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9320 HOUSE LABOR & COMMERCE

HB

235

FISCAL NOTE

APR 15 1997
Rec'd 3:50 p.m.

STATE OF ALASKA
1997 LEGISLATIVE SESSION

BILL NO. HB 235

Revision Date:
Title: Restricting electric competition

Department: Commerce and Economic Development
BRU: APUC
Component:

Sponsor: House Labor & Commerce by Request
Requestor:

COMPONENT SERIAL NO.

Expenditures/Revenues (Thousands of Dollars)

OPERATING EXPENDITURES	FY 98	FY 99	FY 00	FY01	FY 02	FY 03
PERSONAL SERVICES	17.6	70.5	70.5	35.3	0.0	0.0
TRAVEL	0.4	1.4	1.4	0.7	0.0	0.0
CONTRACTUAL	84.8	35.7	35.7	17.8	0.0	0.0
SUPPLIES	0.4	1.7	1.7	0.8	0.0	0.0
EQUIPMENT	0.2	0.7	0.7	0.4	0.0	0.0
LAND & STRUCTURES	0.0	0.0	0.0	0.0	0.0	0.0
GRANTS, CLAIMS	0.0	0.0	0.0	0.0	0.0	0.0
MISCELLANEOUS	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL OPERATING	103.3	110.0	110.0	54.9	0.0	0.0
CAPITAL EXPENDITURES						
CHANGE IN REVENUES						

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 General Fund						
1005 GF/Program Receipts	103.3	110.0	110.0	54.9	0.0	0.0
1006 GF/MHTIA						
Other						
TOTAL	103.3	110.0	110.0	54.9	0.0	0.0

Estimate of any current year (FY 97) cost: $ 0.0

POSITIONS

FULL-TIME	0.25	1	1	1	0.5	0
PART-TIME	0	0	0	0	0	0
TEMPORARY	0	0	0	0	0	0

ANALYSIS: (Attach a separate page if necessary)

One full-time Utility Engineering Analyst III (Range 21) is required to handle cases involving detailed analysis of applications for competing service in the public utility electric sector. However the position is not expected to be required until the fourth quarter of FY98, so the salary is for the fourth quarter only. Section 2 of the bill would establish a higher evidentiary standard for the Commission in these cases (clear and convincing). The Contractual funds would cover the expert witness (an economics consulting firm), estimated at 785 hours at $108 per hour, for the first major case where the evidence that issuing a competing certificate "is not likely to adversely affect the quality of service or the rates provided to retail electric service customers..."

Prepared by: Robert A. Lohr
Phone: 276-6222
Division: Alaska Public Utiltilities Commission
Date: April 14, 1997

Approved by Commissioner: William L. Hensley
Date: 4/14/97
Agency: Commerce and Economic Development

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COMPETITION:

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after major accounts.

"She's working with Chugach customers and with some who presently are not," Bjornstad said.

Although Chugach's plans to serve Boardwalk Condominium Homeowners Association was brought to light last week, Bjornstad said his utility did not fire the first shot.

"On the same day of our letter (Sept. 19), Municipal Light & Power (ML&P) filed a firm power contract with Golden Valley," Bjornstad said. Chugach has supplied the Fairbanks area cooperative for the past 10 years.

The city contract is for five years and guarantees service at 2.6 cents per kiloWatt hour (kWh). That's much lower than Matanuska Electric Association (MEA) pays, and bothers MEA General Manager Wayne Carmony. MEA pays 4.6 cents per kWh.

Golden Valley would pay less for uninterrupted power service than Chugach's economy rate for customers whose service can be interrupted during peak loads, Carmony said.

"I see it as a bid to purchase market share. It's a predatory move," Carmony said.

Bjornstad said the Golden Valley contract last year was worth $6 million, but will be lower for 1997.

"The Chugach board and management feel that competition is raising its head," Bjornstad said in justifying his utility's solicitation of business outside its area.

"It's good business to give our customers a choice," he said.

Bjornstad said ML&P offers a slightly lower rate for residential customers while Chugach's commercial rate is lower than the city's.

There is a parallel between what has happened in the telephone industry and what is being seen in the electrical industry. Changes in federal regulations led to "unbundling," or separation of functions such as installation, repair, furnishing of equipment and switching of calls between exchanges. That led to the entry of new companies into the long distance field and more recently to long distance carriers providing local telephone service.

"There are some parallels and some differences," Bjornstad said.

Where telephone systems rely more on satellites to transmit calls, electric utilities still depend on wires connecting generating facilities with customers' meters.

That does not mean, Bjornstad said, that there will be a reoccurrence of a situation in the '70s where both Chugach and ML&P ran parallel lines along each side of alleys in newly developed areas. State laws now prohibit that, the Chugach executive said.

Instead, electrical utilities have created "wheeling" charges to compensate the owner for moving power over that company's wires to reach customers of another company.

Chugach has asked ML&P to state its rate for access to its lines. Bjornstad said he has calculated what that should be from the city's existing published rates, but wants the city to acknowledge the charge in order to begin service.

So far, the city has no plans to give up its customers.

Chuck Albrecht, spokesman for Mayor Rick Mystrom, said the city's position is that it has a protected service area and that no one can cross into its territory until state laws are changed.

Bjornstad said his utility believes the Alaska Public Utility Commission (APUC) can alter the rules without changes to state laws.

There are two measures before the Legislature, both filed during the past session.

One, backed by the state electric cooperative association, requires APUC to find "clear and convincing evidence" of need before it authorizes competitive moves.

The other, backed by Chugach, allows competition between utilities which provide 500 million or more kWh in a year. That limits competition to the two utilities in the Anchorage Bowl, Bjornstad said. MEA would not be affected because it is "below the 500 kWh bar."

Carmony worried about "stranded investment" resulting from a competitor taking some of its top customers. Serving those who are left, especially those in rural areas, would place a burden on members.

"We're not going after MEA," Bjornstad said. MEA might, he said, expect competition from ML&P, however.

Asked if he thought it is risky for Chugach to be signing up customers inside the city utility's territory before the boundary issue is settled, he said, "Some people might think so."

He considers it worth it if his utility can save money for consumers, even if it opens the door for ML&P to solicit business in Chugach territory.

"Our access rate is higher (than ML&P's)," Bjornstad said.

MEA board still deadlocked

By LEE JORDAN
Alaska Star Editor

The board of directors of Matanuska Electric Association Inc. (MEA) remains deadlocked, unable to decide how to fill the seat vacated by Ted Carlson.

Carlson, then president of the board, resigned in a fit of pique during a May 5 special meeting at which new officers were to have been chosen. Carlson told the board he had been slighted by colleagues and their spouses at the recent MEA annual meeting. Also a member of the Anchorage Assembly, he later issued a statement saying his reason for walking out of the board meeting was to call attention to the split among board members.

That split remained evident at a special meeting Monday night. Three members attempted to seat R. Ole Larson, runner-up in the last two elections. The other three attempted to enlist the joint aid of the cooperative's nominating committee and its Member Advisory Committee in interviewing applicants and making recommendations.

"We tried to bring them into a compromise, but they are adamant," said Vice President Barbara J. "Tamie" Miller, who assumed the chair after Carlson's departure. "Nothing happened. There was no decision. Committee assignments will remain as they are."

Directors Frank Mielke, Rod Cottle and Doug Mills want to install Larson, a Valley resident who is an assistant superintendent at Hiland Mountain Correction Center in Eagle River. He served previously as a director but did not seek re-election. He is supported by the International Brotherhood of Electrical Workers (IBEW), the union which represents most of the utility's workers.

Miller, Bill Folsom and Jim Hermon want to select someone from among a list of applicants that now numbers between nine and 12 "well qualified people." Miller earlier said Larson "was twice rejected by members" during the two most recent elections, citing that as her reason for wanting a wider field of candidates.

The Miller faction has been successful in opening bidding for utility construction contracts to both union and non-union contractors.

The other faction maintains that anti-union stands create worker dissatisfaction and work to the disadvantage of the association.

PFD:

(Continued from Page 1)

VOLUNTEER:

(Continued from Page 1)

[illegible] cleaner," he said.

how much material he has recycled

Photos by ERIK HILL / Anchorage Daily News

Alaska Power Systems president Frank Tucker, left, stands in a power plant module his company can install in Bush Alaska and monitor from a control room in Anchorage. He is holding an "intelligent electronic device" that is used in the system. At right is chief design engineer Bill Thomson with a laptop computer equipped with special software. ADN 9/2/97

Cutting the cost of power

Alaska Power's sophisticated rural system worries other utilities

By HELEN JUNG
Daily News reporter

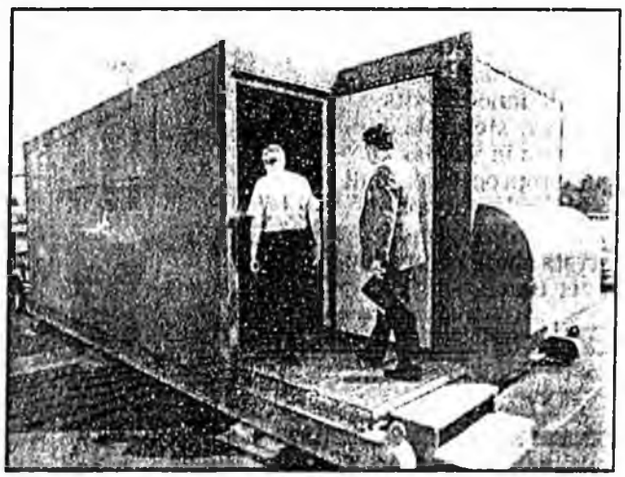
With the click of a computer mouse in his South Anchorage office, Scott Thompson can flick on the lights for Nelson Lagoon, some 550 miles away.

He also can turn off one generator, check the exhaust temperature, monitor how much fuel is being used and even oversee an oil change, all without leaving his desk.

The system, said Thompson, chief executive of Anchorage-based Alaska Power Systems, is an innovative way to provide electricity to Alaska's rural communities cheaply and efficiently.

Over the last two years, the Anchorage company has set up power systems for a dozen rural Alaska communities, as well as one in Hawaii. That expansion, the potential for more, and Alaska Power's secrecy about its technology has made utilities from around the state nervous about a competitor taking

Please see Page F-3, POWER



Visitors tour a power module during the Alaska Power Systems open house Tuesday morning in South Anchorage.

POWER: Company's sophisticated rural system worries other utilities

Continued from Page F-1

away their business or key customers.

At the urging of a state agency that has helped fund Alaska Power, the company on Tuesday briefed utilities from around the state on its technology and its potential.

Over its 16 years, Alaska Power has developed a system that combines a set of power generators with its evolving technology that controls the amount of power and how it is delivered to a community. The brains of the everyday operation are in the "intelligent electronic device" installed with the onsite generators and connected by phone line to engineers in Anchorage, who change, maintain and sometimes fix the system without leaving their desks. A less-sophisticated version of such a device runs cruise control in cars.

In many rural communities, the electric costs can hit 50 cents per kilowatt hour, compared with 9 to 11 cents in Anchorage, said Bob Lohr, head of the Alaska Public Utilities Commission. Finding solutions to the high cost of electricity may become even more critical if state subsidies expire.

Unreliable and expensive electricity also hinders economic development, said Jeff Smith, with NANA Development Corp., a Native company.

Alaska Power's system helps cut costs by automatically firing up a smaller generator to run during low-demand hours or tapping a larger one for peak usage, said Frank Tucker, Alaska Power president. That's more efficient than relying on one big generator to provide the electricity, no matter what the demand.

The system has cut costs 40 percent for Chenega Bay, said Carol Ann Roberts, a resident who maintains the system for Alaska Power. The steady stream of power is also far more convenient than the village's previous in-house system.

"My appliances aren't burning up because of power fluctuations," she said.

The Alaska Science and Technology Foundation invested $81,000 in 1994 to help the company develop the system's electronic device and may consider funding production of a more advanced version under development, said James Kenworthy, executive director.

Alaska's utilities have been frustrated in the past by secrecy from Alaska Power over its system, said Eric Yould, executive director of the Alaska Rural Electric Cooperative Association. They need to assess such data as how to integrate the system with their networks, how much it costs to set up, and how they operate in Arctic climates, he said.

They also are worried that Alaska Power may steal away a rural community's biggest customer — such as a school — and leave the rest of the ratepayers with even bigger electricity bills, Yould said.

Alaska Power said that as deregulation occurs, the utilities will need to focus not on Alaska Power but on the whole spectrum of competition. They added that the company is willing to work with utilities and form partnerships as they have with NANA Development in bringing lower-cost electricity to Deadhorse.

Power play in works

Utilities go after other's big customers

By LEE JORDAN
Alaska Star Editor

Competition between the two largest electrical power suppliers in the Anchorage area is heating up. One is expanding its effort to take the other's bigger customers while the latter has grabbed one of the former's wholesale customers.

Whether they can make these raids stand up will likely be decided after expected challenges before utility regulators.

Close on the heels of a move by Chugach Electric Association to serve a condominium complex in the heart of the city comes a request from Columbia Alaska Regional Hospital asking Chugach to supply its electrical service.

"It appears (the hospital) can lower its operating costs by $68,657 annually," wrote Ernie Meier, president and chief executive officer for the DeBarr Road hospital.

That's the message Chugach is taking to commercial customers within the city-owned utility's service area.

Eugene Bjornstad, Chugach general manager, confirmed that his utility is making an aggressive move to pick up customers. His utility's administrative section has been reorganized, with former Anchorage Chamber of Commerce Executive Director Carol Heyman hired as a marketing agent going

(See COMPETITION, Page 2)

Eagle River
Alaska Star
10/9/97

Your Money

Power play *Will electricity deregulation jolt consumers?*

Deregulation, which has swept through industry after industry since the late 1970s, is now rolling over that last and largest bastion of monopoly power, the electric utilities. It will likely be several years before most consumers will be asked to decide which electric company will supply power to their home. Still, every consumer has a stake in the outcome of this fast-moving process.

Since last summer, seven states have agreed to new rules or are nearing passage of laws that will throw open their electrical-energy markets to competition (see table below). In Washington, Congress is considering bills that would mandate electric-utility deregulation throughout the U.S. as early as the year 2000.

Backers of deregulation make alluring promises about the benefits to consumers, including lower electricity bills and new products such as "smart homes" that would use computers to regulate energy consumption more efficiently. But deregulation skeptics, including Consumers Union, warn that the benefits of cheaper power could flow primarily to large commercial users who have the clout to negotiate favorable terms. The environment could suffer as the utilities, succumbing to competitive pressures, rely on older, lower-cost generating plants that burn heavily polluting fossil fuels. And low-income consumers and rural communities could be left in the dark as unregulated companies dodge the higher costs of serving them.

Power to the people?

Whether ordinary homeowners and renters will ever see a watt's worth of advantage from deregulation is far from clear. Here are the three key issues to watch as deregulation moves forward:

Who will pay for the utilities' bad investments? Regulated power companies have sunk billions of dollars into uneconomical nuclear plants and committed themselves to long-term contracts to purchase power from high-cost suppliers. Thrust into a deregulated marketplace, the utilities would remain committed to pay for these "stranded investments," hobbling their ability to offer rates competitive with their new rivals.

Moody's Investor Service, the bond-rating firm based in New York, has calculated that stranded investments could total $135-billion nationwide, but some estimates run as high as $500-billion, or more than twice what the savings-and-

Illustration by Douglas Buchman

Pulling the plug on regulation

The pace of deregulation has been fastest in states where electricity rates are the highest, but it remains to be seen how much relief ratepayers will actually get in most of the states where competition is scheduled to begin over the coming year. All ratepayers will pick up the deregulated utilities' stranded investments, but large industrial and commercial power users can expect to reap the bulk of the savings.

State	Stranded-investment issues	Effect on rates	When competition begins
Arizona (Rules issued Dec. 1996.)	A committee representing the state, utilities, and consumers will determine what proportion of costs may be recovered.	No specific rate-reduction or saving goals from deregulation are mandated.	Competition for 20% of customers by 1999, 50% by 2001, and all by 2003.
California (Bill signed Sept. 1996.)	Ratepayers face a surcharge on their electric bills through 2003 covering up to $28-billion, no matter where they buy power.	Rates to be frozen at current levels through 1997. Mandates 10% cut for residential and small-business users by Jan. 1, 1998. Sets goal of extra 10% cut by 2002, paid for with $10-billion in taxpayer-backed bonds.	For some large residential and commercial customers, by Jan. 1, 1998; for all customers, not later than 2002.
Massachusetts (Rules issued Dec. 1996.)	Utilities would recoup almost all stranded costs, through a surcharge on all ratepayers for up to 10 years.	Mandates a 10% reduction for all ratepayers by Jan. 1, 1998	Jan. 1, 1998 for all customers.
New Hampshire (Bill signed May 1996.)	Major utility required to absorb 40% of stranded costs, totalling $1-billion; utility has filed suit to overturn ruling.	All ratepayers will see an estimated 19% cut in their electric bills by 1998.	Experimental competition, ongoing in some towns since May 1996, will reach all consumers by June 1998.
New York (State pact with largest utility, March 1997.)	Statewide, about $17-billion in stranded costs. Ratepayers would pay 90% to 95% through multi-year surcharge.	Over five years, residential customers of Con Edison get a 3.3% cut; large businesses, a 10% cut; manufacturers, 25%.	Phase-in from 1998 to 2002; competition will come first to larger users of power.
Pennsylvania (Bill signed Dec. 1996.)	Public-utilities commissi[illegible] will decide recovery of an estimated [illegible]2-billion on a case-by-case basis	All ratepayers will save an estimated 10%, although legislation does not mandate lower rates.	One-third of all customers by 1999, two-thirds by 2000, and all by 2001.
Rhode Island (Bill signed Aug. 1996.)	Full recovery of $900-million through a surcharge to all ratepayers over a 12-year period.	Expectation of 15% saving for all customers, though legislation does not mandate.	For large industrial and commercial users, by July 1, 1997; for all customers, by July 1, 1998.

5 Tips For Buying That New Car

From Consumer Reports New Car Price Service

1 Learn the "Invoice" Cost

(Find out what the dealer paid for the car!)

Here's the real key to your deal: you must find out what the dealer paid for the car so you can negotiate the price you'll pay for it. You have to find out this information for yourself and you have to be sure it's up-to-date and correct!

The best way to do this is to make a quick call to the Consumer Reports New Car Price Service. You'll be glad you did. New-car buyers who use the service save an average of $1,300 on their purchase. For a fee of just $12, you receive a report by fax or mail that includes:

- The "invoice" price (a guide to what the dealer paid for the car);
- The "sticker" price (what the dealer wants you to pay);
- Invoice and sticker prices for all options and packages;
- Current rebates, factory-to-dealer incentives, and holdbacks;
- Plus solid advice on using the information in the report to your best advantage when you negotiate the purchase of your new car.

2 Get Ready to Bargain

Your homework's done. It's all in your report in plain English with an easy-to-follow worksheet. The invoice and sticker price comparisons give you a clear understanding of your negotiating room. You're ready.

Can buying a new car be less of an ordeal for you?

We think so. If you arm yourself with knowledge and an organized plan, ***you'll get the car you want, equipped to your liking, at a fair price.***

Once you decide on the size and type of car that suits your needs, follow these 5 simple steps.

3 Start Bargaining

Ask the salesperson for the dealership's lowest markup over their cost. And always bargain with the invoice price, never down from the sticker price. If the car you want is in tight supply, you may have to pay the full sticker price. Otherwise, $300 to $500 over the invoice price is reasonable.

NOW WITH LEASING ADVICE

4 Play the Game

The advice you receive with your report takes you through the hard part, negotiating a fair price. It takes you step-by-step through the rest of the negotiating game with professional new-car-buying advice such as... *Be wary. The dealership's "business manager" may try to sell you undercoating, rustproofing, fabric protection, extended warranty, windshield etching, etc. They're generally worthless or overpriced.*

5 If You Have a Trade-in...

Don't even mention it until you've agreed on a price for your new car. But when it's time to talk trade-in, you should know what your trade-in is worth whether you sell it privately or to a dealership. You can get that information from us, too. It's a verbal quote, with prices updated daily, and it costs just an additional $10.

Detailed price information from Consumer Reports New Car Price Service, an organized plan and advice on playing the game. That's how to buy a new car. Your best source for all that help is as near as your phone. Just call the number below or call 800-967-5122.

For Quick Results

Please have the following ready when you call:
- *Make, model and trim line of the new car, minivan, sport-utility vehicle or pickup truck you want to buy, such as 1997 Ford Taurus LX 4-Door Sedan;*
- *Make, model, trim line, options, mileage, general condition of your trade-in (if you have one);*
- *Your credit card. We accept American Express, VISA, MasterCard, Discover.*

Consumer Reports NEW CAR Price Service

1-800-933-5555

loan bailout of the 1980s cost taxpayers. The utilities, arguing that state regulators approved these investments, maintain that ratepayers should be asked to absorb all of the associated costs through surcharges added to their electric bills. Consumer groups counter that the utilities and their shareholders should bear their fair share of these costs. At the very least, they add, power companies should be required to demonstrate convincingly that deregulation has rendered an investment uneconomic before ratepayers are stuck with the bill. Since that kind of proof probably won't be available until well after deregulation has been phased in, they conclude, regulators should go slow.

So far, the regulators have largely granted the monopoly power providers the relief they've sought. They claim that to do otherwise would risk bankrupting the utilities or tying up deregulation in costly lawsuits for years. Only New Hampshire's public-utility commission refused to fully reimburse utilities, declaring that ratepayers would pay no more than 60 percent of stranded costs. Elsewhere, deregulation plans will compensate the former monopolists for virtually all of their uneconomic investments through levies on ratepayers.

Will ordinary consumers benefit from lower prices? The Department of Energy's Federal Energy Regulatory Commission estimates that, when fully implemented in a decade or so, competition in the electric industry could save utility customers up to $5.4-billion a year. But how much of this rate relief will benefit residential consumers is anyone's guess. In New York, for example, a deal negotiated between the Public Servi Commission and Consolidated Ediso .he state's biggest electric utility, would chop the electric bills of large industrial users by 25 percent within five years. Residential users can expect to see their bills shaved a mere 3.3 percent.

