

ALASKA LEGISLATURE SPECIAL COMMITTEE / SUBJECT FILES 8672

2512 SCOM 109: JNT. COMM. ELEC. UTILITY RESTRUCTURING, 1998

ISSUE: *Should provisions be included to address the various issues relating to the Bonneville Power Administration?*

The Bonneville Power Administration is a unique Federal agency. It is more than just a power marketing administration. The Northwest Power Planning Act imposes a host of special requirements on BPA. In addition, BPA has a number of other unique requirements created to help restore the fisheries. This is a very complex matter, and the Members of the Northwest delegation have been working with the Governors of the Northwest States to find an acceptable solution.

Proposed Resolution:

The Members from the Northwest should craft a resolution of the issue.

ISSUE: *Should Congress establish an "emission-free portfolio standard" for electrical generation?*

There are concerns that competition will adversely affect the environment by increasing emissions from fossil-fuel powerplants. There is also a concern that emission-free generation sources such as nuclear, solar, geothermal, hydro and wind will suffer in a competitive, deregulated marketplace.

An "emission-free portfolio standard" would retain the existing percentage of U.S. electricity supply that comes from emission-free sources of electricity, including nuclear energy, hydro and renewables, as a baseline. Each power producer must provide credits in the amount of the existing national percentage of emission-free sources. Credits for emission-free sources would be tradable. The required percentage of emission-free sources could be adjusted to meet any emission reduction goals set in the future.

It would provide an incentive to keep existing emission-free sources operating and replace them with emission-free sources when they reach the end of their operating lives. This would be an economically efficient method of ensuring that air quality is not degraded by competition.

Proposed Resolution:

Create an emission-free portfolio standard that would be enforced through a trading program.

ISSUE: *Should the Federal Trade Commission be required to create an "electricity labeling" program whereby consumers will know the type generators that produced the electricity they are purchasing?*

In competitive electricity markets, absent further information, consumers will choose their electricity supplier solely on the basis of price. There is a concern that this will

result in an increase of generation and emissions from old coal-fired power plants that are exempted from many of the provisions of the Clean Air Act.

Proposed Resolution:

Require the Federal Trade Commission to create an "electricity labeling" program whereby consumers will know the type of generators that produced the electricity they are purchasing. This would allow consumers to base their purchasing decisions on factors other than price, if they so choose.

ISSUE: *How can Congress act to retain the nuclear power option?*

Some analysts have predicted that as many as 39 nuclear power plants will shut down as a result of the move to competitive electricity markets. Nuclear energy accounts for 89% of all the CO₂ emissions avoided by U.S. electric utilities between 1973 and 1995. In total, more than 1.9 billion metric tons of carbon emissions have been avoided in the U.S. alone through the use of nuclear energy. In the face of growing concern over the potential effects of emissions on the global climate, it would be prudent to ensure that, at a minimum, our existing emission-free generation sources have a fair chance to compete, and that competition does not degrade our nation's air quality.

Proposed Resolution:

Ensure that nuclear energy has a reasonable opportunity to compete with other forms of generation, and remove existing impediments that inhibit nuclear power plants' ability to compete. This would be done by--

- > Establishing a workable, integrated solution for unfunded decommissioning obligations. These changes would ensure that, despite competitive pressures on pricing and corporate restructuring, the funds will be available for the decontamination and decommissioning of nuclear plants as they reach the end of their operating licenses.
 - Unfunded nuclear power plant decommissioning costs could be recovered through a non-bypassable "wires" charge mandated by the federal government.
 - Monies collected for the purpose of decommissioning nuclear power plants should continue to be deductible for federal income tax purposes as allowed under current law.
 - In the event of bankruptcy, trust funds established for the purpose of decommissioning nuclear power plants should not be considered the property of the bankrupt entity.
- > Correct unfair statutory requirements that will put nuclear power plants at a competitive disadvantage. The statutory restriction on foreign ownership may have

made sense 40 years ago in the early days of nuclear power. Given the global political and economic changes that have occurred since then, this blanket prohibition no longer makes sense. Major overseas corporations — i.e., British Energy — have expressed an interest in investing in U.S. commercial nuclear power plants. Such investments by U.S. allies should not be foreclosed arbitrarily. Specifically:

