructuring.

■ Alaska's unique features must be considered:

Small market size

Lack of Interconnection

Consumer-ownership

- Uniform standards must be developed and applied to all energy providers.
- Exclusive distribution service areas must be maintained to prevent duplication of facilities and protection of the consumer.
- Universal access to affordable electric service should remain a primary goal.
- The role of "supplier of last resort" must be clearly defined.
- Stranded costs must be addressed.
- The issue of wholesale contracts must be addressed.
- Any proposed pilot program must be carefully planned.



PRINCIPLES TO GUIDE THE DISCUSSION

Industry restructuring is a complex issue and it will be helpful if stakeholders and policy-makers can agree to a set of principles to serve as guides to making decisions on the many different issues that will arise. Two basic guiding principles that may seem self-evident is that any action should benefit all consumers and that any system developed is fair to those asked to participate. Beyond that, we offer here some of the sets of principles that have been adopted by others to help the committee consider principles it may want to use to help inform its consideration of restructuring issues.

National Rural Electric Cooperative Association Membership Resolution

- All classes of consumers must be treated equitably
- If stranded costs are to be recovered, they should be recovered in a competitively neutral manner, without placing undue burden on residential and small business customers.
- All energy providers — not just utilities— must be subject to the same standards as utilities.
- All consumers must have universal access to affordable electric service.
- Reliability and safety must not be jeopardized.
- Exclusive distribution service areas must be maintained to avoid duplication of electrical facilities.
- There must be a transition and educational period before full consumer choice is implemented.

National Association of Regulatory Utility Commissioners

- Assign states the responsibility for determining "the extent of and pace for expanding choice for customers under their regulatory oversight."
- Maintain universal service at reasonable rates, as well as the safety, reliability, quality and sustainability of electric service.
- Protect customers from anti-competitive behavior and other malfeasances.
- Ensure that all customer classes benefit from restructuring.
- Preserve or improve the quality of the environment.
- Provide that stranded investment that results from existing regulatory and legal requirements should be addressed in a fair and reasonable manner by the states.



THE NEXT STEP--A COMPREHENSIVE STUDY

Assessing the value of restructuring for Alaska is a major task. ARECA supports the idea that the state should conduct a study, after consultation with stakeholders on the scope of the study, to evaluate whether retail competition would be in the public interest in Alaska. The study should focus primarily on whether effective competition can be developed, and analyze the costs and benefits for consumers, given Alaska's particular situation.

While competition is a popular idea, policy-makers should look at the broad scope of tools they have available for working with the industry to improve efficiency, reduce costs and stimulate innovation in serving Alaska's electricity consumers. We should be prepared both to embrace restructuring if adequate study reveals sure benefits and a fair system, and we should also stand ready to reject restructuring if it is not proven the best way to provide improved benefits to consumers.





SOURCES

Significant sources for materials used in this paper include:

Energy Information Administration (EIA) statistics

National Rural Electric Cooperative Association statistics

Alaska Electric Power Statistics, 1960-1995, Twenty-first Edition, ASCC & State of Alaska

Electric Utility Restructuring: A Guide to the Competitive Era, by Peter Fox-Penner.



SCOMM

109:4

FILE CONTENTS PAGE:

September 16, 1998 letter from AKPIRG
September 16, 1998 packet containing testimony and exhibits from AKPIRG
(exhibits are marked A through E)
September 16, 1998 remarks of Meera Kohler, General Manager, Municipal
Light and Power
Testimony of Mary Ann Pease, Aurora Power, "RFP for Electric Restructuring
In Alaska"
September 10, 1998, news article "MEA rates reduced again"
September 15, 1998 e-mail from Robert Doyle
September 15, 1998 e-mail from Paul Davis
September 9, 1998 letter from John A. Barnes, Marathon Oil Company
September 15, 1998, COMPASS article, "Public's voice missing in electrical
Restructuring debate"
September 11, 1998 fax from Richard Squiers
September 9, 1998 e-mail from Byron Whitesides
September 9, 1998 note from S. L. Miller
September 8, 1998 e-mail from J. M. Hallum
September 3, 1998 letter from Alethea Johnson
August 24, 1998 letter from Darrell Smith
August 24, 1998 letter from Copper Valley Electric Association (w/testimony of Robert
Wilkinson as attachment)
September 15, 1998 letter from Karen Baker
September 15, 1998 e-mail from Chris O'Brien
February 26, 1998, news article "California's Effort to Promote Plan for Electricity
Is Off to a Slow Start"
March 4, 1998 news article, "Alaska Power under siege"
March 1998 article, "Pennsylvania and California Take Action Against Consumer Schemes"

SUBCOMMITTEE: Senator Leman, Co-Chairman
September 11, 1998 memo from Senator Loren Leman, Report of Subcommittee
August 28, 1998 letter to Senator Leman from Alaska Energy Associates
August 27, 1998 letter to Senator Leman from Alaska Rural Electric Cooperative
Association
August 26, 1998 letter to Senator Leman from The Brattle Group
August 28, 1998 letter to Senator Leman from Homer Electric Association, Inc.
August 24, 1998 letter to Senator Leman from International Brotherhood of Electrical
Workers
August 24, 1998 letter to Senator Leman from Aurora Power
August 27, 1998 letter to Senator Leman from Chugach Electric Association



AKPIRG

ALASKA PUBLIC INTEREST RESEARCH GROUP

PO Box 101093, Anchorage, Alaska 99510-1093 Phone: (907) 278-3661 Fax: (907) 278-9300 e-mail: akpirg@akpirg.org

To: Chairman Norman Rokeberg, Electric Utility Restructuring Committee
and Senator Loren Leman, Chairman
Subcommittee of the Jt. Committee on Electric Utility Restructuring

From: Stephen Conn, AKPIRG

Subject: Suggested amendments to RFP to reflect small consumer needs and expectations and to encourage effective consumer choice and participation per your request

September 16, 1998

CONSUMER PROTECTION IN A DEREGULATED ENVIRONMENT:

- ♦ Assess problems and solutions to marketing abuses; define necessary rules and means to handle consumer complaints; define sources of funding
- ♦ Assess ways to make uniform policies regarding disconnect/curtailment for all providers
- ♦ Define a special needs and support mechanism that would be funded by all providers in an unregulated environment to assure universal service

CONSUMER INFORMATION:

- ♦ Develop a registration system for all providers that affords consumers clear and uniform information regarding the reliability of providers.
- ♦ Create criteria for adequate baseline information on providers' track records with consumers in Alaska and elsewhere, including a capacity to perform along with a means to disseminate this information which allows consumers to make informed choices among providers.
- ♦ Create and test a standardized billing format to allow for meaningful comparisons by consumers.
- ♦ Define a consumer bill of rights with community participation that commits providers to serve all consumers in a reliable and affordable manner. Define an efficient means for enforcement of rights.

EXAMINE HOW THE STATE REGULATORY AUTHORITY IN A RESTRUCTURED ENVIRONMENT CAN:

- A. Establish, maintain and enforce standards for technical and operational reliability
- B. Receive, adjudicate and remedy complaints between provider and customers in a timely manner in matters of fraud, collection abuses and safety hazards as well as customer refunds.
- C. Ensure full disclosure of price, terms and conditions of service, combat slamming or cramming with all consumer protection rules enforceable against providers or would-be providers.
- D. Explore means to expel providers from the market when they abuse the rights of residential consumers and small businesses and fail to afford these consumers with equal access to service available to other consumers in their service area.