Regulators in other states anticipate--or even mandate—that deeper rate cuts will accompany competition. But it's uncertain whether deregulation will deserve much credit for those lower prices. Electricity rates have already been declining in recent years, largely in response to lower costs of fuel used to fire power plants and to an overcapacity in power generation.

Will reliable service be available to all consumers? One principle has been safeguarded throughout decades of regulated electrical power: Universal service must be available to all consumers at equitable rates regardless of where they reside. But full competition may not obligate utilities to maintain that commitment. Even affluent communities could see power outages as rival electric companies scrimp on investments needed to upgrade their networks for the sake of generating higher short-term profits for their shareholders.

Recommendations

Under the deregulation plans approved to date, consumers can anticipate the kind of service offers they've become familiar with under long-distance phone deregulation—confusing pricing schemes and high-pressure sales tactics. Here are some steps that could improve the average consumer's chances of fair treatment:

Universal service must be preserved. Unreliable electric-power service that many consumers might receive under deregulation can become a dangerous public-health and safety risk. As an explicit corollary to a shift to competition, government or the competing utilities must see to it that all consumers receive reliable electricity at an affordable price. Electric utilities should continue to be required to grant consumers temporarily unable to pay their bills a grace period before their power is disconnected.

Residential consumers should be free to band together. One way to ensure that communities will get both universal service and the lowest competitive price for the energy they buy is for consumers to form power-purchasing associations, through such mechanisms as the "competitive franchises" authorized by Massachusetts regulators last December. Under this plan, one or more municipalities would solicit bids from electricity providers and negotiate standards of service acceptable to community residents in exchange for an exclusive multiyear franchise.

Consumers need real competition, not deregulated monopolies. Residential customers would be poorly served by deregulation if they lost the public oversight that has kept energy companies from exploiting their monopoly power. Yet a wave of mergers over the past year threatens to bring a worrisome industry concentration to some markets, as energy companies consolidate in anticipation of deregulation. Any move toward deregulation should be accompanied by vigorous enforcement of antitrust laws. If ordinary residential consumers cannot look forward to competition bringing them better service and lower utility rates, it would be preferable to pull the plug on deregulation entirely.

Q&A A question of money

Separating retirement funds

Q I have been considering transferring the Individual Retirement Account I set up with after-tax income into a IRA that contains money that was rolled over from a tax-deferred 401(k) retirement plan. But I've read that these funds should not be commingled. Why not?
BASKING RIDGE, N.J. *M.S.*

A Keeping the accounts separate gives you more flexibility. The funds in your "direct rollover" IRA were originally invested through an employer's qualified retirement plan, and you may want to move those funds into another employer-sponsored plan. If you commingle the funds, you lose that opportunity. Maintaining separate accounts may also keep your tax records simpler. All funds in your rollover account are taxable upon withdrawal, while in your nondeductible IRA, only earnings will be taxed.

Pay down your mortgage

Q I have steadily been adding an extra $20 to my monthly mortgage payments to pay down my outstanding principal. I recently received an offer from my lender for a program that would structure my mortgage payments so that I make an additional payment per year, saving me more than $10,000 over the life of the loan. The program costs $398. Is there any advantage to the lender's method?
BISHOP HILL, ILL. *G.H.*

A No. You are already virtually duplicating at no cost the program your lender is offering for a fee. You seem to have the discipline to maintain steady payments you feel you can afford. But make sure the lender knows the additional money you send should be applied toward outstanding principal and not for escrow or interest. If your mortgage-payment coupons don't include a line that tells the mortgage servicer how extra payments are to be applied, provide instructions with each one you make.

Send your personal-finance questions, along with your address and daytime telephone number, to: CONSUMER REPORTS, Money Questions, 101 Truman Ave., Yonkers, N.Y. 10703-1057. Letters may be condensed. Time constraints prevent us from responding individually.

Your Health

Medical news *How to assess the latest breakthrough*

It's a common malady of the information age: confusion over the latest news about how to avoid—or treat—cancer, heart disease, and dozens of other ills.

If it's Wednesday morning, you're hearing about the latest report in the Journal of the American Medical Association. On Thursday, it's this week's announcement picked up from the New England Journal of Medicine. On Friday, it's biological news from Science. Then there are reports based on Nature, The Lancet, and Cell. Every week, like clockwork, major scientific research journals publish new studies dissecting our lifestyles and our medical options into small pieces. You can count on the newspapers, radio, and TV to seize on many of them as the basis of news reports. On top of that comes news almost every day from medical conferences, drug companies, or patient-support groups.

If you pay attention, you can get really confused. One study says caffeine is bad for your heart. Another says it doesn't matter. One study says alcohol can give you cancer. Another says wine consumption seems to explain why the French can eat plenty of butter and cheese but suffer fewer heart attacks than Americans.

"It's very easy to be seduced by headlines," notes Harvard Medical School epidemiologist Julie Buring, principal investigator in the Women's Health Study of vitamin E and aspirin.

In fact, scientists very rarely have cause to shout "Eureka!" Instead, the process of gaining medical knowledge is in some ways like the creation of a pointillist painting. If you concentrate too much on individual dots, you'll miss the big picture—which may take years to come together.

Still, some studies should matter more to you than others. Here are five ways to assess how much weight you should give a new medical report. They are the same sorts of questions that researchers ask when deciding which leads to follow up.

1. Who's promoting the study? There is a vast commercial machinery behind the publication of scientific information, from businesses trying to lure investors, to institutions hoping to gain prestige or win grants as a result of publicity. "You have to look at the motivations of everyone involved in telling you that there is some breakthrough that is going to change your life," advises Marcia Angell, executive editor of the New England Journal of Medicine.

Medical reports often seem contradictory.

A case in point: the "milk is bad for you" scare of 1992. A group of physicians—bolstered by famed pediatrician Benjamin Spock—called a news conference to denounce the possible hazards of cow's milk. The group's report dwelled on studies showing a supposed "link" and "strong correlation" between dairy products and juvenile diabetes. Not everyone noticed that the evidence for such a link is weak; that it might apply only to children who already are genetically susceptible to diabetes; that Spock was there mostly to support breast-feeding of infants; and that the group, associated with the animal-rights movement, vigorously promotes vegetarianism.

2. How was the study done? Even if the source looks reliable, were the studies carried out in people? in just one gender? lab animals? test tubes? The further away a study is from the real world, the less reason to automatically apply its results to your own life. Use your common sense. "If it sounds farfetched, it often is," says endocrinologist JoAnn E. Manson, a co-investigator in the Women's Health Initiative, a study of estrogen, calcium, and vitamin D.

3. What kind of study was it? Even if the study was done in people, not all studies are created equal. To look at the effect of a medication on a disease, the best design is a "prospective" interventional study—one like the Physicians' Health Study, which followed 20,000 physicians for more than a decade to look for aspirin's ability to prevent heart attacks and beta-carotene's ability to prevent cancer. A good prospective study assigns people at random to either a treatment group or a no-treatment "control" group. Without such a comparison, it's impossible to know if the treated group really benefited.

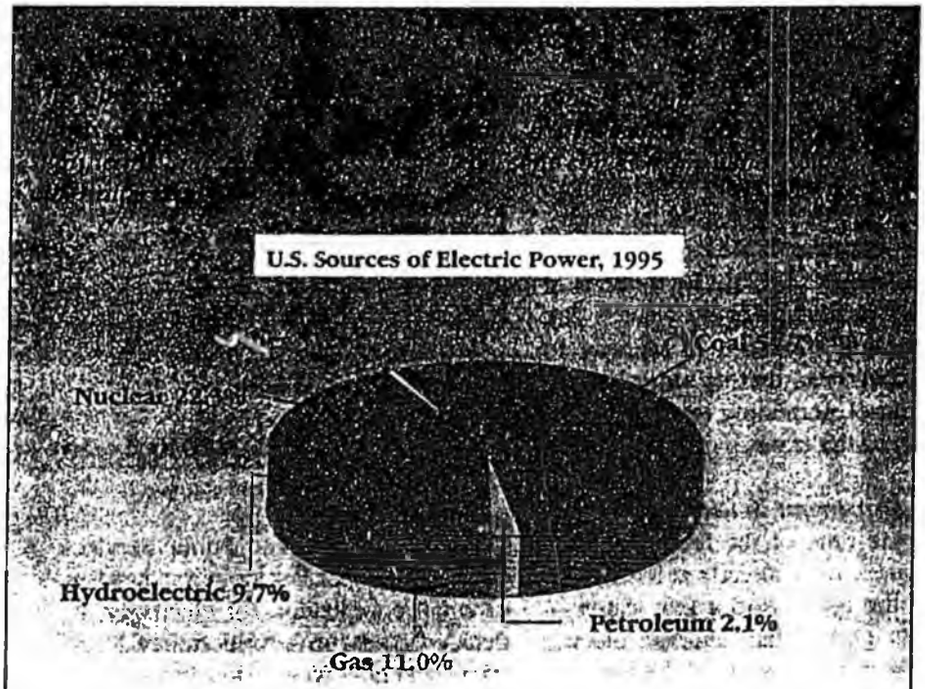
This is one of the problems with a spate of reports this year about the "promise" of radiation therapy for the blinding disease called macular degeneration. Most of the research reported by the press has no control group.

Less reliable than prospective studies are retrospective studies, in which researchers look back at what happened to subjects in the past. This approach is often used as the first step in a hunt for the causes of cancer clusters, birth defects, or puzzling syndromes. The accuracy of the results relies on people's records and recollections and cannot be proof of cause and effect.

4. How big was the study? How many people were studied and for how long? In general, the bigger the study, the better. Unfortunately, small projects with intriguing results can make headlines that are just as big as those given to larger, more comprehensive studies. That was illustrated by a pair of dueling studies of hormone-replacement therapy published in 1995.

One study, published in the New England Journal of Medicine, looked at more than 120,000 women in the two-decades-long Nurses Health Study. It carefully laid out which women were more susceptible to an increase in breast-cancer risk when taking hormone-replacement therapy. The next month, the Journal of the American Medical Association published a retrospective study of 1029 women in Washington state, which concluded that taking hormones didn't raise breast-cancer risk.

Illustration by James O'Brien



* *Includes geothermal, wood, wind and solar energy.*

Source: Energy Information Administration

Continued from p. 34

modifications to nuclear plants. Costs of building and operating nuclear plants rose sharply, especially after the mishap at the Three Mile Island plant in Pennsylvania in 1979, which heightened regulatory oversight even further.[9] The industry continued to defend nuclear power, but it also began to back away. More than 100 nuclear plant projects were canceled between 1972 and 1984, and no new plants were started after 1978.

The economic pressures revealed that the industry was by no means as well-managed or as well-regulated as had been thought. "Some utilities did a very good job of coping with those factors while others didn't," Anderson says. "Their prices went up and went up dramatically. And the common knowledge was that it didn't matter because the customers had nowhere to go."

Conservation Moves

President Jimmy Carter came to the White House in 1977 determined to "solve" the energy crisis by reducing the country's dependence on foreign oil, promoting energy conservation and efficiency, and encouraging the development of new energy sources — including the so-called renewable resources: solar, wind and geothermal. Congress rejected many parts of Carter's legislative program and weakened many others. But three of the measures it approved helped lay the groundwork for opening up the electric power industry.

The most important of the new laws was the Public Utilities Regulatory Policies Act of 1978 (PURPA). The law requires utilities to buy power produced by small projects using renewable sources of power and by co-generators, industrial plants that use steam to produce electricity. The law also props up the price paid to these so-called "qualifying facilities" by requiring utilities to pay what it would cost them to generate the same amount of power at their own plants. In effect, the law forced the major utilities to create a favorable market for a new class of electric power generators.

The effect of the law was strengthened by two other measures also passed in 1978. In the name of energy independence, the Power Plant and Industrial Fuel Use Act forbade the use of oil or natural gas in new power plants. And the Energy Tax Act provided a 10 percent credit to generators using geothermal, wind, solar or other renewable energy sources.

Combined with the economic pressures utilities faced in constructing new power plants, the laws helped stimulate the growth of a new electric power sector: independent generators. While the non-utility generators provide only about 7 percent of total U.S. output, they have been the industry's fastest growing sector. In 1994, they accounted for 60 percent of new capacity.[10]

Opening Up the System

The drive for competition in the electric power industry began gathering steam in the 1980s, fueled by politics and by economics. But opposition from utility companies thwarted federal regulators' first attempt to permit competition in the wholesale market. With growing political support, however, Congress in 1992 set the stage for mandating wholesale competition. And the states were also moving on the issue, with several states adopting plans to permit retail competition and many others seriously considering it.

The movement toward deregulation and competition gained visibility and influence under President Ronald Reagan, who appointed free-market advocates to posts in his administration and at regulatory agencies, including the Federal Energy Regulatory Commission. Equally important for the electric industry, utility companies themselves encouraged the birth of a competitive power production sector. The big utilities faced rising construc-

tion costs for new plants, and state regulators were reviewing those costs more carefully, and in some instances disallowing them. As a result, utility companies turned increasingly to non-utility generators, buying power to sell to their retail customers rather than producing it themselves.

In 1988, the FERC proposed a rule to allow utilities to sell power on a wholesale basis outside their service areas. The rule was strongly pushed by Martha Hesse, a free-market advocate named by Reagan to head the commission in 1986. "Electric generation may no longer be a monopoly in all markets," Hesse told a congressional committee in September 1987. [11] But the rule, formally issued in 1988, was shelved after utility companies and many other groups filed what Elcon's Anderson recalls today as "roomfuls of comments" in opposition.

Four years later, however, the political climate in Congress was more favorable toward competition. Environmentalists as well as the public power and rural electric co-op lobbies shifted to favor competition in the wholesale market, leaving the utility companies almost alone in their resistance. So Congress included in the omnibus Energy Policy Act of 1992 two provisions to foster competition in the electric industry. One provision lifted restrictions contained in the 1935 holding-company law in order to allow new, independent electricity-generating companies, called "exempt wholesale generators," to sell power to utilities. In addition, the law directed the FERC to adopt a regulation requiring utilities to open their electrical transmission lines to all sellers of electricity.

The commission adopted the rule (Order 888) on April 24, 1996, after three years of sorting out an array of technical and substantive issues. Independent power generators were satisfied with the provisions to ensure access to transmission lines on a nondiscriminatory basis. But utilities won an important victory on the stranded-cost issue. The order provides that utilities can recover any "prudently incurred" costs on power plants if their customers move to other suppliers.

As for consumers, the commission's chair, Elizabeth A. Moler, said the move to permit competition in the wholesale power market could mean "billions of dollars" in savings every year. [12] The commission went out of its way to stress, however, that its order left the question of permitting retail competition up to the states.

Movement in the States

By the time of the federal action, most states were already at least looking at the issue. And a few states — all with higher than average electric rates — were moving decisively toward opening up their electric power markets to direct competition for customers.

In New Hampshire, the move toward competition came against a background of simmering discontent with high rates and a protracted battle over the Seabrook nuclear power plant, owned by the state's dominant utility, Public Service Co. of New Hampshire (PSNH). [13] The state legislature and the Public Utility Commission (PUC) both began moving to permit retail competition in 1995. With bipartisan support, the legislature adopted a law in June 1995 directing the PUC to set up a retail competition experiment by May 1996. Meanwhile, the PUC was fighting a court battle with PSNH, which claimed the commission had no authority to permit new power suppliers to enter the market.

The state Supreme Court rejected the utility's plea in a ruling on May 13. In the meantime, the legislature had gone further and passed a law mandating retail competition statewide, beginning Jan. 1, 1998. The state's Republican governor, Stephen Merrill, signed the bill into law on May 21. A week later, after obtaining approval from the FERC, the state PUC initiated its retail competition pilot program, inviting 17,000 of the state's electric customers to participate in the country's first broad-scale experiment in a competitive electric power marketplace. ■

CURRENT SITUATION

Growing Competition

When the Maryland Public Service Commission first looked at the idea of retail competition for electricity, it decided to pass up the opportunity. Electric power rates were so low in the state, the five-member commission said in its August 1995 report, that there was "no need for dramatic fixes at this time."

But the commission is now planning to take a second look. In a six-page order issued Oct. 9, 1996, the commission directed its staff to "study and make recommendations as to how Maryland electric customers can best benefit from developing competitive markets for electric services."

"Things are moving very quickly," Commissioner Gerald Thorpe explains. "There's a very strong current, almost of inevitability, for deregulation of the electric industry."

Maryland now joins the vast majority of states to have some kind of active proceeding or study relating to opening up electric power markets to competition. But supporters of competition who depict the trend as inevitable are, at best, premature. Most states that have examined the issue so far have either rejected moves toward competition, adopted half-steps or put the issue on hold while waiting to see what happens in other states. (*See chart, pp. 36-37.*)

Seven states, however, have acted within the past year to permit retail competition for electric power on a statewide basis. Besides New Hampshire, four others are in the Northeast. Rhode

CITIZENS FOR STATE POWER

97-12-9 AM 8:31 RCVD

MEMORANDUM

To: ALEC Members

From: Craig Shirley, Citizens for State Power

Date: July 30, 1997

RE: CSP Poll

Today, electric utility restructuring is being debated all across the nation in the state capitols and in Washington, DC. Currently, numerous states have deregulated their electric utility industries and introduced competition and consumer choice. Dozens of other states are actively considering restructuring scenarios of their own. Yet, despite all this state-led experimentation, some in Congress still seem to think that "Washington Knows Best" and that the federal government can best micromanage reform.

The American Legislative Exchange Council (ALEC) board has proposed issuing a report on behalf of the Council that, unbelievably, supports this "Washington Knows Best" approach and a preemption of long-standing state regulatory prerogatives. The ALEC board is seriously considering adopting an ALEC Task Force report that advocates the federal government issuing a one-size-fits-all directive to the states regarding electricity deregulation.

Citizens for State Power recently conducted a poll of ALEC members on the issue of electric utility deregulation and restructuring. Below are some of the highlights.

- 84% of ALEC members believe that the 50 states, not the federal government, know best how to deregulate their respective electric utility industries.
- 79% of ALEC members said that the federal government should "refrain" from setting mandates about electricity deregulation and let the states lead the way.
- 80% of ALEC members said that the ALEC board had not asked their opinion on the controversial issue of electric utility deregulation and 87% of ALEC members did not know that ALEC was planning to issue their task force report.

Such findings -- that state legislators do not favor a federal mandate on this issue -- should not surprise anyone. Given these results, it seems that the ALEC Task Force report conclusions, in support of federal mandates, do not reflect the opinions of the membership at large. Enclosed are the poll results for your review.

As an ALEC member, you understand very well that the organization's reputation as a fair and impartial body is critical to its success. I hope that you will see to it that the ALEC board hears your thoughts on this important issue.

122 SOUTH PATRICK STREET, ALEXANDRIA, VA 22314
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CSA@TOWNHALL.COM

Citizens for State Power

FOR IMMEDIATE RELEASE:
July 30, 1997

Contact: Rob Geist
Craig Shirley & Associates
(703) 739-5920

ALEC Rank & File Oppose Mandates in Electricity Deregulation

CSP Poll Shows ALEC Significantly Out of Step with Its Members –

Alexandria, VA – July 30 – A recent poll of state legislators who are members of the American Legislative Exchange Council (ALEC) showed that an overwhelming majority of those members favor states taking the lead in electric restructuring, directly contradicting the conclusions of an ALEC Task Force Report that support federal mandates.

"It should not surprise anyone that members of a state legislators-oriented organization like ALEC would favor states taking the lead on restructuring instead of approving an overreaching federal mandate," said Craig Shirley, Consulting Director of Citizens for State Power.

"When given an opportunity to comment, state legislators widely support state-led restructuring efforts and strongly oppose federal mandates. Any consideration of the ALEC Task Force report should take into account that 80% of this poll's respondents do not agree with the report."

The poll was conducted by John McLaughlin & Associates for Citizens for State Power during the early summer of 1997. The accuracy of this poll at the 95% confidence level is ± 6.4%. Some of McLaughlin's other clients include Steve Forbes' 1996 presidential campaign, former Virginia AG Jim Gilmore's 1997 gubernatorial campaign, over 25 current US Senators & Representatives and companies like Pfizer Pharmaceuticals & Burson-Marsteller.

Some findings of the poll:

- ✓ **84%** of respondents believe that the 50 states, not the federal government, know the best way to deregulate the electric utility industry – while only **10%** believe that the federal government knows best how to do it.
- ✓ **Almost 80%** of respondents said that the federal government should "refrain" from setting mandates about electric deregulation and let states lead the way.
- ✓ **Almost 7 out of 10 (68.4%)** disapprove of Congress mandating that states deregulate utility markets within their borders by a "date-certain" or be subject to federal regulations.
- ✓ **Only 5%** believe that individual states cannot be trusted to deregulate their utility industries.
- ✓ Also, **80% of ALEC Members** said that the ALEC Board had not asked their opinion on the controversial issue of electric power utility deregulation.
- ✓ **87%** of respondents *did not even know that the ALEC was planning to issue their task force report.*

Citizens for State Power, based in Alexandria, VA, is a conservative organization that will defend the rights and role of the states in the Congressional debate on restructuring America's electricity industry. For more information about Citizens for State Power or to receive a poll summary, please call Rob Geist of Craig Shirley & Associates, Inc. at (703) 739-5920.

-30-

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Email: csa@townhall.com

JOHN
McLAUGHLIN
& ASSOCIATES

TO: **CITIZENS FOR STATE POWER**

FROM: **JOHN MCLAUGHLIN & ASSOCIATES, INC.**

RE: **EXECUTIVE SUMMARY**
SURVEY OF STATE LEGISLATORS

DATE: **JULY 28, 1997**

I Overall Summary

The vast majority of A.L.E.C. members, regardless of party, age, intensity of conservative ideology, or other demographic traits are strongly against the Federal Government mandating or controlling the deregulation of the electric utility industry. The majority of these State Legislators feel that their individual state legislatures would better be able to deregulate the local electric power industry. A large majority is unaware that the national organization to which they belong is prepared to submit a Task Force Report which goes against their beliefs and supports that the Federal Government control the restructuring and deregulation of the electric power utilities industry.