- Repeal the requirement that the Nuclear Regulatory Commission conduct antitrust reviews of all licensing actions. The requirement that NRC conduct antitrust reviews is duplicative. State regulatory agencies, the U.S. Department of Justice, the Federal Trade Commission, the Federal Energy Regulatory Commission and the Securities and Exchange Commission are already conducting antitrust reviews in every case involving mergers, transmission tariffs or other industry restructuring initiatives. Potential competitors will be able to use the hearing process to delay license transfers or restructuring, thereby potentially placing the nuclear plant in question at a competitive disadvantage.
 - Repeal the prohibition on foreign ownership of U.S. commercial nuclear power facilities.
- > Ensure that the Nuclear Regulatory Commission's license transfer process and licensing board proceedings are disciplined and accountable. The transition to greater competition in electricity generation will likely result in the formation of new corporate entities such as joint nuclear operating companies. By focusing resources solely on nuclear power operations, such restructuring will further enhance nuclear power plant reliability, safety performance and, in parallel, economic performance. The public interest is best-served if such restructuring—which will improve operational reliability and efficiency—are managed with dispatch and not delayed unnecessarily by a lengthy, undisciplined hearing process. Past experience suggests that these proceedings likely will be very lengthy. In a competitive market, success will be determined by the speed with which companies can implement business decisions. The nuclear licensing process should be as efficient as possible to allow nuclear operating companies to make timely business decisions.
- Limit NRC review to issues that arise because of the license transfer or amendment being sought.
 - Provide that there must be a safety basis for issues raised by intervenors in NRC proceedings.
- > Require a comprehensive assessment of innovative financing techniques to ensure construction of new, advanced-design nuclear power plants in the U.S. when they are needed. The 1992 Energy Policy Act reaffirmed the strategic importance of nuclear energy in U.S. electricity supply. The legislation included a number of provisions—including a new licensing process for new nuclear power plants—to ensure a continuing role for nuclear energy. The new licensing process resolves all

design-related and safety issues before plant construction begins. Several advanced-design nuclear power plants are in the process of obtaining certification and pre-approval from the Nuclear Regulatory Commission. These advanced-design plants are being sold and built overseas, but construction of new, advanced-design nuclear power plants in the United States is subject to unique conditions and risks because of extensive and intrusive federal government involvement in the nuclear power business.

The regulatory risks associated with unpredictable and changing Nuclear Regulatory Commission requirements may be sufficiently large to deter construction of any new nuclear power plants in the United States by private industry. Private industry should, and will, accept the normal market risks associated with building new nuclear generating facilities in a competitive market. Private industry cannot, however, be expected to shoulder the risks that result from federal government intervention in the timely construction and licensing of new nuclear power plants.

This provision would require a comprehensive assessment of innovative financing techniques that might be employed to ensure construction of new, advanced-design nuclear power plants in the U.S. when they are needed to meet growing demand for electricity. This assessment would best be conducted by an independent firm with specialized expertise reporting directly to the President and the U.S. Congress (similar to the Smith Barney assessment that established the terms and conditions for privatization of the Department of Energy's uranium enrichment enterprise and led to the formation of the U.S. Enrichment Corp.).

CBO Publication

S U M M A R Y

November 1997

SHOULD THE FEDERAL GOVERNMENT SELL ELECTRICITY?

The Tennessee Valley Authority and the power marketing administrations of the Department of Energy supply about 8 percent of the nation's electricity. Municipal and cooperative utilities in the West and the Southeast are the main customers for that power, and two-thirds of it goes to just four states. The federal presence in what is primarily a private and local function is in many ways an anomaly, little changed since the New Deal era. Today, many policymakers question whether the government should continue to produce and sell electricity. The Congressional Budget Office's (CBO's) study *Should the Federal Government Sell Electricity?* reviews the operations of federal power agencies, examines the ways in which the benefits and costs of the federal presence in power supply have changed over time, and describes options for altering or ending that presence.

Many of the original concerns that gave rise to the current federal role have greatly diminished. The stimulation of rural communities by the construction of dams and electric grids was realized long ago. The market power of private utilities is now limited by federal and local regulation and, increasingly, by competition. And the old conservation philosophy of not letting water flow by unused has given way to environmental concerns about saving waterways. A growing recognition of the full costs of government solutions has emerged as well. Evidence of those costs comes from the inadequate maintenance of power assets and low utilization rates of hydropower plants. New competition in power markets may add to the problems of federal agencies in the future.