SEP 17 1998

HP OfficeJet
Personal Printer/Fax/Copier

Fax Log Report

Sep-17-98 12:40

Identification	Result	Pages	Type	Date	Time	Duration	Diagnostic
19074653810	OK	01	Sent	Sep-17	12:39	00:00:51	002585030022

7.0.0

Post-it Fax Note 7671

To	Date	# of pages
Donnette Krutka	9/17/98	1
Co./Dept. 4	From	
San Simon's office	James	
Phone #	Co.	
	Rep. Lab. Inc.	
Fax # 463-2225-3810	Phone #	
	Fax #	



AKPIRG

ALASKA PUBLIC INTEREST RESEARCH GROUP

PO Box 101093, Anchorage, Alaska 99510-1093

Phone: (907) 278-366

Fax: (907) 278-9300

e-mail: akpirg@akpirg.org

Testimony Before the Alaska State Legislature's Joint Committee on Electric Utility Restructuring

by Stephen Conn. Alaska Public Interest Research Group

In the Anchorage Daily News your chairmen decried the absense of consumer involvement . They sought public input in the electric restructuring debate. I applaud this concern. Electricity is a necessity and essential to health welfare and progress. The right of all consumers to reliable and affordable service in our Northern home must be protected.

AkPIRG, a nonprofit consumers group with 3,000 members statewide has followed the process of electric deregulation from its earliest days. It is a charter member of the Electric Consumers Alliance and helped develop a consumer's bill of rights (See document F). We have listened to the experts and followed closely the California experience.

Together with consumers from around the country we have studied statements of principles regarding universal service and the appropriate role for government in protection of consumer rights (See document A). We have drawn on the near term experience of telephone deregulation in and its impact on consumers and applied the idea of electric deregulation to Alaska's urban and rural realities. Here is what we have learned:

Rural Alaska could be devastated at this time by retail electric deregulation. That deregulation would encourage cherry picking of large customers, leaving small customers to bear the costs of maintaining the system.

One cannot ignore the double barreled impact of loss of the power cost equalization subsidy with electric deregulation. The debate on continuation of that subsidy will occur in the next legislative session. If PCE is lost and cherry picking begins, not only use of lights and appliances but advances by villages seeking to maximize economic development through improved telecommunication services and efforts to create minimal rural sanitation improvements will fall by the wayside. Although lawmakers may wish to separate the issues of electric deregulation from that of power cost equalization, in reality they cannot be separated. The Governor's Council on Rural Sanitation linked adequate funding of the power cost equalization to reforms because of the cost of maintaining alternatives to honey buckets.(document D).

The rural situation is further complicated by the reliability issue. One vendor who sought to cherry pick has already drawn attention for his apparently shaky finances See document C-3).

Consumer apathy and consumer fraud

In California, Pennsylvania and elsewhere consumers generally have met retail deregulation with a collective yawn, this despite massive publicity.(document C) Unfortunately the same cannot be said for scam artists. Con men have engaged in slamming or fraudulent switching of electric accounts. Pyramid

schemes have encouraged consumers to buy from brand x providers that often had not contracted with suppliers to meet retail commitments.

The reason scam artists move into the retail electric field is that utilities are often exempt from basic consumer protections. Consumer protection agencies and regulatory agencies are either overworked, indifferent or unfamiliar with these new scams. In Alaska there is little or no consumer protection. Our regulatory agency takes the position that fraud in solicitation of telephone and cable service is outside of its jurisdiction. Therefore, we can count on retail electric deregulation attracting fraud with no one prepared to deal with it.

In matters of electric service the tradition of sharing the costs has made universal service a goal and an achievement. If competition is undertaken this must be accompanied with protections that insure affordability and availability as a matter of public policy. I have offered the committee the best study of universal service by the Consumer Research Foundation (document E).

The Statement of Consumer Principles drafted by Alaskans and others for the Electric Consumers Alliance suggests that those who purport to provide must be registered and scrutinized to avoid fly by night operators, that standards be enforced to insure technical and operational capacity and that complaints have a place to go and be resolved. Consumers need clear information as to price and performance. (See document A). Standard policies for disconnect and means to maintain privacy must be established. Discrimination by socioeconomic class or location and market abuses all form the basis for a transformation of the regulatory process and not its elimination. Regulation must be defined in the interest of consumers and should be studied.

Consumers have already drafted a list of consumer protections, safety requirements and even principles to guide deregulation where worker and public safety are concerned. (See document B).

In sum, there is not silence from the consumer community but a very clear charter of rights and expectations that deregulated electric utilities and government should honor.

We know what we want: our voice is not missing.

Until government and utilities have reviewed these expectations and the experience of lower 48 states in retail wheeling has been analyzed, deregulation should not occur in the retail market. AkPIRG encourages your committee to consider experimentation in wholesale wheeling. Leave retail wheeling for the future. Thank you.

Doc. 17
From Alaska Public Interest Research Group,
September 15, 1998

ELECTRIC
CONSUMERS'
ALLIANCE

FIRST INDIANA PLAZA ■ 135 NORTH PENNSYLVANIA STREET ■ SUITE 2700 ■ INDIANAPOLIS, IN 46204
1-800-585-8208 ■ (317)684-5346 ■ (317)684-5173 FAX

Statement of Consumer Principles To Guide State Restructuring Of the Electric Industry

March 6, 1998

*We, the members of Electric Consumers' Alliance, gathered in Washington, D.C. on March 6, 1998, recognize that many states are considering the restructuring of their retail electric industry so that customers can select from among competing providers. **We believe this consideration to be predominantly a state issue, and one which states have undertaken with the foresight and attention that is required by such a fundamental policy change.** The provision of electric service is the key to participation in our modern society and the significance of change cannot be underestimated. We have been active in many of these states and believe that--if implemented correctly--electric competition can bring significant benefits to the consumers we collectively represent, including competitive prices and service innovation. At the same time, however, we recognize that the consumers we represent--including small businesses, senior citizens, rural residents, the disabled, minorities and low income consumers--may also be placed at risk by the transition to a more competitive market structure. These risks may include marketing abuses, billing confusion, service quality issues and access to a provider of choice, among others.*

*Therefore, given the continuing public interest importance of the provision of electric service--which will endure regardless of market structure--we believe it is necessary and essential for any jurisdiction considering implementation of a competitive market structure to **condition entry of a provider in that market upon acceptance of and adherence to the following principles.** We believe it is equally imperative that the appropriate legislative and regulatory bodies be given the authority to implement and enforce these principles, which we deem to be minimally necessary to protect and preserve the public interest:*

An informed consumer population is the key to making a competitive electric market work. Intelligent buyers will respond to superior providers. But quality education about the options and opportunities available to consumers will not necessarily be provided

by the market, nor will it be easily understood by all consumers. Experience in the transition from other highly regulated markets--such as cable and telecommunications--suggests that consumer confusion may be significant. To be effective, education about electric restructuring must be ongoing, objective and targeted to specific consumer segments. At a minimum, this requires the development of a state-specific action plan for consumer education that utilizes a variety of approaches and mediums to convey information. It is especially important to involve local constituent organizations--such as the members of ECA and other community-based organizations--into this planning process. The planning process must have a long-term funding source, such as an education trust or other vehicle, to ensure continued effectiveness. This is particularly important because it is likely that many consumers will be cautious in entering the market and may delay decisions for months or even years. It is important that the appropriate educational resources continue to be available to consumers at the time that decisions are made. The funding source should be supported equitably by all market participants. Finally, the state regulatory agency or other authority must take responsibility for the timely compilation and dissemination of educational material and the coordination of this effort with community-based organizations.

Education

Reasonable constraints must be placed on overzealous attempts to sell the provision of this public interest service. Existing telemarketing and consumer solicitation provisions may provide a reasonable starting point in many states, but there may be a need

to more clearly define consumer rights and responsibilities in others. Consumers should be entitled to equal, if not greater protection, than that accorded them in the sale of other consumer goods. At a minimum, this should include 1) full disclosure of the price, terms and conditions of service; 2) a three-day window for cancellation of consumer contracts for the provision of electric service; 3) a prohibition on the unauthorized switching of electric providers, or "slamming," by requiring customer verification of the choice of supplier; 4) a prohibition on the unauthorized billing for services not expressly ordered by a consumer, or "cramming," by requiring customer verification of the choice of service(s); and 5) creation of a "don't call me" list which precludes the telephone solicitation of any consumer who elects to be included on the list. States should identify and prohibit illegal "pyramid" sales.