If A.L.E.C. were to submit a report supporting federal control of electric utility deregulation, it is very likely that the vast majority of State Legislators in A.L.E.C would oppose this point of view.

II Survey Summary

This survey dealt specifically with A.L.E.C. members' opinions and attitudes towards the deregulation of local electric power utilities and the responsibility to legislate deregulation.

The most important findings of this poll are:

- 8 in 10 A.L.E.C. members (84.2%) believe that individual states know best how to deregulate the electric utilities industry while only 1 in 10 (10.3%) believe that the Federal Government could do a better job. This overwhelming majority, which prefers state control of electric utility deregulation, cuts across all party and demographic lines.

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Email: [illegible]@aol.com • Website: www.mclaughlinandassoc.com

- Nearly 8 in 10 A.L.E.C. members (78.7%) feel that the US Congress should refrain from mandating that states deregulate the local electric utility monopolies and let the fifty State Legislatures make that decision for themselves.

- 9 out of 10 A.L.E.C. members (90.4%) feel that the Federal Government should stay out of the deregulation of the electric utilities industry while only 5.5% believe that the individual states can not be trusted to deregulate the electric power industry fairly.

- Almost 7 in 10 A.L.E.C. members (68.4%) disapprove of the US Congress mandating that states deregulate utility markets within their borders by a date certain or be subject to federal regulations; and, over 3 in 5 members (62.2%) disapprove of the US Congress mandating that a certain percentage of power which utility companies purchase must be from renewable sources.

- Better than 4 in 5 members of The American Legislative Exchange Council (84.5) claim that A.L.E.C. has not asked for their opinion on the issue of the deregulation of the electric power utilities.

- Almost 9 out of 10 A.L.E.C. members (87.0%) are unaware that A.L.E.C. is prepared to submit a Task Force Report recommending that the Federal Government, not individual states, control the restructuring and deregulation of the electric power utility industry.

- Among those State Legislators who have yet to vote on electric utility deregulation, 78.0% of those who would vote for deregulation of the electric power industry as well as 84.9% of those who would vote against deregulation of the electric power industry feel that individual states, and not the federal government, know best how to accomplish deregulation. Overall, a majority of these State Legislators (85.5%) say that they have yet to vote on this issue.

- Over 6 in 10 A.L.E.C. members (62.2%) disapprove of a federal mandate establishing the percentage of energy that power companies must purchase from renewable energy sources.

III Methodology

This survey was administered to a representative national sample of 236 State Legislators, who were identified as members of the American Legislative Exchange Council (A.L.E.C.), between May 21 and May 24, 1997.

All interviews were conducted via telephone by professional interviewers. Interview selection was at random within predetermined units. These units were structured and weighted to statistically correlate with the national geographic distribution of the sample population.

The accuracy of this survey at the 95% confidence interval is +/- 6.4%.

JOHN MCLAUGHLIN & ASSOCIATES
NATIONAL POLL OF STATE LEGISLATIVE MEMBERS

TABLE OF CONTENTS MAY 27, 1997

TABLE # TABLE TITLE

- 236		Total
- 64	27.3	STATE SENATE
- 172	72.7	STATE HOUSE

- 236		Total
- 52	22.2	1 - 4 YEARS
- 76	32.3	5 - 8 YEARS
- 54	22.9	9 - 12 YEARS
- 53	22.6	MORE THAN 12 YEARS

- 236		Total
- 199	84.2	INDIVIDUAL STATES
- 24	10.3	FEDERAL GOVERNMENT
- 13	5.5	DK/REFUSED

- 236		Total
- 41	17.4	MANDATE
- 186	78.7	REFRAIN
- 9	3.9	DK/REFUSED

5 Q6. - REGARDLESS OF YOUR OPINION OF WHO SHOULD BE RESPONSIBLE FOR DEREGULATING THE ELECTRIC POWER INDUSTRY, SHOULD ANY UTILITY BE EXEMPT FROM STATE, LOCAL OR FEDERAL TAXES IN A COMPETITIVE MARKET PLACE?

- 236		Total
- 19	8.0	YES
- 186	78.9	NO
- 31	13.1	DK/REFUSED

6 Q7. - DO YOU APPROVE OR DISAPPROVE OF THE FOLLOWING POSSIBLE FEDERAL MANDATE? "SETTING A DATE CERTAIN BY WHICH TIME ALL STATES WOULD BE REQUIRED TO DEREGULATE UTILITY MARKETS WITHIN THEIR BORDERS OR BE SUBJECT TO FEDERAL RULES AND REGULATIONS ADMINISTERED BY THE ...

- 236		Total
- 63	26.8	APPROVE
- 161	68.4	DISAPPROVE
- 11	4.8	D.K./REFUSED

7 Q8. - DO YOU APPROVE OR DISAPPROVE OF THE FOLLOWING POSSIBLE FEDERAL MANDATE?
"ESTABLISHING THE PERCENTAGE OF ENERGY THAT POWER COMPANIES MUST PURCHASE FROM RENEWABLE ENERGY SOURCES"

- 236		Total
- 50	21.3	APPROVE
- 147	62.2	DISAPPROVE
- 39	16.5	D.K./REFUSED

8 Q9. - DO YOU APPROVE OR DISAPPROVE OF THE FOLLOWING POSSIBLE FEDERAL MANDATE? "REQUIRING OR PROHIBITING STATES FROM USING CERTAIN METHODS TO DEAL WITH COMPENSATING UTILITY COMPANIES FROM STRANDED COSTS RESULTING FROM DEREGULATION"

- 236		Total
- 85	35.9	APPROVE
- 110	46.6	DISAPPROVE
- 41	17.5	D.K./REFUSED

9 Q#. - DO YOU APPROVE OR DISAPPROVE OF THE FOLLOWING POSSIBLE FEDERAL MANDATES?
(TABLE ENTRY SHOWS THE PERCENTAGE OF PEOPLE SAYING APPROVE)

- 236		Total
- 85	35.9	STRANDED COSTS
- 63	26.8	SET DATE CERTAIN
- 50	21.3	RENEWABLE SOURCES

14 Q14. - WOULD YOU SAY YOU ARE A LIBERAL, A MODERATE, OR A CONSERVATIVE IN YOUR POLITICAL BELIEFS?

- 236		Total
- 3	1.1	LIBERAL
- 97	41.0	MODERATE
- 133	56.5	CONSERVATIVE
- 3	1.4	DON'T KNOW/REFUSED

15 Q15. - WHICH OF THE FOLLOWING BEST DESCRIBES THE AREA WHERE YOU REPRESENT IN THE STATE LEGISLATURE - A CITY OF 100,000 OR MORE, A SUBURB OF A CITY OF 100,000 OR MORE, OR A SMALL CITY, TOWN, OR RURAL AREA?

- 236		Total
- 36	15.4	CITY
- 52	22.1	SUBURB
- 145	61.6	TOWN/RURAL
- 2	0.8	DK/REFUSED

16 Q16 - WHAT IS YOUR AGE?

- 236		Total
- 29	12.4	UNDER 40
- 46	19.3	40-50
- 66	28.2	51-60
- 36	15.2	61-65
- 57	24.4	OVER 65
- 1	0.6	REFUSED

17 Q17. - GENDER:

- 236		Total
- 174	73.9	MALE
- 62	26.1	FEMALE

18 Q18. - PARTY:

- 236		Total
- 157	66.7	REPUBLICAN
- 77	32.8	DEMOCRAT
- 1	0.5	INDEPENDENT

19 Q19. - AREA:

- 236		Total
- 39	16.5	EAST
- 68	28.8	MIDWEST
- 87	36.9	SOUTH
42	17.8	WEST

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Chronology

1800s *Scientists in Europe and the United States master the basic principles of electricity. Inventors begin using electricity to light streets and offices, power factories and run streetcars.*

1882
Thomas A. Edison builds the Pearl Street electric power station in New York City.

1898
Samuel Insull, Edison's administrative assistant and a financial "pioneer" of the electric industry, proposes state regulation of power companies to eliminate "vicious competition."

1900-1965 *The states establish public utility regulatory plans, giving electric power companies territorial monopolies in exchange for rate regulation.*

1907
Wisconsin and New York become the first states to establish public commissions to regulate private power companies. All the states except Delaware follow by 1921.

1935
Congress passes Public Utilities Holding Company Act, which forces the breakup of interlocking electric power concerns, and the Federal Power Act, which gives the Federal Power Commission authority to regulate wholesale electric power rates.

1954
Congress passes Atomic Energy Act, permitting private power companies to use nuclear energy.

1965
Much of New York State and New England lose electricity for up to 13 hours in the country's worst power blackout.

1966-1979 *Energy prices rise in the wake of an international oil embargo; the federal government pushes conservation and the development of "renewable resources."*

1973
Electric utilities face sudden cost increases after a worldwide embargo by the Organization of Petroleum Exporting Countries.

1978
The Public Utilities Regulatory Policies Act (PURPA) includes a provision requiring utilities to buy power from producers using renewable energy sources.

1979
Accident at Three Mile Island nuclear plant in Pennsylvania shakes public confidence in nuclear power.

1980s *Independent electric power companies establish a toehold in the market. Free-market advocates push for deregulation.*

1988
Federal Energy Regulatory Commission (FERC) proposes to widen competition in wholesale electric power sales but backs off after widespread opposition.

1990s *The drive for competition in electric power expands.*

1992
Energy Policy Act allows power producers to seek approval from the FERC to compete to sell large quantities of electricity to utilities.

April 24, 1996
The FERC issues Order 888 requiring utilities to open transmission lines to competing wholesale electric generators.

May 16, 1996
New York State Public Service Commission orders state's utilities to introduce retail access to all customers by early 1998.

May 28, 1996
New Hampshire launches two-year program to allow competition in residential and business markets for electricity. One week earlier, Gov. Stephen Merrill signs legislation mandating retail competition statewide by Jan. 1, 1998 — prior to completion of pilot program.

July 11, 1996
Rep. Dan Schaefer, R-Colo., introduces bill to require states to permit retail competition by Dec. 15, 2000. No action is taken, but similar bill is planned for new Congress.

Sept. 23, 1996
Gov. Pete Wilson, R-Calif., signs measure to permit retail competition for electricity beginning Jan. 1, 1998. Rhode Island adopts similar measure Aug. 7; Pennsylvania follows Dec. 3.

December 1996
Regulators in Arizona and Massachusetts adopt rules to phase in retail competition.

At Issue:

Should Congress require the states to permit competition in providing electric power to all customers, including residential users?

JOHN ANDERSON

Executive Director, Electricity Consumers Resource Council, which represents large industrial users of electricity. It has lobbied for competition in the electric power industry at the federal and state levels.

WRITTEN FOR *THE CQ RESEARCHER*, JANUARY 1996.

YES

Of all the claims and assertions made in the debate on electric restructuring, perhaps none has less merit than the charge that the issue is one solely of state jurisdiction, that the federal government has no (or only a minimal) role, and that there should not be a federal date certain by which all states have to adopt a plan encouraging customer choice.

We might as well make the national highway system, and everything on it, exclusively the states' own and operate.

In a very simple way, the evolution of the electricity market mirrors the evolution of the overall economy of our nation. When Thomas Edison first started his Pearl Street generating station in 1882, the electricity was generated in New York and it stayed in New York. As electricity spread across the country, utilities operated within the bounds of one state. Gradually the industry grew, and utilities operated in more than one state with several large holding companies operating virtually across the nation.

It soon became clear that electricity was interstate commerce, that companies operated in more than one state and that electrons generated in one state were used to light up homes and businesses in another.

Utilities have historically been regulated by both state and federal bodies, providing a hodge-podge of sometimes ambiguous rules as to what aspects of electricity are considered interstate — and theoretically subject to federal rules — and which aspects are intrastate, and therefore subject to state regulations. This confusing web of regulation is one reason that prices for electricity vary so tremendously, sometimes producing 70 percent or 80 percent price differentials within a single state.

Electricity for the most part is clearly interstate commerce. If electricity consumers in each and every state are to benefit from restructuring, consumers in each state must be given the right to choose their supplier of electricity and electricity services. Certainly, each state should have the right to develop its own regulations. But, if a state fails to act, should the customers in that state be penalized? Should they be denied the right to choose? Or, put more crassly, should they be beholden to a monopoly that has no incentive whatsoever to provide lower rates and better service? Of course not.

ROBERT K. JOHNSON

Executive Director, Electric Consumers' Alliance, which represents a wide range of consumer groups on electric industry restructuring issues. It was founded in 1994 with start-up funds from the Edison Electric Institute, the trade association representing private, investor-owned utilities.

WRITTEN FOR *THE CQ RESEARCHER*, JANUARY 1996.

NO

Geography is not all that separates Idaho from New Hampshire. The two states are miles apart when it comes to electric restructuring policy as well. But from their differing experiences emerges a valuable lesson for those proposing a federal preemptive approach.

New Hampshire has embraced — and is in the process of implementing — a retail access structure. Idaho, on the other hand, has determined that retail access is not in the best interests of its consumers at this time because of the likelihood that it would lead to increased rates and diminished service quality.

The cases of New Hampshire and Idaho provide a real-world illustration of the potentially disparate impact of any federal decision to preempt the states on electric industry restructuring. In New Hampshire, like most of the Northeast, consumers pay electric rates that are much higher than the country on average.

By contrast, Idaho regulators find their state on the opposite end of the curve. Idaho enjoys the country's lowest rates, largely because of abundant hydroelectric resources and low-cost coal supplies. If Idaho consumers were suddenly forced to pay electric rates based upon a national average or some other market index, there would be dramatic rate increases.

New Hampshire and Idaho are a microcosm of the nation as a whole. Their experiences confirm that a decision by Congess to mandate competition in all states by some specific date would prevent some states from making decisions that are in the best interests of their consumers. It is much too early to determine whether one state's conclusions are right while the others are wrong, much less to mandate a given result to the nation as a whole.

It would be a tragedy if Congress were to dismiss the vital role of states in experimenting and developing electric restructuring policy. These issues are complex and cannot be addressed through simplistic approaches. Hopefully, in the coming months, those who think they have the answer will begin asking the right questions and, hopefully, they will begin by looking at New Hampshire and Idaho.

utility making such an application "shall show...to the extent possible the impacts the proposal would have had on each class of customers during the test period," which for imminent filings would be the 1996 calendar year.

CITING COMPETITION, SMUD PROPOSES BUDGET WITH NO RATE HIKE FOR 7TH STRAIGHT YEAR

The Sacramento Municipal Utility District has proposed a budget with no rate increases for the seventh year in a row, with the ultimate goal of a 20% rate reduction by the time competition takes hold in California.

To cut costs, the utility will scale back its "public goods" programs, including investments in energy efficiency and renewable technologies. SMUD plans to reduce costs by 7% through the year 2001.

The utility's 1997 budget of $832.9-million is 1% larger than the 1996 budget, mainly due to new investments in the transmission and distribution system in response to recent power outages.

"As we move into a new era of a competitive marketplace, we will continue to emphasize competitive rates, reliable electric service and a high standard of customer service," said Jan Schori, SMUD's general manager.

In a related development on Nov. 19, SMUD staff unveiled recommendations to its board to maintain a 5% rate advantage with Pacific Gas & Electric by the year 2002, when stranded costs will be recovered and customers are allowed full retail choice. SMUD's average rates are 28% below PG&E's.

SMUD's approach to competition is to mimic the actions of its investor-owned utility counterpart, freezing rates for five years and accelerating the recovery of its own stranded costs. The municipal utility estimates its sunk stranded investment will total $1.6-billion, the bulk of which is associated with the closed Rancho Seco nuclear plant.

The utility predicts it will only be able to recover 70% of its stranded costs by the year 2001. Costs that will remain after that date include $125-million in decommissioning obligations, another $125-million for existing power-purchase contracts with other utilities and perhaps as much as $500-million for three gas-fired cogeneration projects the utility has added to its resource mix in the last few years.

A competition transition charge (CTC) will be calculated annually between 1998 and 2001 to recover stranded costs from those customers seeking alternative electricity suppliers. Assuming a market price of 2.16 cents/kWh, SMUD estimates a 1998 CTC of 3.26 cents/kWh.

One of its most aggressive moves is allowing 100 MW, or roughly 5% of its 2,000-MW peak load, to enter into direct-access transactions by the summer of next year, allowing SMUD customers to get a head start in seeking alternative electricity providers.

Under the terms of A.B. 1890, California's restructuring law, IOUs will offer direct access to 5% of customer loads by Jan. 1, 1998. SMUD has proposed a 3-MW aggregation limit and hopes to arrange transmission for these direct-access purchases through the Western Systems Power Pool.

Next year, SMUD will need to add 400 MW to meet its summer peak demand but has pledged not to build any new conventional generation. Instead, it hopes to rely on surplus spot capacity ultimately purchased through the state's Power Exchange. Municipal utilities are not required to purchase from this pool, but SMUD staff advocates participation.

In the budget proposal, SMUD will trim spending on public goods from a current 5.2% of utility revenues to 3.7%. Under terms of A.B. 1890, the muni would only have to spend 2.5% on these programs. If SMUD were to continue spending at current levels on public goods as proposed in its integrated resource plan approved last year, the utility would have had to raise rates by 4.7% next year.

By 1998, PG&E's rates will average 9.46 cents/kWh, while under the new proposal SMUD's average rates are 7.6 cents/kWh. By the year 2002, PG&E's rates are expected to drop dramatically to 6.61 cents/kWh; SMUD's rates under the recommended changes would be 6.3 cents/kWh. If SMU were to maintain current spending on public goods, the utility's rates would be 6.77 cents/kWh by 2002.

One of the casualties of SMUD's cost-trimming efforts is a 50-MW "green" request for proposals issued by the utility early this year. SMUD was to release a shortlist of 10 projects to be developed this month but now is contemplating scaling back these new obligations to just 13 MW or eliminating all but 5 MW. SMUD received 57 bids representing 625 MW of new capacity.

Craig Jones, SMUD supervisor of planning and evaluation, claims that even with the cuts, it still will receive abou 50% of its power from a mix of renewable resources and de mand-side management.

SEATTLE MUNI PURSUES 1% RATE CUT OVER TWO YEARS INSTEAD OF 8% HIKE

The Seattle City Council is considering a proposal by S attle City Light to decrease overall rates by 1% over a two-year period, effective March 1, instead of the 8% increase i had earlier forecast.

The utility said it would lower rates because it is benefiti from aggressive cost controls, favorable power market oppo nities, and a growth in energy sales that is outpacing expens Its non-energy operation and maintenance expenses will be $109-million for 1997, $5-million less than anticipated.

The new rates, if approved, will be phased in over 199 and 1998. High-demand standard customers would see a r. drop of 7.5%, while rates for high-demand industrial custo ers would decrease 5.5%. Rates would rise 3% for residen customers and 2.8% for medium general service customer

The utility has unbundled component costs and rates a based on the cost of energy, cost to operate and maintain t distribution system and the cost of customer services such billing, accounting and meter reading.

In October, the city council approved a new experimer power rate for the utility's largest customers, based on the price of energy at the California-Oregon border. These cu tomers will be able to choose between this experimental r and regular tariffs when new rates go into effect.

Seattle City Light also wants to extend its winter rate period, ing September and October to the higher-cost rate period that runs Nov. 1 through February to reflect monthly energy price patterns closely. The city council is expected to act on the proposal in Janu after it is reviewed by a citizen rate advisory committee.

Alaska
Rural
Electric
Cooperative
Association, Inc.

ARECA

703 W. Tudor Rd., #200
Anchorage, AK 99503-6650
(907) 561-6103
FAX (907) 561-5547

Electric Service for 357,000 Alaskans

MAY 0 5 1997

April 30, 1997

Rep. Norman Rokeberg, Chairman
Labor & Commerce Committee
House of Representatives, Alaska Legislature
State Capitol, Room 24
Juneau, AK. 99801-1182

Re: HB 218

Dear Representative Rokeberg:

I am writing to express some concern about one specific section of the above referenced bill currently referred to your committee.

I understand that most of this bill is simply clarifying and updating language already existing as it relates to the business of conducting insurance. Other aspects of this bill seem to provide additional protection for Alaska's citizens. Given these issues, I can see why this bill is needed.

However one provision gives me reason for concern, Sec. 53 AS 21.90.900 (29) would amend the definition of a "policy" to include *certificates of insurance or other evidences of insurance that establishes the written contract of or written agreement for or effecting insurance for an insured or other beneficiary of the entity.*

The proposed wording of this provision is not clear as to the definition of "other evidence of insurance". The language is also ambiguous as to the definition of "other beneficiary of the entity". Without clarity I believe that these provisions may result in additional and costly litigation for both insurers and policyholders.

"Certificates of insurance" have not traditionally been held to be part of the policy. In fact each ACCORD certificate (the industry standard) includes special wording that specifies the document is not binding.

> *Top Section, Above "Companies Affording Coverage"*
> "This certificate is issues as a matter of information only and confers no rights upon the certificate holder. This certificate does not amend, extend or alter the coverage afforded by the policies below".

Bottom Section, Above "Cancellation"
" Should any of the above described policies be cancelled before the expiration date thereof, the issuing company will endeavor to mail ____ days written notice to the certificate holder named to the left, but failure to mail such notice shall impose no obligation or liability of any kind upon the company, its agents or representatives.

Adoption of the proposed wording will create an ambiguity between the language of the certificate and the statute. Special certificates will have to drawn up for use on Alaska business, which adds to the administrative and expense burden for both agents and insurers.

You should be aware that brokers or agents, not insurers, normally issue certificates of insurance. This provision may put great strain on the agency relationships within the independent agency system. Right now it does not require agents binding authority to issue certificates. The proposed wording could conceivably change this.