CBO's study considers three options for change. The Congress may legislate reforms such as market-based pricing to make federal programs operate more efficiently; it may transfer, or devolve, responsibility for federal facilities to local governments; or it may privatize those facilities. Legislating reforms to address all the management failures inherent in federal ownership may not be possible, and local governments may fall prey to the same problems that now hamper federal management. Privatization may offer the best opportunity for enhancing the efficiency of power markets and producing budgetary savings. In the study, CBO estimates the market value of federal power assets and the long-term budgetary savings from their sale, but the analysis does not represent an official CBO cost estimate of any legislation.

CBO estimates that businesses might pay from \$45 billion to \$62 billion for federal power assets, depending on assumptions about future power rates. Those assets include all facilities that directly support power production and transmission. But such a sale would yield long-term budgetary savings only if the proceeds were greater than the income that the government would forgo. That income includes the revenues that the power agencies collect to pay for past construction. Those revenues, which are net income to the Treasury, would be lost after a sale.

On net, a sale of all power assets could yield budgetary savings totaling as much as \$16 billion (for a sale at a high market value) or a loss of \$0.2 billion (for a sale at a low market value). The actual budgetary savings could be greater if there were new subsidies for federal power in the future or if the Congress decided to include some nonpower assets in the sale. Congressional action may not depend solely on budgetary considerations, however, because budgetary savings are not a measure of the gains in efficiency from privatization.

Questions about this study should be directed to Richard D. Farmer of CBO's Natural Resources and Commerce Division at (202) 226-2940. For additional copies of the report, please call CBO's Publications Office at 226-2809. The study is also available at CBO's World Wide Web site: <http://www.cbo.gov/>



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CS FOR HOUSE CONCURRENT RESOLUTION NO. 34(L&C) am

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTIETH LEGISLATURE - SECOND SESSION

BY THE HOUSE LABOR AND COMMERCE COMMITTEE

Amended: 4/27/98

Offered: 4/9/98

Sponsor(s): HOUSE LABOR AND COMMERCE COMMITTEE

A RESOLUTION

1 Establishing a Joint Committee on Electric Utility Restructuring.

2 **BE IT RESOLVED BY THE LEGISLATURE OF THE STATE OF ALASKA:**

3 **WHEREAS** electricity is among modern society's most basic requirements and
4 commodities; and

5 **WHEREAS** even other forms of infrastructure, such as water and waste water systems,
6 are largely dependent on electricity; and

7 **WHEREAS** the provision of adequate, reliable, and reasonably priced electrical energy
8 is essential to the daily functions, safety, and economic well-being of Alaskans, their local
9 communities, and the state; and

10 **WHEREAS** fundamental restructuring of the electric utility industry is now under
11 deliberation by the Congress and other states; and

12 **WHEREAS** electric utility restructuring is a highly complex issue, carrying with it
13 profound implications for all classes of electrical consumers; and

14 **WHEREAS** the implications and ramifications of such restructuring deserve detailed,
15 careful, and informed decision making by the Alaska State Legislature;

16 **BE IT RESOLVED** by the Alaska State Legislature that a Joint Committee on Electric
17 Utility Restructuring is established; and be it

1 **FURTHER RESOLVED** that the Speaker of the House of Representatives and the
2 President of the Senate shall determine an equal number of members of the House of
3 Representatives and of the Senate to serve on the joint committee, and that the Speaker of the
4 House of Representatives shall appoint the representatives to the committee and that the
5 President of the Senate shall appoint the senators to the committee; and be it

6 **FURTHER RESOLVED** that the presiding officer of each body shall apportion
7 minority members to the joint committee as provided in Rule 1(e), Uniform Rules of the
8 Alaska State Legislature, for standing committees; and be it

9 **FURTHER RESOLVED** that the joint committee may meet during and after the
10 Second Session of the Twentieth Alaska State Legislature and is terminated on the convening
11 of the First Session of the Twenty-First Alaska State Legislature; and be it

12 **FURTHER RESOLVED** that the joint committee shall provide to the legislature
13 written recommendations on whether and how to implement electric utility restructuring in
14 Alaska.