Marketing Abuses

A standardized bill format within each state must be required so that customers can recalculate their bills for accuracy and make reasonable comparisons between providers.

The format should provide sufficient specificity so that customers can make economically efficient decisions regarding their service(s) selected and consumption patterns. The bill must include full and uniform information about the supplier, including a point of contact with local or toll free telephone number, as well as a description of any payment terms and the procedure to be followed for dispute resolution. A state may wish to prescribe collection/late fee provisions to avoid the excessive fees imposed in other industries. The confidentiality of customer bill information, including usage patterns, shall be maintained.

Consumer Information

The provision of electric service on a competitive basis should not result in degraded or inferior service for some customers. The state regulatory authority

should establish, maintain and enforce standards for technical and operational capacity. Existing service quality standards may be an appropriate starting point for this purpose as long as they are extended to all providers and sufficient reporting mechanisms are in place. It is anticipated that these standards must be augmented to differentiate between the responsibilities of providers and distributors. These requirements should be designed to ensure that customers get the "quality" of service for which they contract; they should not preclude the offering of differing services (e.g. firm v. interruptible service).

Service Quality

As additional providers enter the market and competition supplants regulation as the primary means of market discipline, it can be anticipated that the number and types of consumer complaints will increase. It is

essential that the state regulatory agency (or other appropriate body) be empowered to receive, adjudicate and remedy complaints between providers and their customers in a timely manner.

This must include sufficient authority to confer jurisdiction over providers and to order appropriate remedies, including customer refunds, as well as the ability to prospectively protect consumers against fraud, collection abuses and safety hazards. Any procedure must provide for an expedient resolution of issues.

Complaints

Consumer information should be protected from unauthorized disclosure to third parties. Consumer billing records, usage patterns and other identifying information should be considered confidential unless a consumer consents in writing to disclosures.

Privacy

Most states already have in place policies governing the disconnection of service and the priorities to be followed in the event of curtailment of service.

Disconnect/Curtailment

Disconnection (especially for non-payment) should be a resort only after remedial steps have failed and due process has been provided. Curtailment should occur only in extreme circumstances and only consistent with an established plan. These policies must be brought forward and applied to all providers so that all consumers are treated equitably and not unfairly deprived of electric service without adequate process. Care should be taken to prevent a situation where essential services or at-risk customers are denied service because they are a lower "economic" priority for the provider.

For consumers to make informed, rational choices among electric providers, it is essential that they have access to adequate baseline information. The state regulatory

Price/Performance

agency (or other appropriate body) should compile and publicly disseminate such information on a periodic basis. At a minimum, this should include: a list of each provider registered to provide service with contact information; a general description of each service to be offered and the conditions that need to be met to receive such service; the number of complaints (as a percentage of customers) against the provider and the disposition of those complaints; and any other information deemed to assist consumers in making service choices, including a brief statement of the performance history of the provider.

Customers must be given access to their provider(s) of choice. Providers must not be permitted to discriminate unfairly in access to service based on customer classes,

demographics, socioeconomic data or any

other factor determined by the regulatory authority to be unjust. As well, no unreasonable terms or conditions may be placed on a customer's receipt of service. Conversely, customers must be allowed to select from among all available suppliers and must not have artificial restrictions placed on their right to choose or right not to choose an otherwise qualified provider, including those entities from whom the customer has previously received service. All consumers are entitled to share in the potential benefits of a restructured electric market.

Choice

Access to affordable electric service has been a hallmark of the current regulatory structure, with a number of utility-, government- and private-sponsored programs combining to create what has been described as a universal

service "safety net" for consumers, including those with limited capacity (including seniors and the disabled) to pay the full price of service. Affordable access for all must remain a hallmark of a restructured electric industry. To do so, however, will require a recognition that a competitive marketplace is unlikely to fully meet this need and that a new special needs support mechanism is necessary. States should implement procedures to ensure that all customers have continued access to affordable electric service. To do so, states should implement access charges on generation delivered or other funding mechanism on a provider-neutral basis.

Special Needs

To provide electric service, even in a competitive and substantially deregulated environment, it is still essential that all providers meet registration requirements.

Indeed, providers (including aggregators)

must establish that they are capable of meeting service obligations to their potential customers as a precondition to doing business. At a minimum, this must include 1) a demonstration of financial viability, including consideration of performance bonding requirements; 2) a demonstration of technical capability; 3) an explanation of available supply sources and alternatives; and 4) a verified commitment by a senior corporate officer to comply with consumer protection, billing and service quality standards in effect. Recent events in states experimenting with market competition underscore the importance of reasonable registration requirements to identify potential problem areas *before* providers are permitted to market in a state. Along with registration provisions must be the ability of state regulatory officials to revoke or suspend the registration of any provider that fails to meet and maintain minimum standards.

Registration

From Alaska Public Interest Research Group,
September 15, 1998

Alliance to Protect Electricity Consumers

Statement of Principles *regarding* Electric Industry Deregulation

February 12, 1998

Alliance to Protect Electricity Consumers

The Alliance to Protect Electricity Consumers (APEC) is a coalition of highly diverse organizations formed to ensure the positive resolution of consumer issues related to electric industry deregulation. Our common concerns are the potential effects of deregulation on consumers, communities, the environment and the workplace.

Statement of Principles Regarding Electric Industry Restructuring

This Statement of Principles is the consensus view of APEC members regarding the specific topics listed below. It is a presentation of facts and issues which we recommend to policy makers and the general public for careful consideration.

Contents

APEC Organizations & Contacts	3
Cost to Consumers	4
Environment	6
Mergers and Market Dominance	7
Reliability	9
Safety	10
Societal Impacts.....	11
Stranded Costs.....	12
Stranded Workers	13
Tax Revenues	14
Universal Service	15

Organizations and Contacts

A. Philip Randolph Institute
Norman Hill 202-289-2774

American Federation of Labor and Congress of Industrial Organizations
Bill Cunningham 202-637-5169

American Federation of State, County and Municipal Employees
Ed Jayne 202-429-1188 jae@afscme.org

American Public Power Association
Madalyn Cafruny 202-467-2952

Building and Construction Trades Department, AFL-CIO
Dick Seelmeyer 202-347-1461

Consumer Federation of America
Mary Rouleau 202-387-6121

Electric Consumers Alliance
Bob Brandon 202-331-1550

Friends of the Earth
John McCormick 202-783-7400

Industrial Union Department, AFL-CIO
Peter diCicco 202-842-7817

International Association of Machinists
Mike Flynn 301-967-4704

International Brotherhood of Boilermakers, Iron Ship Builders,
Blacksmiths, Forgers and Helpers
Bridget Powell Martin 703-560-1493

International Brotherhood of Electrical Workers
Mike Emig 202-728-6060

International Federation of Professional and Technical Engineers
Candace M. Rhett 301-565-9016

Maritime Trades Department
Daniel Duncan 301-899-0675

National Association of Community Action Agencies
Christine Alden 202-265-7546

National Consumer Law Center
Kay Guinane 202-986-6060

National Consumers League
Linda Golodner 202-835-3323

National Council of Senior Citizens
Daniel Schulder 301-578-8839

National Farmers Union
Lynn McBride 202-554-1600

National Rural Community Assistance Program
Kathleen Stanley 703-771-8636

National Rural Electric Cooperative Association
Bob Kabat 703-907-5641

Oil, Chemical and Atomic Workers International Union
Paula Littles 703-876-9300

Public Citizen
Wenonah Hauter 202-546-4996

Service Employees International Union
Robert Masciola 202-898-3346

United Mineworkers of America
Kristin Leary 202-842-7294

United Steelworkers of America
Steve Francisco 202-778-4384

Utility Workers Union of America
Sam Weinstein 202-347-8105

.....