Finally, the majority of certificates evidence insurance for many policies having different terms and different insurers. The proposed wording would in effect make a single certificate a binding part of many policies written through many insurers. It should not be anticipated that one document drafted by an agent/broker will apply well to multiple coverages with diverse wording. The study of policy language is complex and insurers commonly have entire departments that are dedicated to just such intricacies.

Each one of these issues are likely to result in increased misunderstandings and resultant litigation between policyholders their insurers and agent/brokers.

Please reconsider this particular provision in favor of removing the language making certificates of insurance and other evidences of insurance part of a policy by definition.

Sincerely,

Eric Yould
Executive Director

Cc: Rep. Pete Kott

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To (H) Labor & Commerce	From Anc LIO
Co. TC 70621 Written Testimony	Co. 2040

members of the Committee.

Metlakatla
Angoon
Kake
Klawock
Kasaan
Chilkat Vill
Klukwan

1. NAME - BOB MARTIN, P.O. Box 210149, Auke Bay 99821
(907) 789-3196

2. POSITION - GENERAL MANAGER THREA
in Anch. to attend Grand meeting of THCC.
Important to us.

3. GENERATION & DISTRIBUTION UTILITY SERVING 7 SE. VILLAGES
w/ HQ in Auke Bay.

4. This is not an easy job. We use diesel. It is extremely expensive. And with increasing regulations & with inflation, it is getting worse.

I am here to speak in favor of
5. ~~THREA supports~~ HB 235. ~~because~~

6. Like all utilities, we are required by law to serve all customers in our service area. Some of those customers are less expensive to serve, taken on a per kWh basis, simply because they are big loads that use lots of energy.

These are very desirable loads. They add a measure of economies of scale. We have put a lot of thought and effort into attracting and nurturing those loads.

For instance, for the ~~very~~ largest loads - those with capability of generating their own needs, we created a special rate at our incremental cost of generation. In the three years since we implemented these rates, those loads have grown to ~~x~~ 24% of our TOTAL SALES

Those loads have lent a great deal of stability to our rates.

7. Our concern is based on the fact that large loads are cheaper to serve. As a pub util We have to serve everyone — and we have to install generation and distribution to meet that highly variable ~~[illegible]~~ load.

8. A competitor can come in — provide generation for only the large loads — and offer rates we simply could not compete with.

for instance A school in winter & fish processor in summer would be simple and inexpensive, and would use the same generator set.

9. The loss of that revenue would raise the fixed-costs component of our rates per kwh — because we would be selling fewer kwh.

— While this would be good for the large loads, those lost revenues would have to be made up by the remaining customers: Small commercial and residential customers.

10. THREA has several loads which consume more than 1 million kwh/year @ 12¢/kwh, that is more than $120,000 in revenue — easily qualifying an independent generator as a public utility.

11. This bill would protect our smallest consumers. The consumers we were created to serve.

We urge your favorable consideration, and to move the bill out of committee.

Thank you Mr. Chairman.

[illegible] when you support something — high when you oppose it.

Paying for Universal Service

By Philip M. Burgess

Historically in the electricity business, the government has mandated that utilities provide all people in their service areas access to electricity. The utilities paid for this universal service through a complex of subsidies directed and supervised by government regulators. If electricity markets are deregulated and utilities are free to sell power outside their traditional service areas, (i.e., an Indiana utility selling power to Chicago), then who pays for maintaining local universal service?

If America continues to believe there is a shared social responsibility to ensure that everyone has access to affordable electricity, many questions must be answered.

If America continues to believe there is a shared social responsibility in ensuring everyone has access to electricity, many questions must be answered.

On the one hand, U.S. Rep. Dan Schaefer (R-Colo.) would leave it to each state to develop its own universal service plan that takes into account its unique situation.

States like New Jersey, with high population densities, may find it relatively inexpensive to ensure everyone is connected to the grid.

But states like New Mexico may find it prohibitively expensive to wire people in remote, isolated areas separated by hundreds of miles. Reasons: Utilities serving remote areas face more capital investment (wires and poles) and higher operating costs (i.e., time and gas sending crews out). Many Westerners, therefore, would prefer a national universal service plan where, in essence, states like New Jersey would help pay some of New Mexico's cost.

Furthermore, the fastest growing and lowest density parts of the nation are in the West – meaning they must spend the most to maintain and upgrade the electricity grid.

Electrifying rural America is not as easy as it appears. Reason: merely offering subsidies by geography or population density does not take into account the vast wealth differences in rural areas.

For instance, resort areas like Aspen, Colo. and Jackson Hole, Wyo. have electricity consumers who own million dollar homes – hardly people in need of subsidized power. Yet just 20 miles away, low-income workers living in trailer parks may benefit from universal service. If both of these populations are in the same service area, it hardly seems right to subsidize the whole region.

Americans accept that in rural areas food prices and automobile prices will be higher. In a free market, should rural electricity and telephone prices be higher too?

Also, if food subsidies were done the same way as current telephone and electricity universal service, rather than giving poor people food stamps the government would give money to grocery stores and tell them to go find hungry people. How universal service is structured will greatly affect who receives its benefits, how much it costs, and who pays those costs.

In telecommunications, rural areas are starting to benefit from new technologies – digital switching, ISDN, cellular phones and digital satellite television – all much less expensive to deploy over wide areas than wires.

Similarly, as new distributed generation technologies come on the marketplace, rural areas may find it less expensive to self-generate than to string wires long distances to connect to the electricity grid. ■

Center for the New West President ***Phil Burgess*** *moderated the El Pomar Forum on deregulation of electric power.*

Philip M. Burgess is president of the Center for the New West.

Continued from page 10

and a third 10% reduction four years after that. Industrial consumers receive no up-front rate reduction but can expect a 30% decrease in rates at the end of the initial four years.

In addition, to deal the with the "Vail issue" – where a competing utility skims off the best customers in an area – California allows the original electricity provider to charge a transmission fee to any new power provider entering the market. Therefore, consumers still served by their incumbent utility (with stranded costs) do not end up paying more for electricity than consumers who elect to switch to a new supplier.

Other states are also addressing stranded costs in a variety of ways. For instance, legislation recently passed in Montana provides for short-term recovery of such costs so that competition may proceed more quickly. The solution to the stranded cost issue may thus be found state by state.

FAST, SLOW OR STATUS QUO?

Despite these issues, deregulation of the electric power industry is already underway. Since the 1980s, policymakers have allowed utilities to use the nation's power transmission grid for commerce and utilities began selling excess generating capacity to other utilities in other regions. Competition in the wholesale power market has worked. It is another force pushing for competition in the retail market.

New generation technologies are forcing utilities to reduce their costs or risk losing customers who go off-line and generate their own electricity. New Hampshire has already initiated limited consumer choice at the retail (e.g., residential) level. California goes to full competition in 1998.

In Congress, competing bills to restructure the electric energy industry have been introduced, including legislation by **Rep. Dan Schaefer** (R-Colo.), **Rep. Tom Delay** (R-Texas) and **Sen. Dale Bumpers** (D-Ark.). Other legislation may well be introduced to change the 1978 Public Utility Regulatory Policies Act (PURPA) or the Public Utility Holding Company Act (PUHCA), as well as efforts to privatize the government's Power Marketing Associations.

Some electricity industry stakeholders favor federal preemption of state laws that prevent or slow competition. Other stakeholders favor a state-by-state approach. "The impetus for deregulation is unstoppable," says **David Keene,** co-chairman of Washington, D.C.-based **Citizens for State Power.** "But there are always transition problems. The best thing we can do is to hammer out these issues at the lowest possible level, which is not Washington but the local level."

How soon the U.S. has free electricity markets is an open question.

Another concern of many deregulation proponents is that the "restructuring" of laws will simply result in a different kind of regulation. For example, **State Senator Kathy Augustine** of Nevada believes policymakers "need to be very careful, both at the federal and state levels, that deregulating the electric power industry is not simply re-regulating it in a different way."

How soon the U.S. has totally free electricity markets is an open question. Voters in high-cost states are eager for access to less expensive power and are pushing their elected officials to deregulate the industry. But some stakeholders in lower-cost states and many rural utilities are resisting change, wondering why they should fix what isn't broken.

***Flo Raitano** of the Colorado Rural Economic Development Council: "In a single swoop, a utility may take 70 percent of the market share in a community."*

One thing is clear, however. As policymakers address the issues of a free market, they have the responsibility not to make unwise decisions resulting in a transition to a competitive marketplace that is more difficult and more costly – both for electricity producers and consumers – than it needs to be.

The federal government is now dangerously close to creating another savings and loan-type fiasco in the electric power industry. That should not and need not happen. Patience is a virtue in politics as in life. "Those who forget this impose cost mistakes leaving people and communities holding the bag – an outcome that should be avoided. Adam Smith won't care. ■

Ronald L. McMahan is Senior Fellow for Energy Policy at the Center for the New West and President of Boulder-based Resource Data International, Inc. Richard E. O'Donnell is Executive Director of the Denver office of the Center for the New West, where he is Senior Fellow for New West Politics.

Stranded Investment: The $202 Billion Gorilla

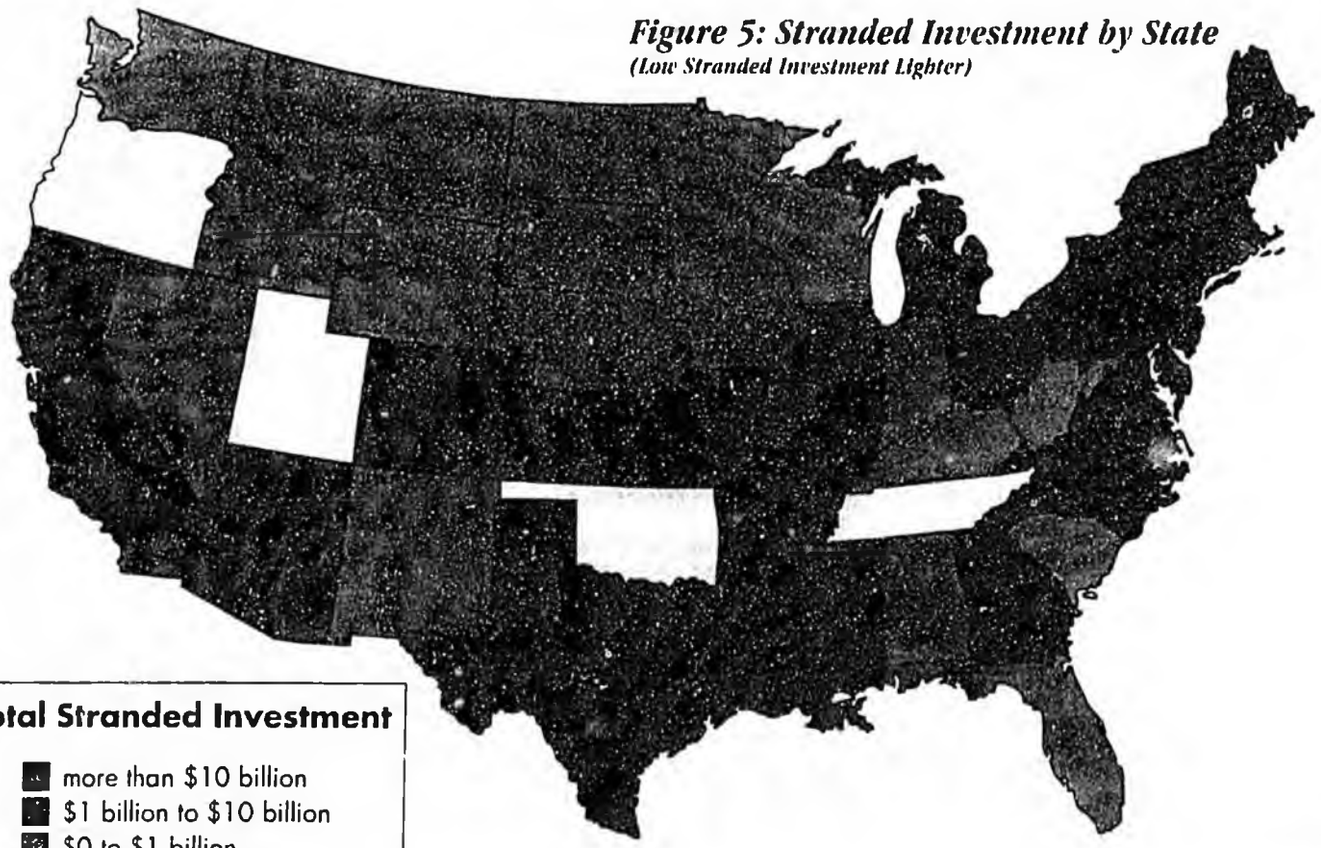
In 1996, **Resource Data International, Inc.** of Boulder, Colo., examined each of the nation's 3,050 utilities and identified $202 billion in net stranded investments. This includes $147 billion at investor-owned utilities, $33 billion at municipal utilities and $22 billion at cooperatives.

Nuclear power plants, many "obsoleted" by changing government regulations, account for $86 billion of stranded investments. Above-market power contracts account for $54 billion. Another $49 billion in stranded investments can be chalked up to "regulatory assets" – previously incurred costs carried on utilities' balance sheets that government regulators told utilities they could recover later. The last component is $42 billion in other above-market contracts to purchase power from non-utility generators.

These stranded investments, which total $231 billion, are offset by utility generating assets with higher market value than current book value, and by above-market power sales between utilities. These $29 billion in offsets leave total net stranded investment at $202 billion.

As shown in Figure 5, these stranded investments are not evenly distributed: 86% reside in just 10 states, which represent only 43% of the entire electricity market. Many large states including California, Illinois, Texas and New York have high stranded investments. Other large states including Florida and Indiana have little stranded investments. And many states, including Washington, Minnesota, Kentucky and Oklahoma actually have "negative" stranded investments, meaning they generate power today more cheaply than it costs to build a new power plant. Backing out this "negative" stranded investment – about $55 billion – gives the U.S. $147 billion in stranded investments. The question of who pays for this $147 billion in stranded investments – investors or consumers – is one of the biggest barriers on the road to free electricity markets. ■

Figure 5: Stranded Investment by State
(Low Stranded Investment Lighter)



Source: Resource Data International, Inc.

Restructuring the Grand Daddy of All Monopolies

Rep. Dan Schaefer (R-Colo.), the leading proponent in Congress for opening electricity markets to competition, addressed participants at the El Pomar Forum. *Following are excerpts from his remarks:*

Restructuring in any industry is a difficult and often a politically charged process. It is much more so when that industry is what I term the Grand Daddy of all monopolies. However, the fact that it is hard is not a compelling reason not to do it, especially when the status quo endangers consumers and dampens the economy in this country.

There is no doubt in my mind that we need to get a free electricity market very quickly. That does not say and does not mean that we should do it without orderly planning and orderly transition. For that to occur, both Congress and the states have important roles to play.

What are the justifications of this change that we're looking at? Some of the most compelling arguments for pursuing consumer choice in electricity can be found by looking at the impact competition has had in other industries in this country: trucking, railroads, telecommunications, airlines and natural gas.

Four consistent trends emerge from examining deregulation in these industries: First, giving consumers choices should be the goal. Second, savings to consumers were real and not simply the result of cost shifting among consumer classes; true innovation and increased efficiency spurred these savings. Third, the reliability of systems improved under competition. Finally, going only part of the way to competition did not generate nearly the same benefits as did giving all consumers the right for competition. I believe that these four facts are equally applicable to the electricity industry.

Consumers of electricity are beginning to understand that competition will benefit their wallets and the economy as a whole.

U.S. Rep. Dan Schaefer (R.-Colo) told forum participants: "There is no doubt in my mind that we need to get a free electricity market very quickly."

That's why competition is inevitable. The cost of electricity represents one of the most burdensome and regressive bills the average family faces. Not only does every consumer, rich or poor, have to pay an electric bill, but short of simply sitting in the dark, consumers have very little control over the size of that bill. They must simply write a check for whatever the amount the local monopoly utility bills them each month. Consumers are starting to demand and get the same power of choice over electricity they have over other essentials of life.

Nationwide, the potential savings can be nearly $200 billion a year for national economic growth plus millions of new jobs, increased productivity, higher wages, and a big boost in competitiveness of American manufactured goods in the global marketplace. Clearly, every year consumer choice is delayed means millions of dollars in opportunity costs for the U.S. economy.

In the face of strong consumer desire and the vast potential benefits for the economy as a whole, Congress really has two choices. It can continue to shield government-protected monopolies from competition or it can help consumers get what they want and deliver what our economy really needs. I, for one, want to stand with the consumers of this country. Therefore, I have introduced House Resolution 655 that ensures that all consumers, no matter what their size or what their location, have the ability to choose their own provider of electricity service by December 15, 2000.

We had testimony from two small town mayors in North Carolina who said: "Many times we have elderly couples who come to us and ask if there is any alternative in paying for their electricity because if they pay for their electric bills they can't buy food or medicine."

This is who I'm trying to help. For these people and people in the inner cities, a $20 a month reduction in their electric bills is tremendous. ■

Center For The New West

MEMBERS OF THE BOARD OF TRUSTEES

THINKING, NETWORKING, LISTENING, ENGAGING: IDEAS AND LEADERSHIP FOR AMERICA'S FUTURE

To understand America's future, look West. The Western region of the United States leads the nation in population growth, job creation, exports, political reform movements, high technology, educational achievement, leadership by women and minorities, and new approaches to workplace management. Increasingly, the West defines America's place in the global economy and global consciousness.

The Center for the New West advances Western leadership. Its work is rooted in the grandest traditions of the West – freedom, opportunity, common sense, limited government, self-reliance, big dreams, progress, stewardship – and emphasizes a future shaped by new technologies and big ideas, focusing on North America, the Western Hemisphere, and the Pacific Rim.

As the leading think tank in the American West, the Center serves as a resource:

- for business executives – to address issues outside the box, make new contacts, share ideas, and promote the requirements for more jobs and new wealth creation;
- for the media – to get new story ideas, new sources, and new knowledge on emerging trends and issues; and,
- for political leaders – to assess emerging issues, float trial balloons, evaluate new ideas, and engage broader constituencies.

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Western Policy Studies include policy analysis and strategy development on issues like public lands reform, the future of the Great Plains, opportunities for regional development provided by the 2002 Salt Lake City Olympics, the role of civic institutions in an era of devolution, and fundamental tax reform.

Dreamers & Doers works to change the conversation from limits to growth, risk-free living, and sustainability to new concepts that recognize both the vital link between economic development and environmental protection, and the continuing importance of builders – people who mine things, make things, grow things, and advance human civilization in the Information Age.

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- catch emerging trends in politics, economics, demography, and technology; and,
- gain insights into America's changing home life, workplace, and its role in the global marketplace.

The Center is a nonprofit, nonpartisan research institute. The Center's work is supported by corporations, foundations, individuals, and community organizations that provide people, ideas, and financial support. Contributions to the Center are tax deductible under section 501(c)(3) of the Internal Revenue Code.

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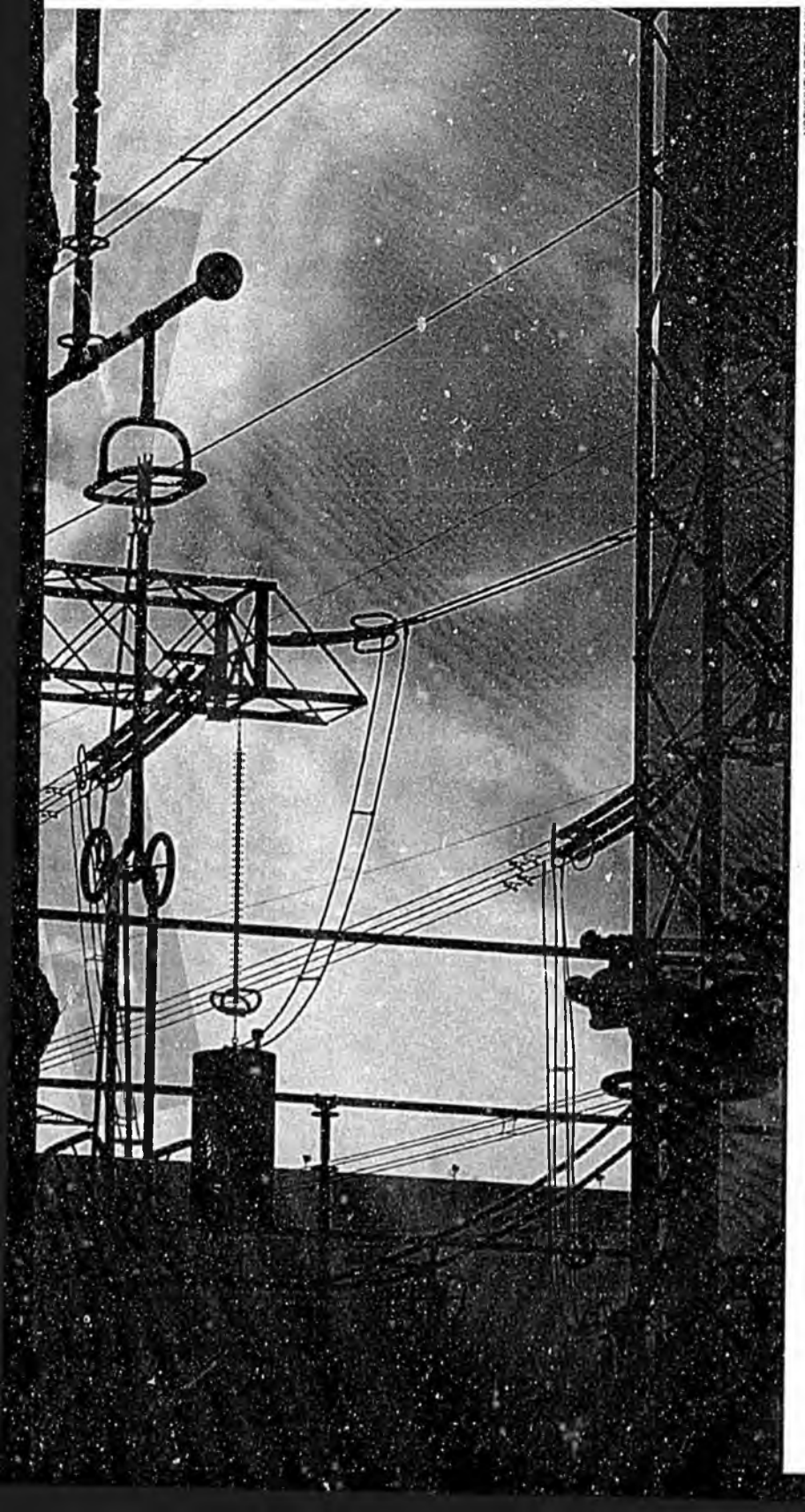
ADDRESS CORRECTION REQUESTED

Power Business



MICHAEL L. ABRAMSON

The bloated, 120-year-old electric power industry isn't just being deregulated—it's being revolutionized. The impact on business will be huge.

BY BRIAN O'REILLY

It seems so incredibly obvious you want to slap your forehead for being so obtuse all these years. Electric power costs a bundle in places like New York and California but barely a third as much in out-of-the-way states like Idaho, West Virginia, and Kentucky. *Why not take all that cheap power the West Virginians aren't using and ship it to Manhattan, Chicago, or San Francisco?*

That, vastly oversimplified, is the idea behind the move to deregulate the electric power industry: If your power company is charging too much for electricity, why should you be forced to accept it? Why can't you shop around? Why can't a power company from Pocatello knock on your door and offer a bargain kilowatt or two?

It's coming. There will be far more competition in the electric power business. It is reasonable to expect that deregulation will cause the nation's $212 billion-a-year electric bill to drop by 20% to 30% or more in the next five to ten years. But not before a vast tangle of technical, economic, and political problems gets solved.

If it works, and it should, the consequences will be enormous. "Electric power is the biggest American industry ever to be deregulated," says Kenneth Lay, chief executive of Enron, a big, aggressive gas and electricity marketer that has led the drive for deregulation. "It's about twice the

size of the long-distance telephone business and dwarfs the gas, airline, trucking, and railroad industries, which were all once regulated." The average homeowner, who uses about $850 worth of power a year, won't be financing trips to Bermuda with the impending savings. But the potential savings for business are huge: Electricity can account for more than 15% of operating costs for a big company such as Chevron, which spends about $250 million a year for power in the U.S. Lay notes that industrial and commercial companies consume about 60% of all power sold. "The billions they stand to save will boost corporate profits and make American companies more competitive internationally," he says. (The upheaval in this once-staid industry will hit investors too: Owning utility stocks isn't just a matter of waiting for dividend checks anymore. For a look at how electricity deregulation affects the market, see Personal Fortune.)

One of the most infuriating practices of most utilities has been their failure to economize. Why should they?

All this is small comfort for the big, often bloated electric utilities, which have lived a long, comfortable existence as regulated monopolies. Already the prospect of deregulation is prompting much moaning and groaning, and with good reason: Deregulation will force many utilities to become far smaller. They will have to sell off some or all of their brawniest assets—those massive generating plants—and make a living mostly by operating the wires that run to homes and factories.

BUT WHAT ABOUT GRANNY?

Naturally, utilities are piously declaring that they relish the bracing winds of competition. But with barely a pause, they urge caution, hinting darkly at the havoc any rapid move will bring to this complicated, delicate industry: grandmothers stuck in elevators, hucksters who won't deliver the juice you need on a hot night, novice power plant owners frying transmission lines as they greedily try to ship power to places that can't handle the load.

If the electric power industry is doomed to collapse in a shower of sparks, we'll find out soon enough. Regulators in California defied the Cassandras and declared that everybody can buy power from anybody, starting next January. Already advance men from all over the country have descended on the state. None seem particularly worried they'll be stuck in elevators.

If anything, the electric business will run better than before, says Michael Peevey, former president of Southern California Edison, one of the biggest utilities in the country. Under the existing scheme, electric companies go virtually unpunished for power failures, Peevey says, so power outages are far from rare. But Peevey noticed that when a Cal Edison subsidiary built and operated power plants for private customers and was penalized for down time, the plants ran smoothly 95% to 97% of the time—considerably better than Cal's regulated plants. "That's when I began to have creeping doubts about the wisdom of regulation," says Peevey. "I was like a fallen Catholic. I no longer believed." He quit and now runs New Energy Ventures in Los Angeles, which plans to help companies buy inexpensive power.

A QUIRKY INDUSTRY—REALLY

Not that anybody really knows how all this deregulation will work out. For all its apparent blandness, this is, believe it or not, a varied, quirky industry. Unlike the old Ma Bell, which seemed to spawn seven clones of itself at breakup time in 1984, each of the nation's 198 investor-owned utilities seems markedly different from the others in operations, culture, oddball problems, and long-range financial prospects.

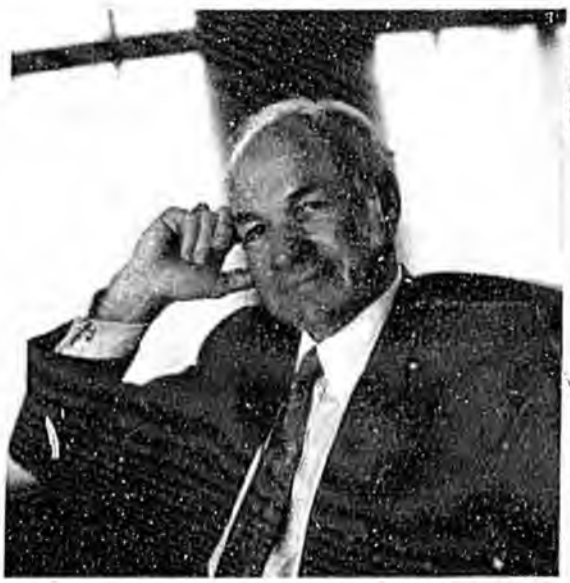
How different? Ohio-based American Electric Power runs gigantic power plants right near coal mines in Ohio, West Virginia, and Kentucky, with boilers so vast they can fit the Statue of Liberty inside. Consolidated Edison in New York City has to run almost all its wires underground, at a cost eight times greater than stringing them on poles. Cinergy, an aggressive midsized utility in Cincinnati, is determined to be one of the five biggest energy traders in the country.

It's hard to say which private utilities will thrive. Each state will devise most of the rules governing the deregulation—and the fate—of its own utilities. In most states, though, regulators have barely begun to tackle deregulation. (The 3,000 or so electric cooperatives and government-owned utilities will be affected by the changes sweeping the industry, but they're exempt from deregulation.)

So in the absence of any simple declarations about the electric power business, herewith a guided tour of the problems, issues, and peculiarities of this soon-to-be-transformed industry.

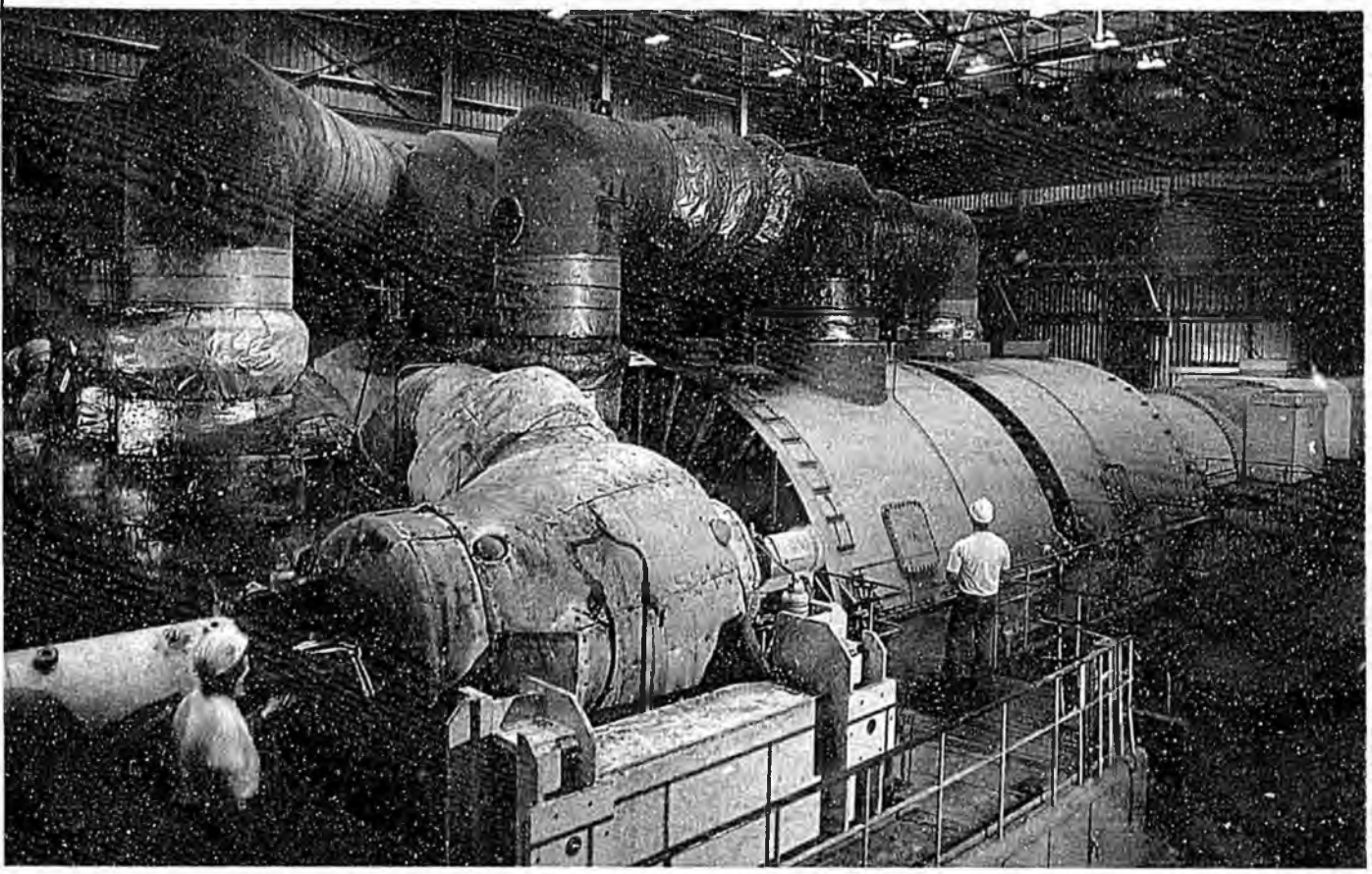
LET'S REDECORATE!

One of the infuriating practices of most utilities has been their failure to economize. Why should they? Regulators routinely allowed them to earn a fixed rate of return on their assets. The result was a perversity known as "asset-based management." The more money a utility spent adding generators and other assets to its local power system, the more money the company made. Thus, for instance, cost overruns on nuke plants didn't cause too many sleepless nights for executives.



WYATT MCSPADDEN

Kenneth Lay, CEO of Enron, has led the fight for deregulation.



American Electric Power runs this huge, 1,300-megawatt power plant in West Virginia. It can ship cheap power all the way to New York City.

Michael Peevey says overruns on Cal Edison's nuclear plants "doubled our assets and doubled our earnings." (As the CEO of Wisconsin Power & Light, Erroll B. Davis Jr. once remarked, "This is the only business in the world where you can increase your profits by redecorating your office.") Such gold plating should stop as competition heats up in the industry, particularly with generating equipment.

"BUT WE *HAD* TO BUILD IT"

The great nightmare for many utilities is what to do with all their high-cost plants once competition begins. It's not a problem now, when every home and business in a power company's franchise area has to pay for the power regardless of price. But Con Edison has an old generating station in Manhattan that produces power at an absurdly expensive 11.7 cents per kilowatt-hour; other utilities run nuclear plants whose kilowatts cost almost as much. What will those plants be worth if someone else can make power for 3 cents and send it to New York? If a plant becomes worthless because competitors can undercut its costs, do Con Ed's stockholders eat the loss, or will Gothamites?

Sorting out which costs were truly wasteful and how to pay for the rest is a major hot potato for state legislators and regulators and will probably delay the full effect of deregulation for years. Rather than label these costs "the tab for our boneheaded overbuilding," utility execs conjured up the academic-sounding term "stranded costs." They tend to blame 1970s-era federal policymakers, who encouraged nuke plants after the Arab oil embargo.

The bonehead/stranded stakes are huge. Early estimates of the write-downs utilities will have to take when competition makes many of their assets and supply contracts uneconomic range from $100 billion to $400 billion. In August, California-based Pacific Gas & Electric surprised many observers by paying above book value for a handful of generating plants sold by a New England utility. But that high price may be an ano aly: Problems at nearby power plants h caused a power shortage in New Engla driving up the price PG&E can cha when it sells power to other utilities in area. It's still not clear who'll pay what old power plants as they come on the m ket, but Kit Konolige, an analyst at Morg Stanley, says power generation assets n concentrate among a few huge compani

THE VISIBLI CLUMSY HAN

This won't come a surprise, but in t past utility regulate occasionally goof bigtime. About years ago feder regulators mandat that certain kinds new, private, unreg lated generating com panies (known nonutility generator or "NUGs") coul sell their power t utilities. New Yor regulators foolish

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declared that its utilities had to accept power from anyone who charged 6 cents or less. Scores of sharpies quickly calculated they could make power for far less, and forced 20- and 40-year supply contracts on New York utilities.

Now, with power sometimes available on spot markets for just 2 cents, power companies are screaming bloody murder. Con Ed in New York says the contracts are costing customers $530 million a year. Niagara Mohawk, an upstate power company, says the contracts nearly pushed it into bankruptcy. Before competition can begin in New York, utilities argue, they must be relieved of their overpriced contracts. As with uneconomic power plants, New Yorkers will be asked to pay up, probably through state-issued bonds; rate payers in California and other states can expect the same. It will cost billions.

REGULATION WAS OKAY ... ONCE

Regulating utilities wasn't always a dumb idea. By the late 1920s, 50 years after Edison invented the light bulb, the industry was a mess. Three big holding companies controlled half the power made in the U.S., and another 13 companies held an additional 25% market share. Often they were byzantine in complexity and dubious in ethics: Subsidiaries paid huge management fees to their parents, asset values were inflated by sales from one subsidiary to another, and companies often issued worthless stock. Many collapsed in the 1929 stock market crash. In 1935 Roosevelt stepped in, breaking up the multistate holding companies, limiting power companies to compact, contiguous service areas, and preventing unregulated companies from selling power. Hit by both the Depression and more effective regulation, average power prices, which peaked at 32 cents per kilowatt in 1932 (in 1992 dollars), declined steadily for more than 40 years before rising again.

A MARKET EXPLODES

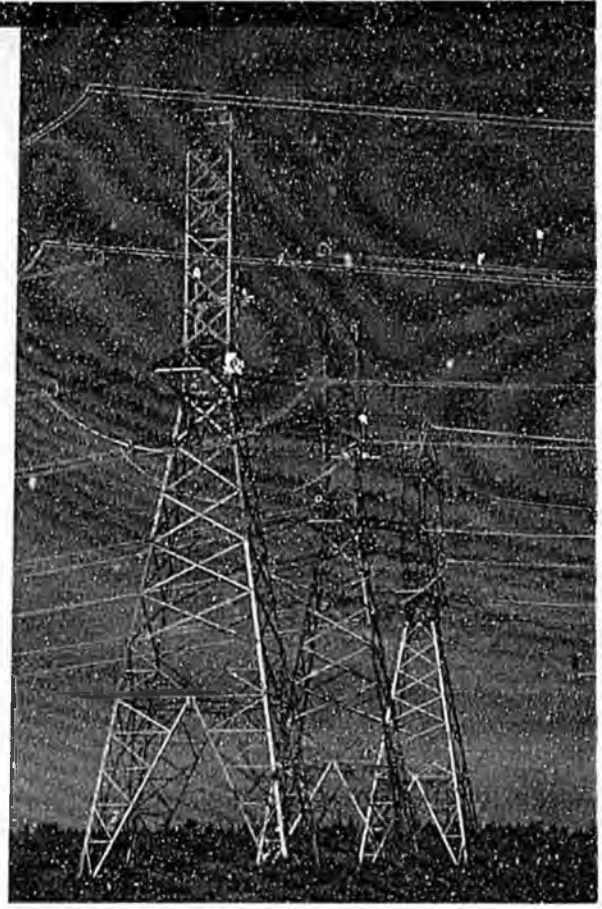
Even now, if you think your local utility is charging too much for power, you have no choice but to pay for it. By law, nobody else is allowed to sell power to you. Frustrating, eh?

Utilities themselves had a similar problem. When utilities can't or don't want to generate all the power their customers need, they often buy surplus power from other utilities. Problem was, the neighboring power company didn't have to sell. It didn't even have to transport power from a faraway utility if it didn't want to. So if a utility in, say, Tennessee, offered cheap electricity to a power-hungry utility in Florida, and asked a utility in Georgia to transport the electricity, the Georgia utility could refuse—and offer Florida its own, more expensive juice instead. All that began to change in 1992, when Congress ordered privately owned utilities to allow "wheeling," or transporting power from one utility to another across a third's transmission system, if it had enough capacity.

And the market for wheeled power exploded. There is an oversupply of generating capacity in much of the country, but the complexity of shutting down and starting up a power plant means that many have to run constantly, even if customers are few. Therefore, lots of power gets dumped on the market for far less than the average cost of production.

Experienced commodity traders, notably Houston-based Enron, jumped into the act. Enron, formerly a regulated gas pipeline company, made a fortune when the pipeline industry was deregulated in the early 1980s. Because many big gas buyers are electric companies purchasing generator fuel, Enron already knew the players and the market.

Now Enron traders are on the phone 24 hours a day, calling up power plant operators to see who needs power, who's selling it, which transmission lines are at capacity. They can slice a gigawatt of power into pieces and sell the parts faster than an Omaha hog butcher. A utility needs a steady 50 megawatts per hour all day tomorrow? Sold. Need 400 megawatts of reserve capacity in case a generator goes down next week? Got it. All kinds of companies have joined the fray—utilities, Wall Street firms (see box)—but utility executives seem to be in particular awe of Enron, which buys and sells more power than anyb



More than 600,000 miles of high-voltage transmission lines c cross the U.S. These carry cheap power from Oregon to Califor

TECHNICAL DIFFICULTIES

On a map it looks so straightforw The cheap power is made over here coal country; the big city over there is ing a fortune for its power. Can't they s a bunch of econo-gigawatts from th west to New York? Yes, but not ea Electric utilities all over the country interconnected. Alas for would-be n keters, this interconnectivity was desig as a way to back up neighboring utili during emergencies, not as a way to m power easily over long distances. Elect ity can't be routed to a particular pl like a phone call, and a lot of power g vasted as heat when it's transmitted o ng distances. As a result, a lot of the ticipated price competition among gen ators won't develop until delivering pow gets easier.

Think of all those big overhead tra mission lines as a web of interconnect lakes and canals, not as a switched te phone network. Dump enough extra wa in your lake, and eventually water lev rise for everybody. Usually.

Say Cinergy, in Cincinnati, agrees to s extra power to the New York Power Po (a confederation of interconnected uti ties), which sees a heat wave coming. Ci ergy starts making more power than

own customers need. On paper, Cinergy's surplus power travels through Dayton Power & Light's wires, then on Ohio Edison's, then over Duquesne Light's, through the Penn-Jersey-Maryland (PJM) Power Pool's wires, and into New York. In reality, however, the power flows willy-nilly wherever it wants—usually over the path of least resistance (but sometimes on to a neighbor's already-full wires, causing them to overheat, and prompting a mad scramble by the neighbor to shut down generators and reroute power). Often, most of Cinergy's surplus power wanders into the lines owned by neighboring American Electric Power (AEP), whose turf extends toward Pennsylvania, eastern Ohio, and Virginia. The people at AEP, however, are displeased. Under current rules (no pun intended), Dayton Power and all those other utilities will collect a fee for carrying the load, even though most of it goes through AEP. "It's a pain in the neck," says E. Linn Draper Jr., AEP's CEO.

This is not a trivial problem. Since many utilities will have to sell their power plants and make money operating power lines, how will they be able to charge for wheeling a neighbor's power? Can they charge extra at times of peak demand? No final decisions have been made.

$32 MILLION PER MILE

If you think driving in New York City is tough, try delivering electrons there. Geography, history, and politics have made the place a power wheeler's nightmare. It sits at the bottom of funnel-shaped New York State, and all the upstate and out-of-state transmission lines that could bring cheap power must go underground at Yonkers, just north of the city, or run through tunnels under the Hudson and other rivers. So even if there are gigawatts of cheap power available elsewhere, little of it can make its way into the city. On a hot day, Con Edison needs 11,000 megawatts of power but can import only 4,500 and must generate the rest in the city.

That helps keep residential prices in New York City, now 16.2 cents per kilowatt, the second highest in the continental U.S., after nuke-beleaguered Long Island. Con Ed, like utilities in many big cities, can't burn cheap coal for environmental reasons and must use natural gas or low-sulfur oil. In addition, its generators are inefficient, and it pays a ton in state and city taxes. Why not just build more transmission lines? "It's easier to get permission to build a new generating plant than a new transmission line," says Jack Feinstein, a Con Ed vice president. Cheaper too: Running a new 345,000-volt power line underground from Yonkers to midtown Manhattan would cost $650 million, Feinstein says.