The Alliance to Protect Electricity Consumers
Statement of Principles
February 12, 1998

Cost to Consumers

Electric rates could increase for residential customers and small business due to profiteering, temporary shortages, and the shifting of costs from large industrial users to small commercial and residential customers. Any legislative and regulatory actions leading to deregulation or restructuring of the electric utility industry should not proceed if lower rates for residential consumers and small businesses cannot be guaranteed for both the short and long term.

Where deregulation is adopted, residential and small business consumers could face several possible scenarios:

Deregulation will actually increase rates for consumers in states with low-cost electricity, if utilities export the cheap electricity and sell it elsewhere to the highest bidder.

Predicted price decreases may not materialize if there is not adequate generation supply and vigorous competition in generation markets. Dominant firms will be able to charge higher prices if there are too few competing sellers. Residential consumers will not have the same buying power as large industrial customers, who will have the bargaining leverage to buy up all the low-cost power, leaving only high-cost power for residential consumers.

Consumers will have to sift through confusing, possibly misleading, offers of electricity prices, savings, service options, and payment plans. They may have to pay transaction fees to power marketers, brokers, and other middlemen, and the related increased marketing and advertising costs.

Whether caused by accidental outages or insufficient generating reserves, any shortage of electricity will drive up the market price of available electricity.

Depending on how stranded costs are divided between utilities and classes of consumers, any possible price reductions due to deregulation could be substantially delayed or nullified altogether. Residential consumers of a high-cost utility may end up paying a disproportionate share of its stranded costs if the utility's large customers no longer buy electricity from it.

Given these possibilities, deregulation might not provide lower prices to residential and small business consumers.

Consumers in certain markets are aggregating their electricity purchases to protect themselves from higher rates. Deregulation, however, should not require consumers to aggregate to avoid higher costs or reduced services.

continued...

**Any deregulation plan must include,
at a minimum, the following consumer protections:**

- **Lower Rates.** Deregulation should not proceed if lower rates for residential and small business consumers cannot be guaranteed for both the short and long term.
- **Competitive Safeguards.** If policymakers choose to deregulate, state and federal regulators must ensure that truly competitive generation markets have been created before deregulation is adopted, and maintained afterward. To prevent the creation of unregulated monopolies, specific definitions of what constitutes effective competition must be in place before deregulation takes place. In addition, state and federal agencies must update and strictly enforce antitrust and other statutes protecting consumers.
- **Protection from Price Cross-Subsidization.** To increase profits to their stockholders, for-profit corporations with both competitive and regulated subsidiaries may attempt to subsidize their competitive subsidiaries by charging higher prices to captive customers of their regulated subsidiaries. State and federal regulators must prevent this type of cross-subsidization.
- **Access to Information.** Consumers must be able to easily determine and compare the prices for transmission, distribution, and retail energy services and have access to information about the generation sources of the electricity they purchase.
- **Aggregation Protection.** The ability of consumers to aggregate their electricity purchases must be protected.
- **Consumer Protections.** Federal and state agencies must update and strictly enforce consumer protection laws to ensure fair marketing, sales and service practices. All sellers of electricity should, at a minimum, be licensed and be subject to penalty for license violations.

Regulators must address the following issues raised in an environment with multiple electric power suppliers: privacy protection; "slamming" (unauthorized switching of providers); "pre-selling" (securing customers before a supplier has the technical ability or legal authorization to provide service); fair and understandable billing; clearly written terms and conditions of service; nondiscrimination; adequate customer service offices.

♦ ♦ ♦

The Alliance to Protect Electricity Consumers
Statement of Principles
February 12, 1998

Environment

Environmental and conservation programs implemented by electric power companies could be dropped and/or would not be expanded. Deregulation could adversely affect the environment. Funding for commercialization of renewable resources could be jeopardized.

Current attempts to deregulate the electric power industry make the already difficult environmental issues even more complex. Increasing competition is already leading to cuts in funding for energy efficiency, renewable energy, and other utility programs that protect the environment. Deregulation could lead to the shutdown of the most inefficient and expensive power plants, but it could also result in marketing and advertising that encourages greater consumption and increased emissions.

Any plan to deregulate the electric power industry must include the following measures:

- Spending on programs to conserve energy and increase the reliance on cleaner electric power sources, which is already inadequate, must not be reduced. Spending should be increased for energy efficiency and clean energy technologies such as wind, solar, biomass, geothermal, ethanol, small hydro power and advanced fossil energy technologies.
- No existing generating unit should be allowed to operate in violation of any existing or future Clean Air Act provision or regulation.
- States and the federal government should improve the energy efficiency of buildings and equipment by making appropriate changes to building codes and efficiency standards. The federal government should apply and meet the same standards for buildings and efficiency that are required of non-federal sectors of the economy.
- Recipients of low-income energy assistance should not be prevented from purchasing power from environmentally-efficient generation sources.

♦ ♦ ♦

The Alliance to Protect Electricity Consumers
Statement of Principles
February 12, 1998

Mergers and Market Dominance

Ongoing consolidation of existing electric utilities and other energy industry companies is likely to lead to abuse of economic power and manipulation of energy markets to maximize profits at the expense of consumers.

Electric utility deregulation and competition are being presented as "customer choice." Some deregulation proponents, however, want to dominate the market and its consumers, and to prevent competition. Giant utility holding companies, their affiliates, and global energy companies want to dismantle current laws that attempt to suppress anti-competitive forces and protect consumers from monopolies' abuses.

In the late 1920s, 16 corporations controlled 85 percent of the nation's power supply. Congress enacted the Public Utility Holding Company Act (PUHCA) to simplify the web of corporate relationships and establish minimum consumer protections. Today, while some investor-owned utilities are publicly endorsing competition, a growing wave of investor-owned utility mergers and acquisitions threatens to kill any chance of competition actually developing.

If the market protections provided by the PUHCA are repealed and not replaced with more effective statutory provisions, and if the number of competitors is reduced to a handful through mergers and acquisitions, there will be no real hope of bringing competitive choices to consumers. A few generation sellers will have substantial market power and the ability, through that market dominance, to erect high barriers to the entry of other competitors.

continued...

Mergers and Market Dominance, *continued*

To sustain a healthy competitive electricity market for consumers, certain changes are needed and specific safeguards must be in place:

- The federal enforcement agency should change. The Securities and Exchange Commission appears to have little interest in enforcing PUHCA's consumer protections against market power abuses. The Federal Energy Regulatory Commission is the appropriate federal agency to aggressively enforce PUHCA or a modernized successor statute.
- Market power must be restrained. A fair, efficient competitive electric industry will not develop if the market consolidates to a handful of giant companies or if some companies are allowed to engage in predatory pricing or discriminatory actions.
- The Department of Justice, the Federal Trade Commission, and the Federal Energy Regulatory Commission must be given the resources and statutory authorities necessary to effectively police electric markets. These statutory authorities should include:
 - The authority to order divestiture of generation facilities if necessary to address effectively the abuse of existing market power.
 - The authority to prevent preferential transactions between corporate affiliates, including discriminatory access to essential information, below-cost transfer pricing, or other anti-competitive arrangements; and in the event of repeal or reform of the PUHCA, the transfer to FERC of provisions under that Act necessary to prevent preferential or anti-competitive activities among and between corporate affiliates of for-profit utilities.
 - The authority to ensure that reliability standards and requirements are adopted and enforced in a nondiscriminatory and competitively neutral basis.

♦ ♦ ♦

The Alliance to Protect Electricity Consumers
Statement of Principles
February 12, 1998

Reliability

Many electric power companies, preparing for competitive challenges, are cutting costs and deferring maintenance. Such cost-cutting could result in systems so overstretched they may not be able to operate efficiently in times of peak demand or during storms.