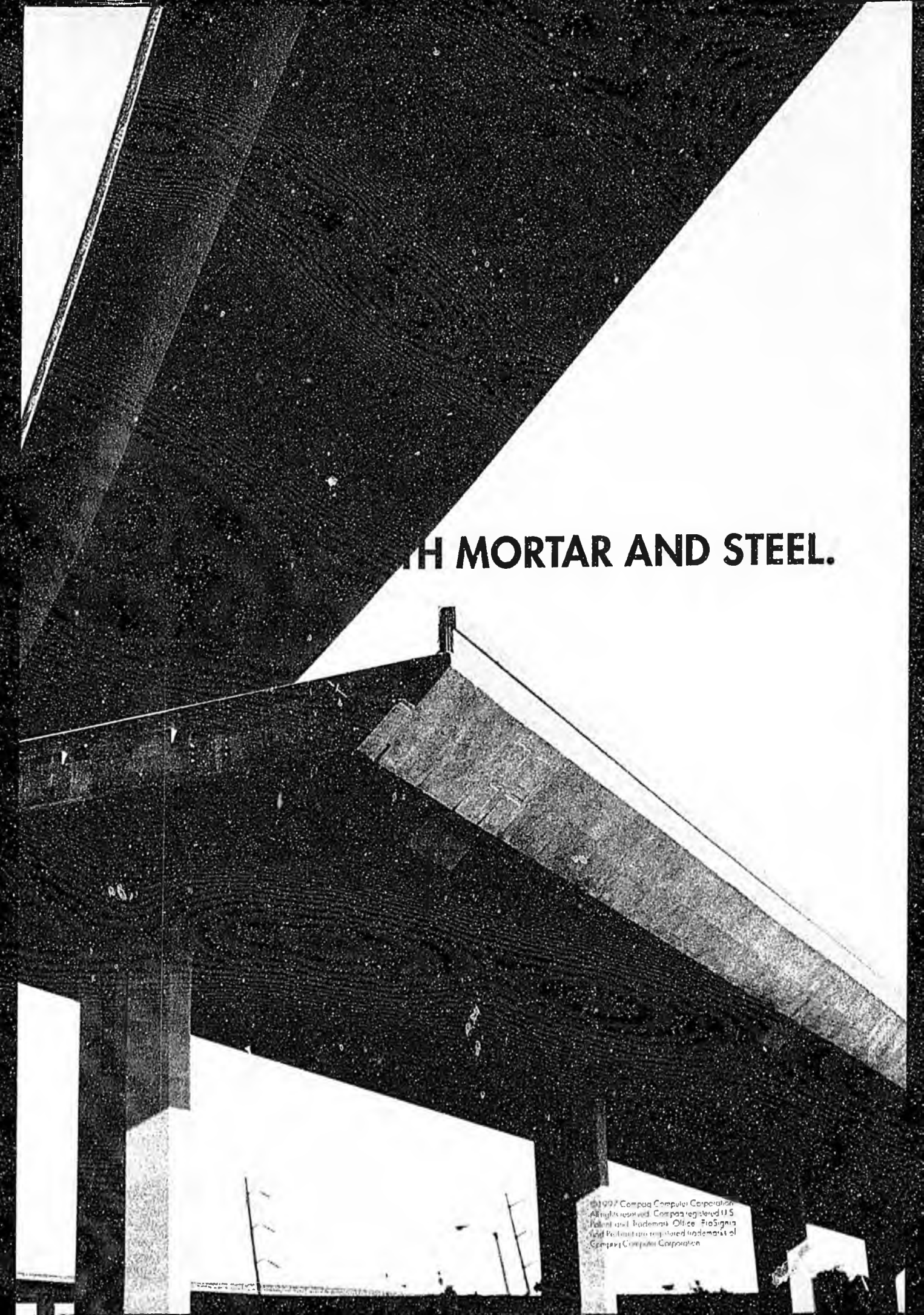
California has similar problems. Nearby states produce vast amounts of cheap power, but California has only two major links with outsiders: a tangle of wires coming down from Oregon and another link that runs from Arizona toward L.A. Only 12,000 of the 40,000 megawatts California needs during peak demand can come from out-of-state generators.

CALIFORNIA DIVES IN

On Jan. 1, Californians will be able to buy power from anybody who offers it. That puts California way ahead of almost all other states, which have, at best, allowed a few trial programs. But getting California utilities to sign on to the plan and drop threats of lawsuits required political horse-trading that exacted a high

The volume of power that utilities sell to one another has boomed. At LG&E in Louisville, traders buy cheap power on the spot market.

MICHAEL L. ABRAMSON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Need Electricity? Call Your Broker

Electricity is turning into a commodity, bought and sold like any other. Soon you'll have *lots* of places to buy your power.

BY BETHANY McLEAN

TRADERS SWIVEL IN THEIR CHAIRS, EYEING THE PHONES and the flashing computer screens. Second by second, they monitor commodity prices and weather conditions across the country. Tension runs high: A slight delay could cost millions. Sounds just like ... Louisville? Here on the trading floor of the local utility, LG&E (Louisville Gas & Electric), they're not swapping stocks and bonds; they're swapping electricity.

The deregulation of the electric utility business isn't merely uprooting ancient monopolies—it's also creating a whole new industry: "power marketing," the buying and selling of electricity on the open market. In fact, this already huge, rapidly developing business may become the biggest commodity market in the country. Scott Spiewak of the Power Marketing Association (yes, there's already an industry association), says about $50 billion of power is changing hands on trading floors. Within five years, he predicts, power marketing will be a $2 trillion business. What's especially impressive is that this is an industry that didn't exist a few years ago. Only in 1992 was the wholesale market (i.e., sales of electricity from one utility to another) opened to competition; the biggest part of the business—selling electricity to businesses and homeowners—hasn't even been deregulated yet. In the first half of 1997, almost 380 million megawatt-hours were traded, six times the amount traded during the same period in 1996.

As weird as it sounds, trading electricity isn't much different from trading soybeans, oil, or pork bellies. There are electricity options and futures contracts, for example. As with traditional commodity markets, electricity traders try to lock in prices or speculate on price volatility.

One significant difference from more conventional markets, however, is that there's no real way to store electricity—and that helps make electricity trading a volatile business. And if weather sweeps in or a plant goes down unexpectedly, an immediate shortage may result. Because of these sudden, dramatic imbalances in supply and demand, the price of power can soar from $20 to $150 per megawatt-hour almost instantly. Tim O'Neill, a managing director at Goldman Sachs, says that in a fully deregulated market, electricity prices may be more than twice as volatile as the stock market, making electricity the most volatile commodity in existence.

Even though power marketing is still new, it's already transforming the famously stodgy utility culture. Utilities used to do business much like kindergartners—they shared. Now they find themselves wheeling, dealing, and generally acting like competitive businesses.

The biggest culture shock facing utilities has come in the form of a whole new set of big, mean players: Wall Street institutions. Commodity trading is Wall Street's turf, after all, and electricity is too rich an opportunity to ignore. The biggest power marketing deal to date—a supply agreement for Oglethorpe Power, a cooperative in Georgia—clearly shows that the Street has arrived. Last fall Oglethorpe signed a contract with utility LG&E; in March 1997 it signed a second contract with Morgan Stanley Dean Witter. Each will supply half the electricity Oglethorpe's customers consume—worth well over $5 billion over the life of the contracts.

This raises a question: Will people buy electricity from fast talkers in very expensive clothing? Customers have to believe their supplier will deliver those electrons every day, which would seem to give an edge to utilities. Morgan Stanley traders certainly can't run power plants. "Power plants give them the willies—might get their suits all dirty," jokes Robert Hosfeld, Oglethorpe Power's vice president of power marketing.

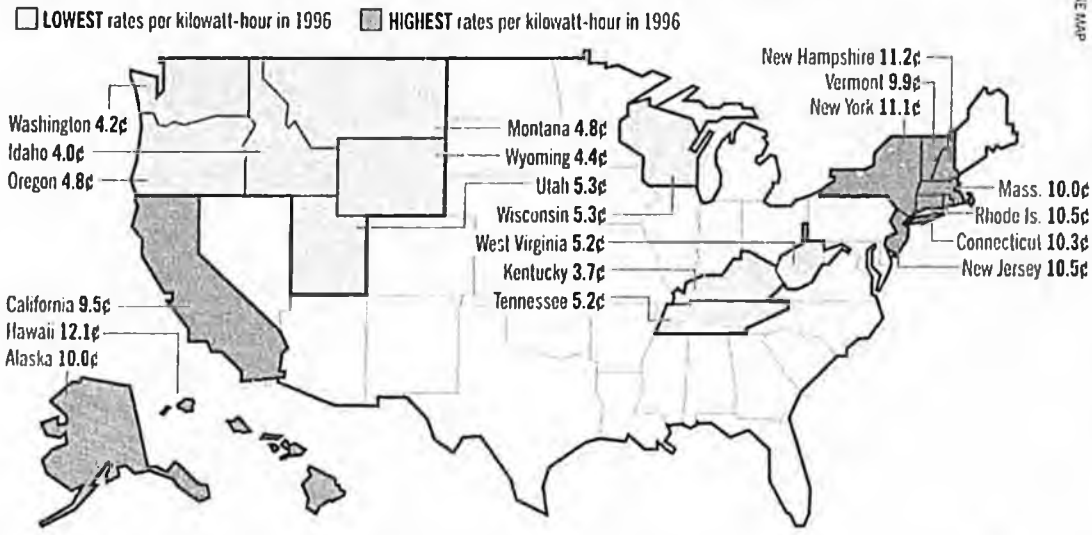

MICHAEL L. ABRAMSON

Power marketing in action

Then again, soybean traders in Chicago aren't farmers. Oglethorpe has full faith in the electricity-supply capabilities of Morgan Stanley, which won the contract over Enron, the big natural-gas company—and arguably the toughest, most sophisticated power-marketing player of all. Morgan buys and sells the equivalent of 20% of the world's energy products every day, and its executives have no doubt it can handle this electricity deal.

Whoever comes to dominate this new industry, power marketing is changing the way people think about electricity. There are about 300 companies—old-line utilities, gas companies like Enron, investment banks, and others—battling for a share of this business. Soon many of them will be coming after consumers too. Imagine dialing your Morgan Stanley Dean Witter branch and charging your electricity supply for the month to your Discover card. Your broker, your power company. How's that for change?

THE 20 STATES WITH THE CHEAPEST—AND COSTLIEST—POWER



FORTUNE MAP

price: direct, producer-to-user price competition will be thwarted for years.

Here's what's happening in California. First, to make sure the state's utilities don't overwhelm would-be competitors on the generation side of the business, regulators have pushed the utilities to sell off their gas-fired generating plants. California also rolled back rates the big private utilities can charge homeowners to what they were in June 1996. At about a dime, that's better than the 12 to 13 cents Californians had been paying, so complaints are few. Lower rate freezes apply for commercial and industrial customers.

Are the utilities screaming? No, because regulators also devised a process to help them recover losses on those "stranded," or devalued-by-competition, assets. Their costs will drop sharply in the next few years. Remember that California utilities, like others elsewhere, were forced to sign contracts for overpriced power generated by independent producers; many of these contracts were already due to expire in the next few years. If, as expenses drop, it then costs the utilities, say, only 7 cents to deliver a kilowatt, they get to pocket the 3 cents and use it to write off their overpriced, stranded assets. They have four years to make, buy, and deliver power as cheaply as possible. In 2002, the fixed price disappears, and California's big three utilities—Southern California Edison, Pacific Gas & Electric, and San Diego Gas & Electric—will have a harder time recovering any remaining stranded costs. (Some version of California's plan will probably be adopted in other states.)

"Whoa," a California resident might say, "now that I can buy from anybody, why can't I buy some of that 2.5-cent power, instead of the 10-cent stuff from SCE or PG&E?" Simple. That 2.5-cent or so cost of generating power is only about a quarter of your total bill. The rest is pretty well fixed. The new laws say California homeowners will still have to pay their utility for: transmission (0.7 cents), the wires and poles distributing electricity to your house (2.4 cents), and state-mandated help for the poor (0.1 cents). Billing and other services typically add another 0.4 cents. And everybody will have to pay an additional 3 to 4 cents to help the power companies pay off their stranded costs.

Negotiating megawatts with a beady-eyed trader won't be much fun for the average corporate facilities manager.

CALIFORNIA AUCTION

Even if you wanted to, you might not find cheaper electricity. Under the new rules in California, that power company in Utah with cheap electricity has no incentive to sell it to you at a bargain. More likely, those in Utah will get a better price by selling it to the soon-to-be-created California Power Exchange (PX), a nonprofit clearinghouse mandated by state officials.

Here's how it will work. Every day, the PX will take bids on the power it will need for each hour of the following day, and take the cheapest power offered. Anybody can buy or sell on the exchange. However, California's three big utilities *must* sell and buy all their electricity through the PX.

Let's say that a company we'll call Cheapo Electric offers and sells ten megawatts of power at a penny per kilowatt for 7 A.M. the following day. But for 8 A.M., demand is expected to rise to 15 megawatts. Cheapo won't be able to provide enough one-penny power to meet all demand, but Outtastate Heat & Light offers the additional five megawatts at the next lowest price: 2 cents. Under the PX rules, both Cheapo and Outtastate get paid 2 cents for that hour of power, even though one offered power at a lower price.

By 3 P.M., with hot winds blowing in off the desert, California will need all the power it can find, and the out-of-state transmission lines are full. So ElectroGouge Illuminating, a startup that bought old, inefficient power plants when the California utilities auctioned them off, offers $1.50 per kilowatt. If the PX pays ElectroGouge $1.50 per kilowatt for that last bit of power, everybody else, even Cheapo, will get paid $1.50. So in one day, exchange prices have fluctuated between $0.01 and $1.50.

LOWBALLERS FRUSTRATED

The Power Exchange is not great news for Enron, PacifiCorp, and other big power providers that hoped to come to California, offer cheap out-of-state power, and develop a cozy relationship with big industrial customers. Indeed, the PX is another inconvenient product of politics, a stopgap measure to help utilities cover stranded costs. "It will not be easy for a customer to beat the PX price," says Alex Miller, vice president for California operations at PacifiCorp, an Oregon utility

with coal plants in several Western states. That's because with Edison and PG&E buying from the PX and tacking on the same transmission and stranded-cost charges as other providers, everybody's price will be about the same.

Lincoln Anderson, the head of Enron's operations in California, is rethinking how Enron will attack the California electricity business. He can't succeed for now, he says, by treating retail electricity as a commodity to be sold at the lowest price. Instead, Enron intends to build relationships with customers by delivering energy-related services. They can, for instance, finance and install new heating, cooling, and lighting equipment.

California's retail electricity business will change sharply in 2002, though, says Anderson. By then prices will move freely. The 3- or 4-cent surcharge to help the utilities pay stranded costs will disappear, and the PX may be disbanded. With rapidly fluctuating prices, he says, Enron will flourish. Want a guaranteed flat rate per kilowatt for two years? Want one contract price for your factory's steady electric load, and another that limits the top price you'll pay per kilowatt during peak periods? Enron, and others, will offer that.

BE PREPARED

Negotiating megawatts with a beady-eyed Enron trader won't be much fun for the average corporate facilities managers. So get ready now, says Catherine Luthin, a consultant whose work includes managing Columbia University's $11-million-per-year electric bill. Big commercial and industrial power users should analyze how their buildings and factories use electricity, she says. "You should have at least a year's worth of data, gathered in 15-minute increments." Most utilities will collect the information for a small fee. Of what use is this data? Power prices will probably fluctuate wildly, every hour, once competition starts. You may have negotiated a flat fee with Enron for up to two megawatts of power a day, but could have to pay a fortune for anything extra you use on a hot August afternoon.

By studying how and when each facility uses electricity, a company will know how to cut power consumption appropriately or negotiate favorable power-supply contracts. Several firms already sell software that helps companies analyze their electricity usage.

There is a new threat that will come to haunt utilities. It is the microturbine. Con Edison executives pooh-pooh it.

AlliedSignal's $15,000, refrigerator-sized generator will let small companies make their own power and could threaten many utilities.

STEVE LABADESSA

THE MIGHTY MICROTURBINE

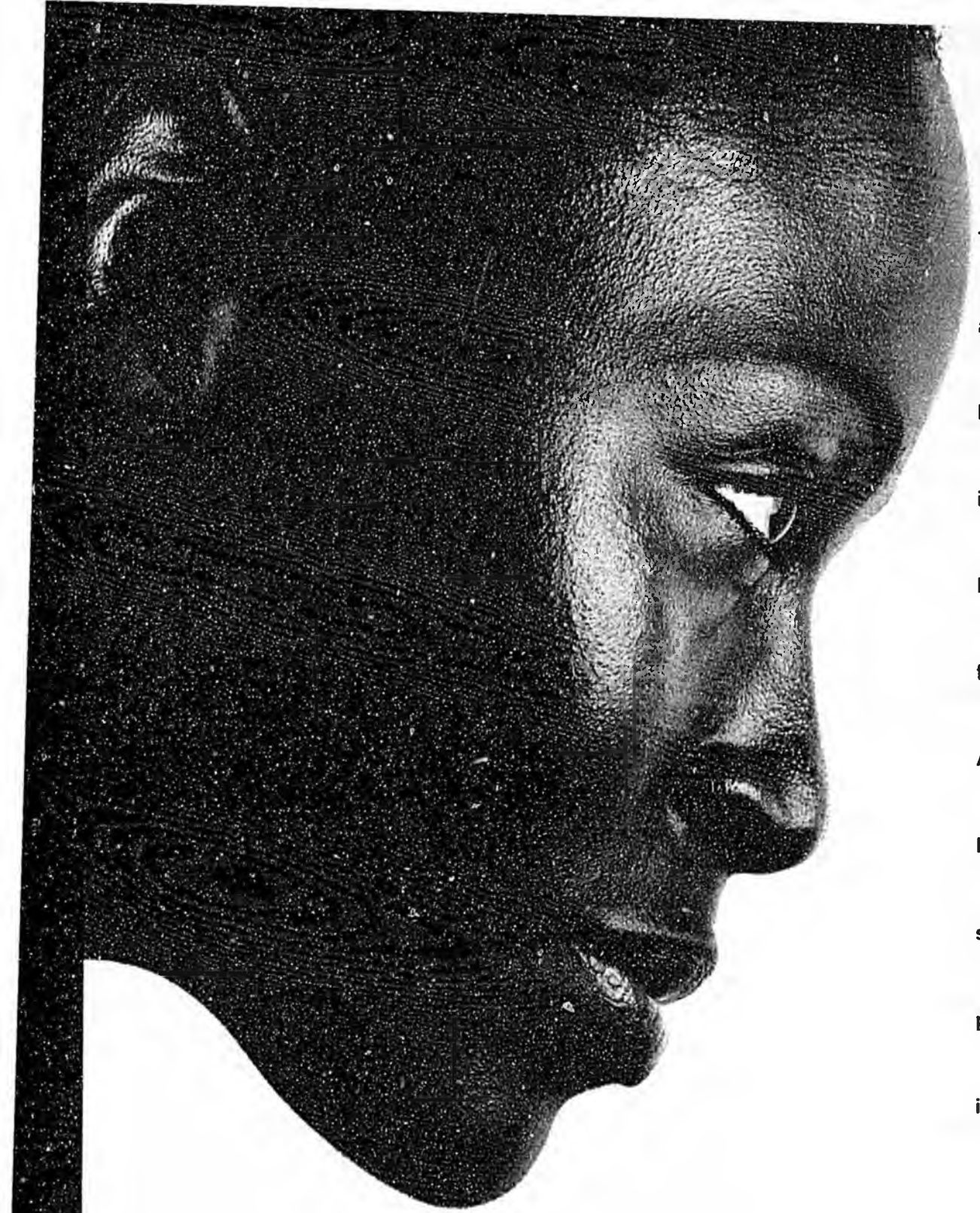
If you think the utilities get to relax once they've sold off their generators, cozy in the thought of all those billions' worth of power lines running down Main Street, you're wrong. There is a new threat: the microturbine.

In big cities, where the cost of providing electricity on wires below ground is eight times higher than providing it on poles, an overwhelming portion of every customer's electric bill is for distribution—the wires connected to your house or office. What if you decide you don't want to pay those distribution charges anymore?

AlliedSignal, the jet engine and auto parts company, hopes you will detach from the power lines and make your own electricity. The company has developed a line of small generators, including one for $15,000 that can produce power for 3.5 to 4.3 cents per kilowatt-hour. It appears to be a masterpiece of simplicity: a turbine, with one moving part, that emits virtually no noise or pollution and can burn natural gas. Heat from the exhaust can be used to boil water or warm a building. It probably won't be economical for a home, but a Taco Bell stand in Brooklyn, say, which probably uses 75 kilowatts an hour, could pay it off in two years, claims Tony Prophet, an Allied executive.

Executives at Con Ed pooh-pooh the threat. New York real estate is too valuable to waste on generator space, says one. Apartment dwellers wouldn't want a high-pressure gas line running to a rooftop generator, scoffs another. Con Ed's counterpart in Chicago, however, is not so sanguine. When the Allied generators are mass-produced next year, Commonwealth Edison's parent company will have an exclusive franchise to sell them in the territory of all rival utilities in ten neighboring states.

The electricity business hasn't changed much over the past 60 years, so it isn't surprising that there is still a strain of denial among those—certain utility officials in New York, say—who'd rather see things continue as they were. But when a supposedly quiescent, fossilized utility like Commonwealth Edison contemplates assaulting its neighbors, it seems inevitable that competition will wring every inefficiency from this long-protected industry. This is a revolution, it's already begun, and it's about time. F



There are 29 bones in the human face.

And 41 DuPont safety products in cars.

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Better things for better living

Electric utility power play bears close watch

By ERIC YOULD

COMPASS
POINTS OF VIEW FROM OUR COMMUNITY

Flinging the regulatory doors open to the winds of competition could disrupt electric service. Reliability under the proposed model assumes that someone will provide service if a utility fails. That is not likely in communities off the grid where profit margins are thin or nonexistent, such as in rural Alaska.

The winds of change blowing in the electric utility industry could be refreshing, but they also have the potential to become a hurricane that disrupts consumer access to reliable and affordable electricity. Alaskans need to watch this weather system with a wary eye.


Yould

Nationwide, large power users are pushing for a more competitive industry because they want to be able to shop for cheaper power than they can get from local utilities. Power producers would like to cherry pick these large loads with high profit potential. These interests are driving a debate about restructuring the regulatory framework for the industry.

Consumer groups are rightfully concerned that competition could create winners and losers among consumers. Under the current system, utilities are provided exclusive rights to serve all consumers in an area to assure they have adequate revenue to pay for capital investments made in order to serve that area. The loss of large loads in a competitive deregulated industry could force utilities to increase rates to remaining customers in order to pay for unused facilities, what utilities refer to as "stranded investment." Those most likely to get hit with the bill for stranded investment are the customers less attractive to power marketers — the residential and small commercial consumers.

Theoretically, restructuring proponents argue, someone will step in to offer these left-over customers cheaper power. In this scenario, the only losers would be the stockholders of investor-owned utility companies that go belly up if they can't compete.

This entire model is predicated on a number of assumptions that are not true in Alaska. Among these are the assumptions that everyone is on a nationwide interconnected system with the ability to buy power from anyplace, and that most utilities are investor-owned.

Alaska is not interconnected with the Lower 48 and only the Railbelt area is interconnected within the state. Alaska's consumers, not shareholders of utility companies, are the primary owners of our generation, transmission and distribution facilities.

A higher percentage of the residents of this state get their electricity from a consumer-owned electric cooperative than the residents of any other state. Sixty-nine percent of Alaskans are served by a cooperative. More than 90 percent of residential customers are served by either a cooperative or a municipal utility. In contrast, 75 percent of all electric utility customers nationwide are served by an investor-owned utility.

Most utilities in Alaska are not motivated by profit but rather to provide electricity at the lowest reasonable cost. The "shareholders" that would suffer losses under the proposed model are the consumer-owners of cooperatives, municipal taxpayers, and the state of Alaska.

Flinging the regulatory doors open to the winds of competition could disrupt electric service. Reliability under the proposed model assumes that someone will provide service if a utility fails. That is not likely in communities off the grid where profit margins are thin or nonexistent, such as in rural Alaska.

Alaska's rural residents typically pay more than four times the state and national average cost of electricity. They get some help through the state's Power Cost Equalization (PCE) program, which pays part of the cost of basic electricity use for rural residents. But even after receiving PCE, residents of 102 communities actually pay more than twice the rate Anchorage residents pay for electricity. The program is a symptom of the reality that there are few places in rural Alaska where it is profitable to provide affordable power.

Alaska's consumer- and community-owned rural utilities are working to improve efficiencies, and lead the effort to develop new technologies that can reduce costs. The overall fuel efficiency of PCE utilities, as measured in kilowatt-hours sold per gallon of fuel, has increased 22 percent since 1985. Innovative projects are under way using new computer and fuel cell technologies and developing cost-effective ways to generate power from our abundant renewable resources, such as wind, water, geothermal and tidal energy.

While utilities work to reduce rates, rural Alaskans cannot afford disruptions that increase electricity costs. "Cherry-picking" large loads due to unchecked competition, especially in rural communities, could cause utilities to fail, with no replacement for that loss. The lights could go out for rural residents unless the state of Alaska steps in to provide power.

We have a lot at stake in Alaska and little room to make mistakes. There may be benefits of restructuring the industry that are worth exploring. But we need to carefully consider how the winds of this change can be harnessed so that they truly benefit Alaska's electricity consumers.

Eric Yould is executive director of the Alaska Rural Electric Cooperative Association, a trade association for electric and cooperative utilities.

residents in the area are still hoping an alternate route can be found.

..."From the beginning we thought this route was a mistake," said Savaja Worthington, a resident of Amonson Road near the trail that is in its second season of use.

The Worthington family has led the fight against

environment — a concern that was so great they hi... involved the Department of Environmental Conser... tion (DEC), the U.S. Corps of Engineers and their st... legislator.

In a letter to Al Meiners, superintendent of Chug... State Park, dated June 4, William R. Rie...

(See TRAIL, Page 2)

EAGLE RIVER STAR 10/2/97

Utilities open power play

Electric companies compete for business

By LEE JORDAN
Alaska Star Editor

The opening shot in a long-anticipated power play between electrical utilities was fired Sept. 19. In a letter bearing that date, Chugach Electric Association told Municipal Light & Power (ML&P) that it intends to serve a condominium association deep in the heart of the city utility's service area.

"Chugach will begin to sell electric power to one or more customers in the area currently served by ML&P distribution facilities in the next several weeks," the letter began. Those words turned into a shout what were whispers about "competiton" within Alaska utility circles for the past two years. It was a subject the power providers until now have been reluctant to discuss.

The Chugach salvo was heard around the state and brought words of caution from Matanuska Electric Association (MEA), the smallest of the three utilities providing electric power within the Municipality of Anchorage.

It also brought charges that

(See COMPETITION, Page 2)

INSIDE:

COMPETITION:

(Continued from Page 1)

ML&P itself had started the battle by underselling power to a Chugach wholesale customer.

In his letter, Chugach General Manager Gene Bjornstad told ML&P Acting General Manager Hank Nikkels that Chugach had been asked to supply electrical service to Boardwalk Condominiums at 201 Barrow — a stone's throw from the ML&P generating plant.

Nikkels did not return phone calls placed to his office. However, municipal spokesman Chuck Albrecht said Bjornstad's request to establish a rate for a "reasonble access charge" will be denied.

"We have a license to serve in a specific area," Albrecht said of the city-owned utility. "There has been no legislation to change (the boundaries of) that area. We intend to operate in our service area."

That "license" is called a Certificate of Convenience and Necessity and is issued by the Alaska Public Utilities Commission (APUC).

ML&P does have such a certificate, said APUC Chairman Sam Cotten. Under their respective certificates, utilities are limited to operate within prescribed bounds.

However, Cotten conceded that the situation could change as the result of a complaint, a tariff revision or legislation. He noted that there is a national trend toward "restructuring" within the electrical industry.

"Chugach is making an aggressive move," Cotten said.

"It is a very serious move," confirmed Ray Kreig, a member of the Chugach board of directors. Kreig also happens to own seven commercial office suites in the Boardwalk Condominiums which contains 26 residential units in addition to the office space.

"The condo association shopped for the best price. They found they could gain a 9.3 percent savings, amounting to $994 a year off their electric bill," Kreig said.

That savings apparently is based on Chugach's estimate of the "wire cost" within the ML&P rate structure. Bjornstad said ML&P figures indicate Chugach customers should pay less than 3 cents per kilowatt hour. The difference between that charge and ML&P's retail rate would cover Chugach's billing costs and make it worthwhile for the cooperative to do business in city territory.

Wayne Carmony, general manager of Matanuska Electric Association (MEA), said he anticipates a major concentration of effort in industry restructuring.

His concern, Carmony said, is that "they're going to possibly rush into a definition of how competition will be practiced before assessing the impact on ratepayers."

Carmony would prefer to see a "controlled pilot project involving an entire class of consumers. Let them go at it, then collect and gather information from both the utilities' and consumers' perspective so APUC or other regulators can make a sound decision."

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ADN 9/9/97

Local firm gets grant from ASTF

By KIM RICH
Daily News reporter

The Alaska Science & Technology Foundation has approved a $1.5 million grant for a local company to develop the next generation of technology and software that could significantly lower the cost of generating electric power in rural Alaska, the state agency said.

The ASTF board approved the grant Friday to be paid to Distributed Solutions Inc., a soon-to-be formed company that will use the grant to test and produce a product called Intelligent Electronic Device (IED 2.0), the foundation said. The software uses digital technology to remotely control and monitor the operation of diesel power plants.

DSI, which is being incorporated as part of the grant's requirements for funding, will be owned by Alaska Power Systems of Anchorage, which earlier received $81,000 of ASTF funds to develop the first generation of the power monitoring software, according to Jamie Kenworthy, executive director of ASTF.

Generating electrical power in Alaska's smaller communities can be five times the price paid by residents of Anchorage and Fairbanks, he said. The first generation of the IED technology is being used in about a half-dozen rural communities, where some cost savings are already being realized, said Brian Chronister of Alaska Power Systems.

Kenworthy estimates that as many as 60 communities across Alaska could benefit from the new software once it is developed.

"We want technology to lower costs to the consumer," Kenworthy said.

4 Dam Pool

State declines bid on electric dams

The Associated Press

PETERSBURG — The Alaska Energy Authority has rejected a $104 million purchase offer from municipal utilities seeking to buy four hydropower dams that supply electricity to some southern Alaska communities.

The energy authority, which oversees the so-called four-dam pool, recommended to the Alaska Industrial Development and Export Authority board that the utilities' bid be turned down.

Randy Simmons, executive director of the industrial development agency, said the amount offered was insufficient and the purchase proposal would have forced the state to continue bearing some risks associated with operating the hydropower system.

The state owns the dams at Swan Lake, Terror Lake, Thomas Bay and Tyee Lake, but they are operated by the local utilities. The dams provide electricity to Kodiak, Ketchikan, Wrangell, Petersburg and the Copper Valley.

The energy authority said it has been seeking a buyer for the dams because tight budgets have left less money to repair the system.

Utilities put in their offer July 30. Though the state turned it down, Ron Saxton, lead attorney for the utilities, said it remains on the table if the energy authority changes its mind.

The rejection does not prevent the state from continuing negotiations with the utilities, Simmons said. But the state might be open to offers from other parties, he said.

"Now we're at the point where we have to begin to look at the other alternatives that are out there," Simmons said in this week's Petersburg Pilot, a weekly newspaper.

Besides further negotiations with the utilities, the state might begin discussions with Citizens Power of Alaska, a group headed by former U.S. Sen. Mike Gravel that has made a pitch to buy the hydropower system, Simmons said.

Last week, attorneys for the utilities asked the Securities and Exchange Commission to investigate Citizens Power for possible fraud.

Kodiak Electric Association Inc.

(907) 486-7700

Box 787
KODIAK, ALASKA 99615

APR 2 1 1997

April 17, 1997

Representative Norm Rokeberg, Chairman
House Labor and Commerce Committee
State Capital Building
Juneau, Alaska 99801

Re: HB 235

Dear Rep. Rokeberg,

Kodiak Electric Association (KEA) supports the passage of HB 235. KEA is a member owned cooperative that provides service to the communities of Kodiak and Port Lions. We purchase electrical energy from the state owned Terror Lake Hydro Project and own back up and peaking diesel generation. KEA's electrical system is isolated in that there is no electrical connection with any other system.

Our community's economy is based on the seafood industry. KEA's investment in electrical plant has been made to provide reliable energy to the large seafood processing plants as well as residential members. I understand that the provisions of HB 235 would provide protection to the residential members of KEA by precluding the practice of "cherry picking" our large loads. A decision to allow a duplicate certificate of public convenience must be based on clear and convincing evidence that is in the best interest of all cooperative members. Cherry picking of KEA's large loads will result in increased rates for the small users.

We thank you for your support on this most important legislation.

Sincerely,

Edwin K. Kozak

Edwin K. Kozak
General Manager

97hb235.1

Official Business

COMMITTEE:

HOUSE LABOR & COMMERCE

DATE: APRIL 16, 1997

SIGN-IN

Subject of meeting:

HB 235 - ELECTRIC UTILITY SERVICE

PLEASE PRINT!

NAME	ADDRESS (MAILING) & (ZIP)	PHONE	REPRESENTING	DO YOU WANT TO TESTIFY?
Eric Yould	703 W Tudor Rd., Ste 200 Anchorage, AK	561-6103	ARCA	Yes.

04/16/97 LEGISLATIVE TELECONFERENCE NETWORK SYSTEM LTN1150

15:48:20 PARTICIPANT LIST (TESTIFIERS ONLY) BY:JNU

TCN:70621 SCHEDULED FOR:04/16/97 15:15 TO 17:15 FOR:ALL

PUBLIC HEARING HOUSE LABOR & COMMERCE

LOCATION:ANCHORAGE

HB 235	BOB	MARTIN			TESTIFY
HB 235	CHARLIE	WALLS			TESTIFY
HB 235	ROGER	KEMPEL			TESTIFY
HB 235	JOHN	HANDELAND		MAYOR OF NOME	TESTIFY

LOCATION:FAIRBANKS

HB 235	MS.	VAYLA	COLONELL	GVEA	TESTIFY

LOCATION:GLENNALLEN

HB 235	MR.	ROBERT	WILKINSON	CVEA	TESTIFY

LOCATION:HOMER

HB 235	MR.	NORM	STORY	HOMER ELECTRIC	TESTIFY

LOCATION:~~KETCHIKAN~~

ANCHORAGE

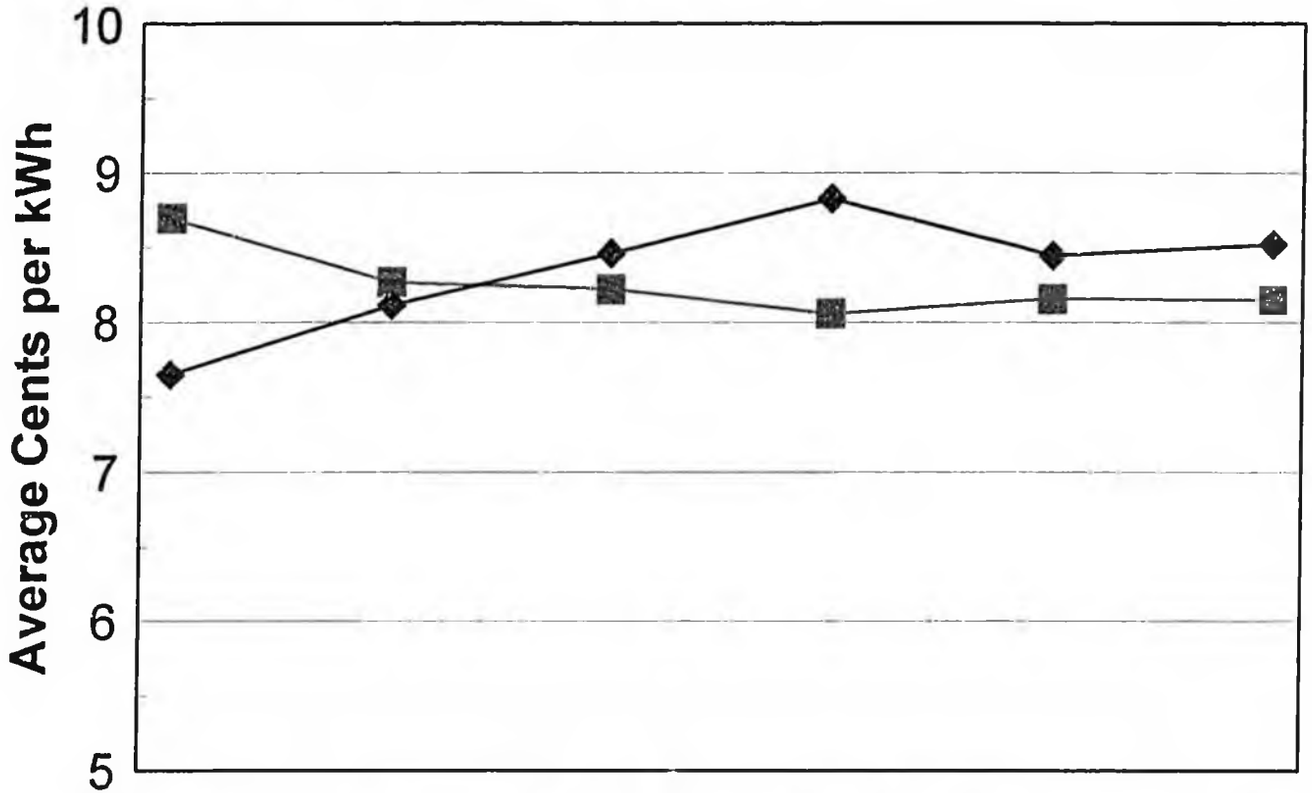
HB 23 - SAM COTTEN ON LINE

APVC

Hanley

Lohr

Average Retail Revenue/kWh
ML&P and CEA



Year	1991	1992	1993	1994	1995	1996
ML&P	8.70	8.27	8.22	8.06	8.16	8.15
CEA	7.65	8.11	8.46	8.83	8.45	8.52

August 21, 1997

Good Afternoon, Ladies and Gentlemen

I am very pleased that Mr. Eric Yould invited me to be here during your annual meeting. It's been a long time since I was in Cordova. It is nice to get a chance to get reacquainted with the fine folks who call this Alaskan community home.

For those of you who are not familiar with my background. I am Norman Rokeberg and I represent District 11, West Anchorage from middle Spenard south to the middle of the Sand Lake area. This is my second term with the Alaska House of Representatives.

Currently, I am Chairman of the House Labor and Commerce Committee.

Labor and Commerce has oversight over the Alaska Public Utilities Commission and the utilities it regulates. Activities of the Department of Commerce, the Alaska Railroad Corporation, AIDA, the Alaska Seafood Marketing Institute.

Today, I am here to learn from you - about the activities of Alaskan electrical.

Basically, the issue before the Labor and Commerce Committee is HB 325. The committee introduced this bill on behalf of the members of ARECA.

The bill is short and can be summarized as a bill that authorizes competition among electrical utilities. The bill also establishes a "clear and convincing evidence" standard for the Alaska Public

Utilities Commission in granting a competing certificate of public convenience for retail electrical service.

I have reviewed the minutes of the House Labor and Commerce Committee meeting held last April 16, 1997, on HB 235. And there are additional issues needing clarification that have been not fully addressed.

So our task today - is for all of us to roll up our sleeves and figure out how to:

achieve competition in retail electrical service,

lower rates for consumers

and prevent cherrypicking.

ALASKA VILLAGE ELECTRIC COOPERATIVE, INC.

Post-it® Fax Note 7671	Date 9/9/97	# of pages ▶ 4
To Norm Rsbeberg	From M. Beeson	
Co./Dept.	Co.	
Phone #	Phone # 561-7972	
Fax # 258-3916	Fax # 561-2388	

September 9, 1997

Dr. James Kenworthy, Executive Director
Alaska Science & Technology foundation
4500 Diplomacy Drive - Suite 515
Anchorage, Alaska 99508-5918

Jamie,

This is to respond to your September 5 letter, followed by your visit yesterday to my office.

I believe you have made your intentions clear. At this juncture I think we have to just agree to disagree with respect to your financing Alaska Power Systems dba Distributed Solutions, Inc. To say that we are disappointed by ASTF's $1.5 million bail out of Scot Thompson's enterprises is an understatement. As your own research now shows, the digital control system market for power generation has many well established and reputable companies doing essentially the same thing DSI is attempting. The odds of DSI's success are slim, particularly without the support of Alaska's electric utility industry.

Scott Thompson has made his contempt for Alaska's electric utilities well known. He likes to refer to AVEC's plants as obsolete, stranded investment. It is true that we have been in business for thirty years and a lot of our equipment is older technology. However, we are steadily investing at the rate of two to three million dollars per year to renew and replace our plant. As a result our average system wide fuel efficiency has doubled over the past twenty years and that trend continues. The enclosed graph I gave you illustrates the latest diesel technology we are deploying which produces 15 to 16 kWh per gallon of number 1 diesel fuel in AVEC's test lab. The best that the older engine technology, such as APS is using, can do is 13 to 14 kWh per gallon of number 1 diesel under our test lab conditions. Thus our village plants equipped with this state of the art diesel electric technology are performing at a fuel efficiency level beyond the reach of the APS system.

It has been made abundantly clear to us that the objective of the APS consortium is to compete with the utilities, not to assist the utilities in their mission. We see the predatory practices of APS around the state (such as in the Copper Valley Electric Association's service area) as damaging the residential and small commercial consumers and clearly not in the best public interest. Competitors, by definition, do not cooperate. At this juncture I would say the chances of AVEC or any other bonified public utility doing business with APS or DSI or any of their associated companies as somewhere between slim and none. Quite the contrary. We will be stepping up our efforts to hold them accountable for their actions and to provide them with formidable competition.

Sincerely,

Charles Y. Walls
President & CEO

4831 Eagle Street · Anchorage, Alaska 99503-7497 · Phone (907) 561-1818 · In State (800) 478-1818 · Fax (907) 561-2388

ALASKA VILLAGE ELECTRIC COOPERATIVE, INC.

For immediate release
September 5, 1997

AVEC President Awarded Industry's Highest Honor

Charles Y. Walls, President and CEO of Alaska Village Electric Cooperative (AVEC) recently received the highest honor awarded by the state's electric utility industry, the Mason LaZelle Memorial Award. The award is presented to individuals who have made outstanding contributions to rural electrification efforts in Alaska. This year's award was presented August 21 at the annual awards banquet of the Alaska Rural Electric Cooperative Association (ARECA).

Mason LaZelle was the General Manager at Matanuska Electric Association (MEA) in the 1960's, a time when cooperatives were actively helping communities establish central station service. LaZelle was particularly active in this effort. In the early sixties, MEA built generation and distribution facilities for villages in Stony River and Unalakleet and performed some consulting work for the community of Tyonek. LaZelle disappeared on February 27, 1968 as he piloted a Cessna 185 between Nulato and Unalakleet.

As President and CEO for AVEC, Mr. Walls is responsible for the continued provision of reliable and affordable electric service to residents of 50 villages throughout Alaska. "In his current job, he has been a strong advocate for the co-op's members and has been the catalyst for the formation of the ARECA Rural Issues Forum," said ARECA's President, Ken Lancaster in presenting the award.

The ARECA Rural Issues Forum brings together rural utility managers to discuss ways to improve service to rural Alaskans and to advocate for rural interests. It is actively promoting a long term funding plan for the Power Cost Equalization program, which provides assistance to rural consumers in paying their electric bills. Walls is also Chairman of the ARECA Managers Association, Chairman of the Alaska Systems Coordinating Council, Chairman of Alaska Energy Services, Inc., Secretary of ARECA Insurance Management Inc., and serves on the Board of Directors of ARECA.