Industry restructuring must ensure an adequate generation supply and reliable transmission service. Our electricity systems are highly interdependent and complex operations. Reliability depends on the cooperation of all entities using the systems and a well-trained workforce.

Electrical industry groups now maintain interstate reliability through voluntary adherence to agreed upon guidelines. Early indications show that competition among utilities is already overshadowing the prior tradition of cooperation, and some utilities have cut their maintenance staffs and schedules to cut costs.

To protect consumers from unreliable service:

- The roles of state, regional, and federal regulatory authorities must be clearly defined. Primary oversight and enforcement for interstate reliability must be established at the regional or federal level.
- Mandatory national and regional reliability rules and standards should be developed in collaboration with transmission providers, transmission users, consumers and other interested parties.
- An industry-wide umbrella group, such as the North American Electric Reliability Council (or some successor group) should implement such national standards, but any such group should be subject to the oversight, approval and dispute resolution powers of the Federal Energy Regulatory Commission.
- All retail power supply providers in a restructured industry must comply with reliability and minimum quality of service standards.
- Measures must be taken to assure adequate generation reserves.

♦♦♦

The Alliance to Protect Electricity Consumers
Statement of Principles
February 12, 1998

Safety

Worker safety and public safety could be threatened by continued cost cutting.

One likely outcome of electric industry deregulation will be a de-emphasis of public and worker safety as the emphasis shifts to maintaining and increasing profits. Staffing levels and training programs have been the first areas cut when deregulation has occurred in other industries. Work force reductions and scaling back of training programs are already occurring as companies jockey for competitive position.

Electricity service is provided in close proximity to people. It can be extremely dangerous unless conducted properly. In general, industry workers, management and regulators have achieved an exemplary safety record. A long history of proper training and appropriate investments in public safety and worker safety is responsible for that record.

The foundation for the industry-wide safety record is a system of voluntary consensus standards developed through the joint efforts of all segments of the electric utility industry. Some of these consensus standards, such as the National Electrical Safety Code and the National Electrical Code, have become mandatory through enactment by state legislatures. Others form the foundation for the setting of mandatory standards by federal regulatory agencies.

Under the present regulatory framework, funding for this safety culture is borne by electric utility companies, which pass on much of the cost through the rate structure to the consumer. With industry deregulation, funding for public and worker safety programs could be cut substantially.

To assure continued public and worker safety:

- All aspects of the continued development of safety codes and standards must continue to be fully funded by all sectors of the electricity industry.
- Consensus on safety codes and standards must be continually developed by qualified, experienced industry and labor representatives.
- Unregulated generating plants must be subject to state and federal general industry OSHA requirements and must undergo periodic government inspection.

•••

The Alliance to Protect Electricity Consumers
Statement of Principles
February 12, 1998

Societal Impacts

Valuable community-based programs funded by local power companies are being placed at risk. They include lifeline rates, low income assistance, wildlife preservation, service cut off protections, and community services such as lighting for playgrounds, athletic fields, and holiday lighting.

Under the traditional regulatory structure, power companies have provided programs such as community lighting and wildlife preservation. Even under the current regulatory structure, however, government and utility-sponsored programs designed to keep the lights on for people with low incomes have been inadequate. For deregulation to benefit residential customers, a comprehensive program, like that existing in the telecommunications industry, must be implemented.

Similarly, while most existing power companies have service cut-off protection programs, the adequacy of such programs should be ensured. Such programs must be applicable to all retail suppliers.

Deregulation should enhance and protect public benefit programs by:

- Providing reasonable incentives to power companies, existing and new, to provide community lighting services for playgrounds, athletic fields and other similar public service programs.
- Including a comprehensive program of low income assistance, including lifeline rates, subsidies and assistance with hook-ups.
- Requiring all retail suppliers to have an adequate program ensuring that service will not be terminated unfairly or during extreme weather.

♦ ♦ ♦

The Alliance to Protect Electricity Consumers
Statement of Principles
February 12, 1998

Stranded Costs

Under rapid, radical deregulation, some electric power companies may not be able to recover the costs they incurred to provide electric service. The signers of this document differ in their views as to whether stranded cost recovery is necessary or appropriate. All agree, however, that restructuring should not proceed unless all customer classes benefit.

If deregulation is adopted, utilities might not be able to recover the costs they have incurred to provide service, especially investments in generation facilities that produce electricity at prices now above the prevailing market price.

APEC members have widely varying views on whether utility recovery of these stranded costs is appropriate. Groups representing consumers believe utilities should absorb all or a substantial portion of these costs because the utilities chose to make the investments. Groups representing publicly- and consumer-owned utilities believe recovery of costs stranded as a result of deregulation is generally appropriate, because utilities were required to build facilities sufficient to serve all retail consumers in their service territories.

Despite these widely varying views, the members of APEC do agree on certain fundamental points:

- Stranded cost amounts should be based on actual market prices over time, or the actual sales price buyers pay for "stranded facilities" when sold in arms-length transactions. Stranded cost recovery should not include "phantom" stranded costs that do not materialize.
- Stranded cost calculations should be carefully examined to make sure that utility costs are not recovered twice. For example, tax costs already collected through deferred tax mechanisms should not be collected again.
- Utilities should not earn a profit on stranded assets through stranded cost recovery.
- Stranded cost allowances should actually be used to address stranded cost issues and not for other purposes, such as overseas investments or purchase of competitors.
- Human stranded costs, i.e., the cost of worker assistance and retraining, should be considered a legitimate, recoverable stranded cost.
- Large industrial customers must pay their fair share of stranded costs.
- Stranded cost recovery should not subsidize future operating costs of stranded plants.

♦ ♦ ♦

The Alliance to Protect Electricity Consumers
Statement of Principles
February 12, 1998

Stranded Workers

Workers who have devoted their careers to the industry and made a commitment to gaining skills and experience are already suffering great losses with deregulation. Qualified workers are losing their jobs and receiving little or nothing in the way of severance pay, retraining, or other job placement assistance. To assure continued system reliability and safety, every effort should be made to retain electric utility workers.

Utility companies buy equipment and train workers to be prepared to respond rapidly to outages and emergencies, and to perform regular and preventive maintenance. In response to emergencies or disasters, utilities also "loan" skilled employees to each other to restore electric service as rapidly as possible. This needful cooperation may diminish when affiliates of these utilities are competing for customers.

Anticipating the possibility of competition, investor-owned utilities have, since 1990, cut the number of electricity employees nationwide by twenty-five percent. These cuts have had devastating effects on the affected employees and their communities. Utility maintenance and emergency response time have been impaired.

Extended blackouts of large areas of the nation's power grid have been directly attributed to utility cost cutting and reductions in maintenance. Cutting of workforces and reductions in employee training are creating a shortage of the skilled workers necessary for power restoration in emergencies.

Work force layoffs have also affected workers in the power generation plants, as well as clerical and customer service workers. The increased workloads and responsibilities are being shifted to the remaining utility employees who now cover expanded daily work routines. The work load is compounded when the inevitable emergency situations arise and there are fewer people to deal with them.

Any electric utility industry restructuring should ensure that:

- The critical necessity for trained and qualified personnel to operate all segments of the electric utility industry is met by implementing, as soon as possible, the provisions of the 1994 National Skills Standards Act for all electric utility workers.
- State or federal electrical system reliability and maintenance standards require appropriate staffing levels of trained and qualified utility workers at all levels of the industry.
- Appropriate provision is made for severance or retirement options, job retraining, and outplacement assistance for affected utility employees.

♦♦♦

The Alliance to Protect Electricity Consumers
Statement of Principles
February 12, 1998

Tax Revenues

Currently, electric power companies contribute significantly to the local tax base. In a deregulated industry, this tax revenue could dry up or drop considerably.

State and local taxes imposed on electric utilities may include gross receipts taxes, income taxes, franchise fees, and property taxes that may be applied differently than those imposed on other businesses. Taxes imposed on utility customers, but collected and remitted by the utility, include sales taxes, use taxes, and utility user taxes. In many states, the aggregate level of taxation on utilities is significantly greater than that imposed on other businesses.

Much of the existing tax regime for electric utilities could become obsolete under deregulation. Deregulation will present three basic tax issues for state and local governments:

1. Revenues could decline in many jurisdictions. This could result from lower electricity prices, a shift in market share from more to less heavily taxed service providers who may be located out of state, and from declining values of property owned by utilities.
2. If utilities continue to be taxed on different bases than other electricity providers, these tax variations will create a very different economic effect in a deregulated industry than under prior cost of service regulation. Taxes which utilities previously recovered as a matter of course under cost of service regulation may become unrecoverable, as consumers choose different electricity providers to avoid the payment of these taxes.
3. If existing tax laws are changed, local jurisdictions could lose control of the tax revenues.

To protect consumers:

- No deregulation plan should increase the tax burden of residential and small business consumers or cause reductions in tax-supported services, such as police, fire, and schools.
- Governments considering deregulation must also consider what tax reforms are necessary to prevent the loss of local control or the increase of taxes on individual and small business consumers.

♦ ♦ ♦

The Alliance to Protect Electricity Consumers
Statement of Principles
February 12, 1998

Universal Service

Deregulated electric power companies and new competitive power suppliers may not be obligated or motivated to serve low income customers or customers that need electricity in inner cities, rural areas, or regions suffering economic trouble. Service quality could deteriorate below acceptable standards.

Not every electricity customer is equally profitable to serve. Not every area costs the same to serve. In a deregulated industry, electricity service sellers that operate solely on a for-profit basis may be allowed to choose freely whom they will serve and the rate they will charge each customer. If they do, they can be expected to segregate customers by geographic area, past credit records and income level, and to sell to the most attractive customers. If they do, what quality of service at what price can people in high-cost, difficult to serve, areas expect? How will people with lower incomes be assured they can afford electric service? Unless these questions are equitably resolved, deregulation will not benefit the whole nation.

Before deregulation is adopted, there must be assurance that:

- All consumers will have access to reliable, non-interruptible electric service at reasonable, affordable prices.
- Customers are not left without a power supplier and do not have to endure price-gouging simply because they have no other supplier.
- Low-income customers are not discriminated against or priced out of the market.

To assure these outcomes, any deregulation plan should:

- Require all providers of electric distribution service to offer to install facilities needed to connect all customers in their service territories.
- Require suppliers to offer service to all customers in a specified geographic area, or designate a "supplier of last resort" to provide service at a reasonable price to those consumers without a reasonable choice of suppliers.
- Prohibit "redlining" or other discrimination against low income consumers.
- Include a universal service fund to help defray the costs of serving lower income consumers and those consumers in rural or high cost areas.

♦♦♦

Power Deregulated. Consumers Yawn.



Phil Lannon signed up to discount electricity but plans to switch back because he said utility can match the savings. Power companies are court- ing customers with a lot of money on the line. It's from El Paso (top), Green Mountain and Edison International.

James Tanaka for The New York Times

From Alaska Public Interest Research Group.
September 15, 1998

How long can
California afford
to pay 40% more
for electricity
than the rest of
the country?

Cheaper Electricity or a
Cleaner Environment?
The Choice is Yours.

Send for your FREE Guide to Cheaper
Electricity and your chance to save \$25
and receive a free gift.

JUST BECAUSE THE
ELECTRIC INDUSTRY
WILL CHANGE DOESN'T
MEAN YOUR ELECTRIC
SERVICE SHOULD.



Alaska

California's Effort to Promote Plan For Electricity Is Off to a Slow Start

By AGIS SALPUKAS

They've tried everything.

For the public, California officials have run a commercial that shows a motorcycle cop oblivious to the cars rocketing by him because he is so engrossed in thoughts of electricity deregulation.

For the state's 2.3 million Hispanic households, they've created a Spanish-speaking dancing dog named Chispita who stares into the television camera, spins around and declares, "I am as fast as a spark of electricity."

To get the attention of blacks, who their research indicates "spend little time thinking about electricity," they've developed an animated character called Electron Man as an "entertaining vehicle to deliver the educational message."

They've even recruited a Los Angeles radio talk show host, Michael Jackson, to promote a toll-free number that fields questions about the coming changes in 11 languages, including Ta-

beginning their current \$73 million media blitz, they held three years of hearings, then slashed electricity bills by 10 percent to let energy users know something big was in the works.

But try as they might, California officials just haven't been able to get consumers excited about the deregulation of the electricity industry. On March 31, after a three-month delay due to computer glitches, California will become the first state in the nation to throw the market open to something close to full competition — and for the last five months, a host of marketers have inundated homes and businesses with pitches for cheaper and more efficient power delivery.

Yet, so far, a minuscule 25,000 customers out of 9.9 million have switched providers. Most Californians remain confused about the purposes of the program and doubtful about the payoff, if any, for them. As a result, they are taking a wait-and-see attitude.

"Consumers are being bombarded with all kinds of offers," said Jeff Darnard, a senior vice president for Ma-

kovsky & Company, a consulting group that is working with utilities. "Many are scared to switch."

Their reluctance is bad news for the people who are promoting deregulation as a way to lower energy prices and introduce competition to one of the last bastions of monopoly in the nation. It is also a setback for the nearly 300 marketers who have jumped into the fray in the hopes of getting a slice of a \$20 billion pie (though so far only 30 have been given approval to do business). And because California has long been viewed as a national trend-setter in everything from popular culture to demographic trends, the public's nervousness poses a challenge to the 20 other states that are in the early stages of deregulating their own utility industries.

In New York, Consolidated Edison plans to start a pilot program on June 1 to allow 63,000 of its 3 million customers to choose alternate suppliers, and already, consumers are getting pitches from marketers and newspaper ads about the project. But similar experiments in Massachusetts, Rhode Island and Vermont encountered public responses every bit as tepid as California's.

"What we're going to see over the next four years is utter and complete confusion," said Erika B. Seamon, who has been working as a consultant to utilities with Kuczmarski & Associates, a management consulting firm in Chicago. What is happening in California is having an effect nationwide, she added.

Part of the problem is that most consumers have little incentive to study the brochures that arrive in the mail or to listen to the telemarketing pitches that seem to intrude just as they are sitting down to dinner. The savings on monthly bills that average \$50 to \$75, after all, amount at most to a few dollars.

Eventually, after a four-year transition period in which the costs of paying off old power plants that are no longer cost competitive are spread among all customers, the savings could become much more

substantial. Industry executives predict an additional 10 to 15 percent cut in the bills of residential and small commercial customers. Larger industrial and commercial customers are expected to see rates drop 20 to 30 percent.

Most people, though, remain skeptical that they will enjoy even that meager reward. And most are unfamiliar with the utility industry and how deregulation will work. Under the California plan, anyone who pays a \$100 fee and fills out a form can buy electricity from generating companies or a state power exchange, sell it to consumers and pay utility concerns a fee to deliver it, maintain lines and collect bills.

Moreover, said Mr. Demard of Makovsky & Company, "There is also the residual knowledge that things did not go as advertised in telephone deregulation. Many are still wondering whether they are doing better after telephone deregulation." Even though telephone and airline deregulation did indeed foster innovation and lead to lower prices for most consumers, many people still find it difficult to grasp why the same should hold true for electricity. In a national survey in December by Makovsky & Company, 62 percent of those questioned predicted that utility deregulation in their states would lead to higher prices.

It does not help that many marketers indulge in hard-sell techniques or even outright fraud. Some tout freebies that are hard to evaluate, according to analysts. Some promise low rates without making it clear they will load on various charges and fees to make up the difference. And some contend that the electricity they deliver will come only from solar power, dams or other environmentally benign sources.

In recent weeks, California regulators have suspended the licenses of dozens of marketers until they provide more information on how they will deliver the power they are selling. In one case, the Public Utilities Commission banned a company founded by a 19-year-old entrepreneur, saying it had signed up 8,000 customers for \$300 each, even though it had no supply agreements with

utilities.

More commonly, marketers use perfectly legal ploys that some consumers nonetheless find misleading. When the Euron Corporation, a Houston-based energy giant with ambitions to become a national natural gas and electricity marketer, sent a mailing to Phil Branon offering a 10 percent rate cut and two weeks of free electricity if he switched from the Pacific Gas and Electric Company, the state's largest utility, he jumped at the chance.

But then Mr. Branon, who puts out a trade newsletter called Infoworld in San Francisco, did a little digging and discovered that neither offer had much value. The 10 percent savings was an automatic bonus — mandated by the State Legislature and paid

One state's experience may prove a model.

for by a special bond issue — for every energy user in the state.

And after reading the fine print of his contract, he realized that he would get the free electricity, worth about \$25, only if he stayed with Euron for a year.

"I felt like someone had pulled the wool over my eyes," he said. "I'm going to switch back." Gary Foster, a spokesman for Euron's marketing arm, said the offer was straightforward and contained no misleading information.

If the wariness of consumers like Mr. Branon is putting a crimp in California's deregulation plan, unexpected resistance from another quarter — industrial and commercial customers — is an even greater disappointment.

Most marketers had aimed at these big energy users as the quickest path to profits because signing up just a few would have given them the same economy of scale as recruiting thousands of homeowners and small businesses. But instead of grabbing

the first money-saving deal, many such customers are using the prospect of deregulation to do in-depth studies of their energy needs.

"We see deregulation as destabilizing and potentially confusing," said Mick Spillsbury, an executive vice president of the Union Bank of California, the third-largest bank in the state, which spends \$10 million a year on natural gas and electricity. "We have to get better educated before we get tied into a four-year deal that looks good today but four years from now everybody will be telling me we signed a bad deal."

Because of the expense and effort to come up with a serious proposal, he said, only two companies — Euron and the marketing affiliate of San Diego Gas and Electric called Edison Source — have made a serious effort. "They have not come beating our doors down," he said.

Mr. Spillsbury's caution is echoed at other companies. Glen Lewis, a regional procurement manager for Del Monte Foods, one of California's largest employers, said there were still too many unknowns about how deregulation would actually work. "It's such a dynamic thing right now," he said. "We're going to go slow and look at things gradually."

Some marketers have gotten the message and are wooing big corporate customers through painstaking analysis of their energy-consumption practices, rather than just by promising lower rates. To win a multi-year, \$180 million account to supply electricity to 800 McDonald's restaurants in California, for example, the staff of P.G.&E. Services, the marketing arm of Pacific Gas and Electric, spent months looking into every corner of the company's operations.

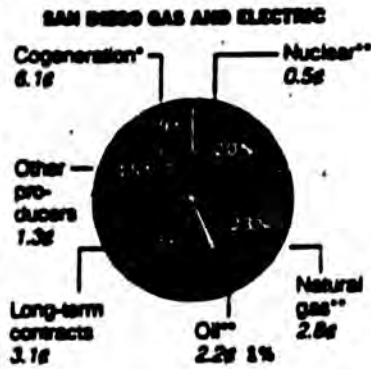
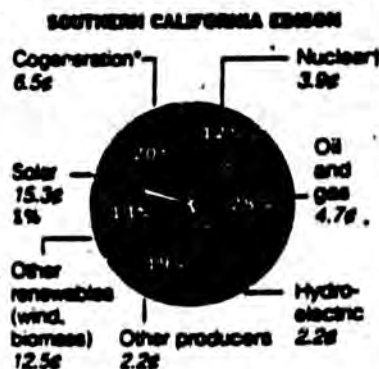
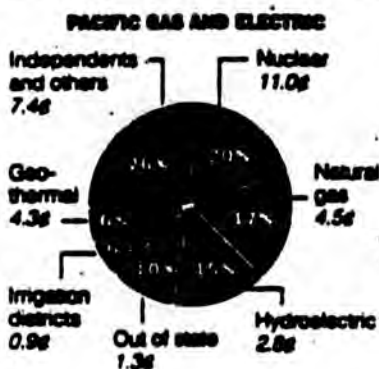
"They want more than just prices," said Faye Worthy, the director of national commercial accounts for P.G.&E. Services, who spent endless hours alongside McDonald's executives and franchisees. "They're looking for someone who really understands their business."

Robert D. Glynn Jr., the utility's chairman and chief executive, said "You have to have the staying power and the fortitude to survive the early years."

Behind the Meter

California will deregulate its electricity industry next month and dozens, perhaps hundreds, of companies hope to sell electricity to consumers and businesses. Much of the state's power will continue to come from its three biggest

utilities, from plants previously owned by them or from out-of-state sources. Here is where each utility gets its power and how much it cost. (Prices are for each kilowatt hour and include building and running the plants.)



Alaska Power under siege

Creditors clamor for payment from state-backed company.

By HELEN JUNG
Daily News reporter

An Anchorage power company that received state money to develop new technology is under siege from creditors that haven't been paid for loans and supplies.

But the Alaska Science & Technology Foundation, the state agency that last September authorized a \$1.5 million grant to Alaska Power Systems, maintains that the Anchorage company's fi-

nancial problems don't necessarily jeopardize the state's investment.

An Alaska Power subsidiary has spent about \$500,000 of the grant to develop software that lets operators in Anchorage run electric generators in far-flung communities. The grant occurred over the objections of some Alaska Power suppliers, customers and competitors that argued the state should not give money to

the financially shaky company.

Now, six months after the grant was approved, Alaska Power has handed over its office building and at least 10 power generator units in several communities to National Bank of Alaska, which financed the units' construction. And unable to make payroll, the company last week laid off its remaining five or six employees, said Steve Hartung, a consultant to Alaska Power and

former chief financial officer.

Hartung referred further questions to Alaska Power chief executive Scott Thompson or general manager Brian Chronister. Neither man returned messages left at their office and homes this week. Thompson is traveling.

Meanwhile, the state has hired an expert to evaluate how close

Please see Page F-3, POWER

POWER: Company under siege

Continued from Page F-1

the new software is to being finished, said Jamie Kenworthy, ASTF executive director.

The state formed ASTF in 1988 to provide seed money for innovative technological projects. The Alaska Power proposal drew support from ASTF because it offered a creative concept for providing cheap electricity for rural communities throughout Alaska, where electricity can cost five times as much as in urban areas.

But Alaska Power's financial status and high employee turnover concerned ASTF, Kenworthy said. In 1997 and 1998, more than 20 parties sued the Anchorage company, many over unpaid debt. A former employee also filed a wage claim with the state Department of Labor.

"We knew this was a high-risk deal," Kenworthy said. "We thought the value of the technology was worth it."

To protect the state's investment, ASTF insisted that Alaska Power spin off software development into a new

company called Diversified Solutions. It also required financial audits of how DS spends the money and decreed that no state money pay the parent company's operating costs.

The state money is to be released over time as DS reaches benchmarks the state set. Alaska Power has not met its Jan. 1 benchmarks yet so has not received more than the grant's initial \$500,000.

The grant is still active, and ASTF is waiting for its consultant's report, which is due at the end of the month, Kenworthy said.

Alaska Power's generator units are in Chenega Bay, Akhiok, Nelson Lagoon and other communities around Alaska. By foreclosing on the company headquarters in South Anchorage and on the units, NBA is exercising its legal right to repayment, said bank vice president Jim Brinker. He declined to say how much Alaska Power owes, but said the bank expects full recovery of its loan.

The bank is seeking utili-

ties or others to purchase or take over maintenance of the generator units, Brinker said. "We're not in the power business. We're not knowledgeable or experts in that area," he said.

In the meantime, the communities where the generation units are installed are responsible for maintenance, Brinker said.

Alaska Power customer Park Kriner of Glennallen bought two systems for a small shopping center he owns called Park's Place. The system has been running well, he said, and he wasn't worried about Alaska Power's financial problems.

He plans to work out a deal with NBA to purchase the systems, he said.

Legislative auditors plan to review ASTF's grant-approval process and other issues at the request of House Speaker Gail Phillips, R-Homer, and Rep. Con Bunde, R-Anchorage, said Pat Davidson, acting legislative auditor. Phillips specifically cited questions about the Alaska Power grant in her request, she said.

CURRENT CONNECTION

ELECTRIC
CONSUMERS'
ALLIANCE

FIRST INDIANA PLAZA ■ 135 NORTH PENNSYLVANIA STREET ■ SUITE 2700 ■ INDIANAPOLIS, IN 46204
1-800-585-8208 ■ (317)684-5346 ■ (317)684-5173 FAX

March 1998

PENNSYLVANIA AND CALIFORNIA TAKE ACTION AGAINST CONSUMER SCHEMES

Pennsylvania Attorney General Mike Fisher (R) has filed a lawsuit against Provo, UT-based Nu Skin International for allegedly operating an "illegal pyramid scheme" to sell electricity and related services without the ability to provide them, according to the *Philadelphia Inquirer*.

In a classified ad in the *Philadelphia City Paper* last month, the company said would-be sales agents could make "big money" from electricity deregulation, which a recorded message falsely told callers was federally required by 2002. A spokesperson for Fisher added that Nu Skin has neither a license to sell power in Pennsylvania nor power-purchase agreements with any generators.

Nu Skin spokesperson Kamille Thorne said the company was not aware of any public complaints from the state and had not received prior notification of Fisher's concerns. But she said the company "is fully cooperating ... to resolve the issues at hand."

The attorney general's office began investigating Nu Skin's newest venture, Big Planet, after a Public Utility Commission attorney saw an Internet ad promoting the venture. Big Planet spokesperson Mark Calkins acknowledged the company had no contracts with electric suppliers and would not offer the service "in the immediate future."

Pennsylvania and California Take Action Against Consumer Schemes
Efforts Off to Slow Start
House, Senate Leaders Remain Split on Priority for Deregulation in 1998
Consumers Advised to Band Together and Lobby for Change and Protection
Task Force Created to Protect Consumers from Green Marketing Fraud
Report Says Consumer Attitudes Will Toughen in Electricity Purchasing
NRECA Kicks Off Annual Meeting on March 9
Price of Electricity Declines for Third Straight Year
Year 2000: How Will Utility Systems Fare
Talk Back to ECA
Electric Consumers' Bill of Rights

P. 1
P. 2
P. 3
P. 3
P. 4
P. 5
P. 6
P. 6
P. 6
P. 7
P. 8

Pyramid schemes are illegal because they only recruit new investors and do not sell any goods or services, causing those at the bottom of the pyramid to lose their investment "when the pool of potential recruits dries up," according to Fisher. Fisher warned consumers and investors to be wary of such "scams in [the] newly created competitive market" of electricity deregulation.

In separate cases, state and federal regulators have taken action against two power companies in California for alleged marketing fraud, according to the *Los Angeles Times*.

The California Public Utilities Commission revoked the registration of Harrisburg, Pennsylvania-based Boston-Finney Inc. and set a hearing to consider a fine of up to \$97 million for making fraudulent claims and operating a pyramid scheme to sell electricity distributorships. California Attorney General Dan Lungren filed a lawsuit against the company last month for a scheme in which individuals were charged \$295 each for the right to recruit other sales agents.

Meanwhile, the Federal Trade Commission filed suit against Valencia, California-based FutureNet, an Internet-service provider which recently branched out into electricity marketing. The charges also involve an alleged pyramid scheme. A federal judge in Los Angeles on February 23 issued an injunction against the company's sales activities, froze its assets, and appointed an FTC lawyer as a receiver.

State Senator Steve Peace (D), who coauthored the state's deregulation legislation, criticized the PUC for lax oversight. In response, the PUC has tightened the rules and is increasing its scrutiny of potential power marketers.

EFFORTS OFF TO SLOW START

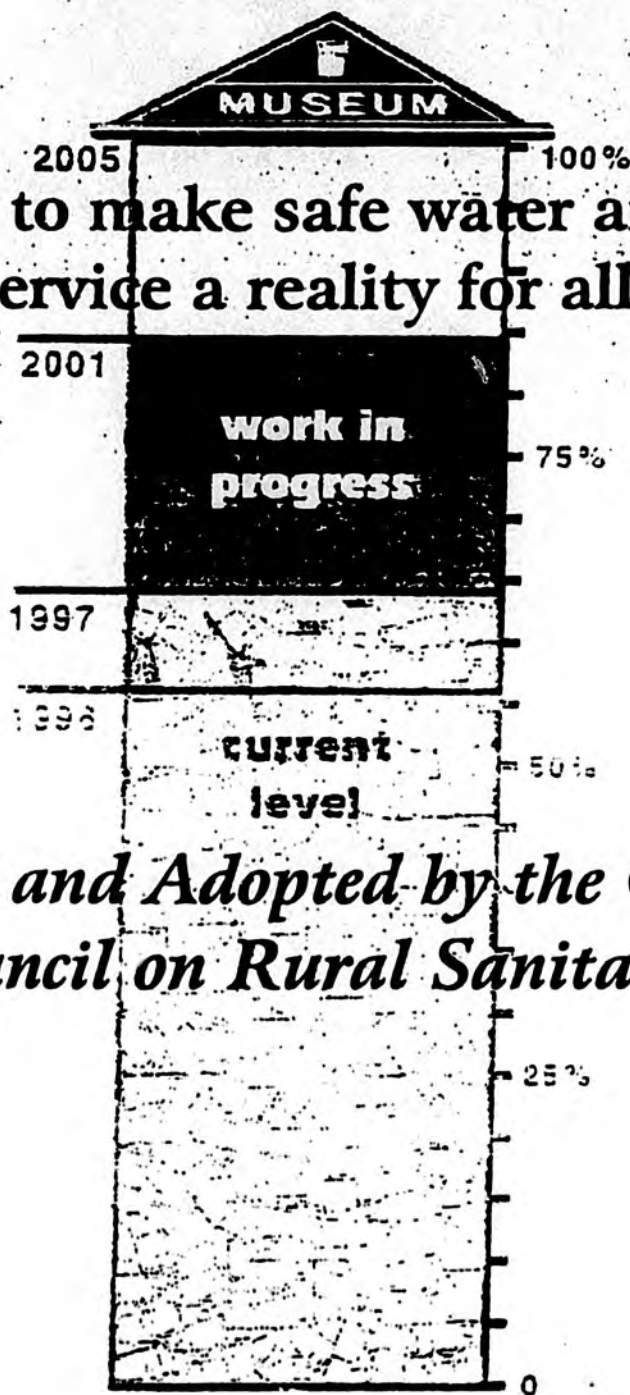
Despite "inundat[ing] homes and businesses with pitches for cheaper and more efficient power delivery," California officials have not been able to get consumers "excited" about electricity deregulation, the New York Times reports.

After a three-month delay due to computer problems, California's electric power market will be opened to competition on March, 31. But so far only 25,000 customers out of a possible 9.9 million have decided to switch providers.

Mike Spilsbury, Vice President of the Union Bank of California: "We see deregulation as destabilizing and potentially confusing. We have to get better educated before we get tied into a four-year deal."

RURAL SANITATION 2005 ACTION PLAN

**A strategy to make safe water and hygienic
sewage service a reality for all Alaskans**



*Developed and Adopted by the Governor's
Council on Rural Sanitation*

February 17, 1998