Before joining AVEC in 1992, Walls had worked on many utility projects from Metlakatla to Barrow since coming to Alaska in 1968 and going to work for Robert W. Retherford & Associates, Consulting Engineers. In addition to his work with Retherford and AVEC, Walls has served as General Manager of the Glacier Highway Electric Association in southeast Alaska and as General Manager of the Kootenai Electric Cooperative in northern Idaho. "You have certainly surprised me with this honor" said Walls in accepting the award. "I look forward to continuing the work with you to provide reliable and affordable electric service in rural Alaska."

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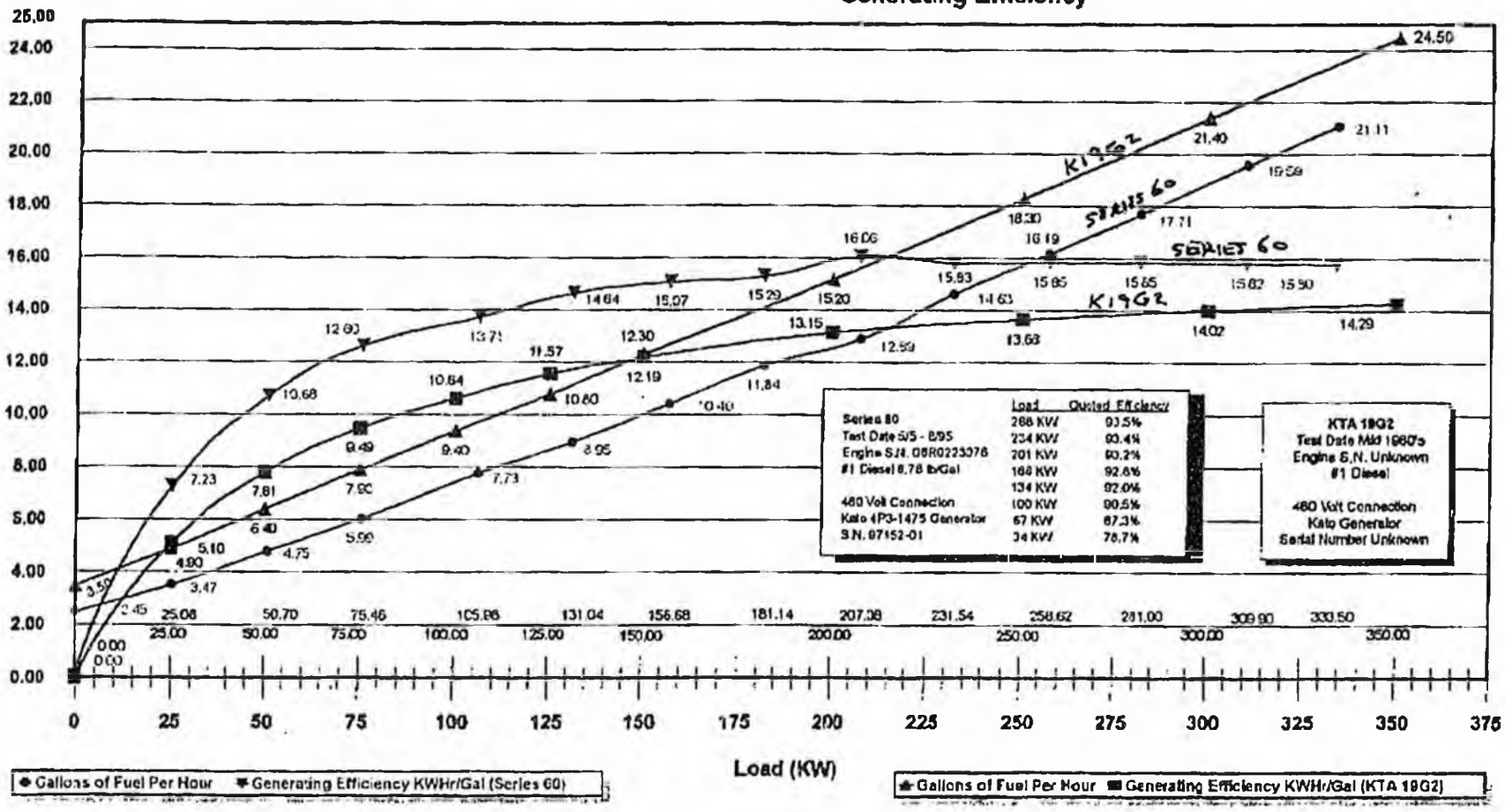

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Copies of minutes listed below were originally included in this file. The minutes are available on the legislative computer database. In order to save space copies of minutes have not been left in the files.

Mary Pagenkopf

Senate Rules Committee, 1/22/96, 11:22 a.m.

"An Act relating to service areas for utilities certificated to provide electric utility service and to the definition of 'general public' for utilities furnishing electric service."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

*Section 1. INTENT. It is the intent of secs. 2 and 3 of this Act to state the policy only concerning service areas for electric utilities. The amendments made by those sections of this Act do not apply to other utility services.

*Sec. 2. AS 42.05.221 is amended by adding a new subsection to read:

(g) The commission shall not permit other utilities to provide retail electric service in an area for which a certificate to provide such service has already been granted except upon a finding that such competitive service is clearly in the public interest and does not harm the other customers served by the utility with the certificate.

*Sec. 3. AS 42.05.990(3) is amended to read:

(3) "public" or "general public" means

(A) a group of 10 or more customers that purchase the service or commodity furnished by a public utility;

(B) one or more customers that purchase electric service for use within an area that is certificated to [AND PRESENTLY OR FORMERLY SERVED BY] an electric utility if the total annual compensation **paid by customers located within that certificated area to entities that provide electrical service other than the certificated utility** [THAT THE ELECTRICAL UTILITY RECEIVES FOR SALES OF ELECTRICITY] exceeds $50,000; and

(C) a utility purchasing the product or service or paying for the transmission of electric energy, natural or manufactured gas, or petroleum products that are re-sold to a person or group included in (A) or (B) of this paragraph or that are used to produce the service or commodity sold to the public by the utility.

1/31/97

Norm,
Here that "son of S.B 54" proposal we touched on yesterday. Please give it some consideration. I'll be out on personal business next week, but Eric Yould should be down around Wed. I'll be back in touch when I get back on Feb. 10. Ltr, Larry

Kodiak Electric Association Inc.

(907) 486-7700

Box 787
KODIAK, ALASKA 99615

MEMORANDUM

TO: LARGE POWER MEMBERS

FROM: ED KOZAK, General Manager EK/C

DATE: JANUARY 19, 1998

SUBJECT: PRESS RELEASE: Power Outage January 17, 1998

****

Late Saturday evening on January 17, the Terror Lake transmission line tripped open causing a power outage to parts of the Kodiak area. Backup diesel generators were started and power was restored.

An aerial inspection was conducted of the transmission line late Sunday afternoon. Icing was found on some of the conductors. A repair crew was flown to the site and some of the ice was removed, however due to the darkness of the evening, the effort to de-ice the conductors was not completed. Weather permitting, our crews will again try to de-ice the conductors on Monday.

The recent weather in the upper elevations along the transmission line route resulted in heavy icing conditions. The ice is heavy and the conductors sag because of the added weight. Does this sound familiar? We are experiencing icing problems on the Terror Lake transmission line similar to the icing problems on the East Coast.

If recent weather patterns continue, we may again have system disturbances. KEA wishes to thank everyone for their patience during these problems.

If you have any questions, please contact myself at 486-7707, or Wes Hillman at 486-7714.

outage\jan17.98

Photos by ERIK HILL / Anchorage Daily News

Alaska Power Systems president Frank Tucker, left, stands in a power plant module his company can install in Bush Alaska and monitor from a control room in Anchorage. He is holding an "intelligent electronic device" that is used in the system. At right is chief design engineer Bill Thomson with a laptop computer equipped with special software. ADN 7/2/97

Cutting the cost of power

Alaska Power's sophisticated rural system worries other utilities

By HELEN JUNG
Daily News reporter

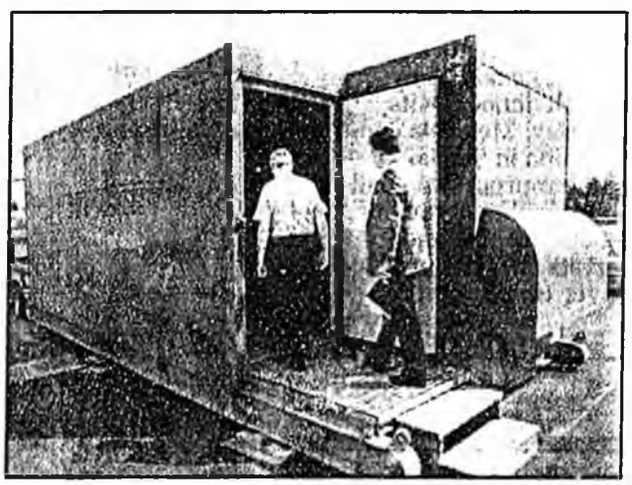
With the click of a computer mouse in his South Anchorage office, Scott Thompson can flick on the lights for Nelson Lagoon, some 550 miles away.

He also can turn off one generator, check the exhaust temperature, monitor how much fuel is being used and even oversee an oil change, all without leaving his desk.

The system, said Thompson, chief executive of Anchorage-based Alaska Power Systems, is an innovative way to provide electricity to Alaska's rural communities cheaply and efficiently.

Over the last two years, the Anchorage company has set up power systems for a dozen rural Alaska communities, as well as one in Hawaii. That expansion, the potential for more, and Alaska Power's secrecy about its technology has made utilities from around the state nervous about a competitor taking

Please see Page F-3, POWER



Visitors tour a power module during the Alaska Power Systems open house Tuesday morning in South Anchorage.

POWER: Company's sophisticated rural system worries other utilities

Continued from Page F-1

away their business or key customers.

At the urging of a state agency that has helped fund Alaska Power, the company on Tuesday briefed utilities from around the state on its technology and its potential.

Over its 16 years, Alaska Power has developed a system that combines a set of power generators with its evolving technology that controls the amount of power and how it is delivered to a community. The brains of the everyday operation are in the "intelligent electronic device" installed with the onsite generators and connected by phone line to engineers in Anchorage, who change, maintain and sometimes fix the system without leaving their desks. A less-sophisticated version of such a device runs cruise control in cars.

In many rural communities, the electric costs can hit 50 cents per kilowatt hour, compared with 9 to 11 cents in Anchorage, said Bob Lohr, head of the Alaska Public Utilities Commission. Finding solutions to the high cost of electricity may become even more critical if state subsidies expire.

Unreliable and expensive electricity also hinders economic development, said Jeff Smith, with NANA Development Corp., a Native company.

Alaska Power's system helps cut costs by automatically firing up a smaller generator to run during low-demand hours or tapping a larger one for peak usage, said Frank Tucker, Alaska Power president. That's more efficient than relying on one big generator to provide the electricity, no matter what the demand.

The system has cut costs 40 percent for Chenega Bay, said Carol Ann Roberts, a resident who maintains the system for Alaska Power. The steady stream of power is also far more convenient than the village's previous in-house system.

"My appliances aren't burning up because of power fluctuations," she said.

The Alaska Science and Technology Foundation invested $81,000 in 1994 to help the company develop the system's electronic device and may consider funding production of a more advanced version under development, said James Kenworthy, executive director.

Alaska's utilities have been frustrated in the past by secrecy from Alaska Power over its system, said Eric Yould, executive director of the Alaska Rural Electric Cooperative Association. They need to assess such data as how to integrate the system with their networks, how much it costs to set up, and how they operate in Arctic climates, he said.

They also are worried that Alaska Power may steal away a rural community's biggest customer — such as a school — and leave the rest of the ratepayers with even bigger electricity bills, Yould said.

Alaska Power said that as deregulation occurs, the utilities will need to focus not on Alaska Power but on the whole spectrum of competition. They added that the company is willing to work with utilities and form partnerships as they have with NANA Development in bringing lower-cost electricity to Deadhorse.

ALASKA STATE LEGISLATURE
House of Representatives

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JUDICIARY COMMITTEE, MEMBER
CORRECTIONS BUDGET SUBCOMMITTEE, MEMBER
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SESSION:
STATE CAPITOL
JUNEAU, AK 99801-1182
PHONE: (907) 465-4968
FAX: (907) 465-2040

Representative Norman Rokeberg

JUST THE FAX

Date: 5/2/97

TO: M. Eric Yould

FAX: 561-5547 Telephone 561-6103

FROM: Representative Norman Rokeberg /Shirley

FAX: (907) 465-2040 Telephone: (907) 465-4968

Number of Pages: 9 (including this page)

Comments: Here is the info on electric utilities (re-petition

Have A Nice Day

STATE OF ALASKA

TONY KNOWLES, GOVERNOR

DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT

ALASKA PUBLIC UTILITIES COMMISSION

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4:15pm
MAY 0 1 1997

FACSIMILE COVER SHEET

PROBLEM WITH TRANSMITTAL CALL: (907) 276-6222

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DATE: May 1, 1997 **TIME:** 3:00 pm

TRANSMITTAL TELEPHONE NUMBER: _____

TO: The Honorable Norman Rokeberg

FROM: Robert A. Lohr

COMMENTS:

☐ **ORIGINAL TO FOLLOW**

Norman Rokeberg: Phone 907-465-4968
Fax 907-465-2040

STATE OF ALASKA

MAY 0 5 1997

TONY KNOWLES, GOVERNOR

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DEPARTMENT OF LAW

OFFICE OF THE ATTORNEY GENERAL

April 30, 1997

The Honorable Norman Rokeberg
Alaska State Legislature
State Capitol
Juneau, AK 99801-1182

The Honorable Jerry Sanders
Alaska State Legislature
State Capitol
Juneau, AK 99801-1182

Re: APUC Authority

Dear Representatives Rokeberg and Sanders:

At the House Labor and Commerce Committee hearing on HB 235 on April 16, 1997, you asked Robert A. Lohr, Executive Director of the APUC for a report on the Commission's authority to issue an electric utility a certificate to compete with an existing utility, and to impose conditions that protect the public from "cream-skimming." Because these questions involve a review of legal authorities, the Attorney General's Office, as legal counsel for the Commission, was asked to prepare this response.

The APUC Has Authority Under Current Law to Issue Certificates Allowing Competition in Electric Utility Service.

A. Statutory Certification Authority

The Alaska legislature has required a public utility to obtain a certificate of public convenience and necessity from the Alaska Public Utilities Commission before operating or receiving compensation for providing the utility commodity or service. AS 42.05.221(a).[1] Through this statute, the

[1] SECTION 42.05.221. CERTIFICATES REQUIRED. (a) A public utility may not operate and receive compensation for providing a commodity or service without first having obtained from the commission under this chapter a certificate declaring that public convenience and necessity require or will

legislature placed control over entry into the utility business in the Commission's hands. Nothing in this statute suggests that the certificates granted by the Commission are exclusive, or that the Commission's authority to grant a certificate is restricted or limited if the applicant would compete with an existing utility.

AS 42.05.241 establishes procedural and substantive guidelines for the Commission in exercising its authority to grant certificates. This statute provides:

> A certificate may not be issued unless the commission finds that the applicant is fit, willing and able to provide the utility services applied for and that the services are required for the convenience and necessity of the public .... (emphasis added)

In compliance with this statute, the Commission must examine the question of whether the public needs the additional service when it considers granting a competing certificate. The Commission cannot grant the competing certificate unless, after examining the question, it finds that the public convenience and necessity do require the competing service.

The term "public convenience and necessity" cannot support an argument that competing certificates are prohibited. Interpreting this term, one court looked back to previous decisions and said:

> The court has stated that the "public convenience and necessity" standard allows the department to exercise wide discretion to take into account a broad range of factors in making the determination whether it has been met. Almeida Bus Lines, Inc. v. Department of Pub. Utils., 203 N.E. 2d 556 (1965). Holyoke St. Ry. v. Department of Pub. Utils.,198 N.E. 2d 413 (1964). Newton v. Department of Pub. Utils., 160 N.E.2d 108 (1959) (all of which discussed the propriety of using the value of competition as a basis for making a "public convenience and necessity" finding).

Zachs v. Department of Public Utilities, 547 N. E. 2d 28 at 32 (Mass. 1989). (State reporter citations omitted).

Therefore, although it requires the question to be addressed and a finding made, AS 42.05.241 gives the Commission the policy-making authority to grant a competing certificate, including

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require the service. Where a public utility provides more than one type of utility service, a separate certificate of convenience and necessity is required for each type. A certificate must describe the nature and extent of the authority granted in it, including, as appropriate for the services involved, a description of the authorized area and scope of operations of the public utility. . . . (emphasis added)

a competing electric utility certificate, if the Commission decides that the public will benefit from competing utility service.

B. Natural Monopoly Theory

It is true that in the past the Commission has not issued certificates authorizing competitive provision of electrical service. This long-standing policy is not based on lack of authority or on any legal restriction prohibiting the Commission from issuing a competive utility certificate. The non-competitive policy is based on an economic theory widely accepted in the past, but now subject to question (or already rejected) in policy debates all over the United States and in some foreign countries as well. The economic theory was that utilities, including electric utilities, are natural monopolies and should have exclusive service territories because competition would mean wasteful duplication of the capital investment in facilities required to provide the service.

As discussed above, the natural monopoly theory is not formalized in Alaska's statutory scheme, and therefore no statutory change is required before the Commission can consider whether the public convenience and necessity require any competing certificate to be issued. The Commission has authority to change its monopoly policy in granting certificates.

The natural monopoly theory is also not formalized in the legal concept of a certificate. In Alaska, a series of court decisions resulted from competition between electrical utilities in the 1960's and 1970's. These cases involved competition between REA cooperative electric utilities certificated by the Commission, and municipally owned utilities operating under statutory authority. Before 1970, the municipal utilities were not required to obtain certificates from the Commission.

In the first of these cases, the Alaska Supreme Court rejected the argument that a certificate granted by the Commission was an exclusive right to provide service in the specified service area. It is arguable that this ruling only addressed the situation of competition from an uncertificated utility operating under a municipality's statutory authority. Nevertheless, it is clear that the court rejected the argument that the natural monopoly theory must lead to the conclusion that a certificate is an exclusive right to serve a particular area. Homer Electric Association v. City of Kenai, 423 P.2d 285 at 288-289, n. 16. (1967). See also, Chugach Electric Association v. City of Anchorage, 426 P. 2d 1001, 1003 (1967).

In these decisions, the court recognized that the effect of holding that a utility certificate was not exclusive could be uneconomic duplication of facilities. The court urged the legislature to fix this problem. See Homer, 423 P. 2d at 290; Chugach, 426 P.2d at 1004-05. In response the legislature adopted

AS 42.05.221(d).[2] This provision, while making explicit the Commission's authority to eliminate undesirable duplication of facilities, is carefully drafted not to require the Commission to eliminate all competition. This statute directs the Commission to eliminate the competition only if the Commission finds 1) that there is competition, and 2) that the competition is not good for the public. Like AS 42.05.241, AS 42.05.221(d) clearly leaves the door open for a policy-making determination that competition between electrical utilities may be good for the public.

C Longstanding Interpretations

Finally, the Commission has in the past interpreted its statutes to give it authority to issue competing certificates when it concluded that competition was in the public interest, and the legislature has apparently agreed. In interpreting a statute, the court will give some weight to a long-standing agency interpretation. Nat. Bank of Alaska v. State, Dept of Rev., 642 P.2d 811 at 815 (Alaska 1982). The APUC has granted competing certificates for refuse collection utilities: (Re Claude Bailey d/b/a Valley Refuse, et al, 7 APUC 97 (1985); Re Wasilla Refuse, Inc., 8 APUC 106 (1987); for radio common carriers, (RE Competition and Deregulation of Radio Common Carriers as Public Utilities, 5 APUC 86 (1982)); and for water utilities (Re Eagle Utilities, Inc., 7 APUC 548 (1986). For telecommunications utilities, statutory directives (state and federal) now require the Commission to grant competing certificates. In adopting a mandate for competition in long distance telephone service (AS 42.05.800-AS 42.05.890 , § 2 ch 93 SLA 1990), the Alaska legislature did not think that the underlying statutory scheme for certification needed amendment before the Commission had authority to grant competing certificates.

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[2] SECTION 42.05.221. CERTIFICATES REQUIRED. ...

(d) In an area where the commission determines that two or more public utilities are competing to furnish identical utility service and that this competition is not in the public interest, the commission shall take appropriate action to eliminate the competition and any undesirable duplication of facilities. This appropriate action may include, but is not limited to, ordering the competing utilities to enter into a contract that, among other things, would:

(1) delineate the service area boundaries of each in those areas of competition;

(2) eliminate existing duplication and paralleling to the fullest reasonable extent;

(3) preclude future duplication and paralleling;

(4) provide for the exchange of customers and facilities for the purposes of providing better public service and of eliminating duplication and paralleling; and

(5) provide such other mutually equitable arrangements as would be in the public interest.

(emphasis added)

II. The Commission Has Some Authority to Prevent Cream-skimming.

When competition in utility service is permitted, it is predictable that competitors will seek to serve the most profitable customers. The competing utilities may be less willing to serve smaller users, typically residential and small commercial customers. The result may be that service deteriorates while costs rise for those customers. The practice of targeting service only to the most profitable customers is called "cream-skimming." Existing statutes, including AS 42.05.221(d),[3] AS 42.05.241[4], AS 42.05.271,[5] and the Commission's general powers, AS 42.05.141[6], give the Commission some authority to deal with

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[3] See page 4.

[4] SECTION 42.05.241. CONDITIONS OF ISSUANCE. A certificate may not be issued unless the commission finds that the applicant is fit, willing and able to provide the utility services applied for and that the services are required for the convenience and necessity of the public. The commission may issue a certificate granting an application in whole or in part and attach to the grant of it the terms and conditions it considers necessary to protect and promote the public interest including the condition that the applicant may or shall serve an area or provide a necessary service not contemplated by the applicant. The commission may, for good cause, deny an application with or without prejudice. (emphasis added)

[5] SECTION 42.05.271. MODIFICATION, SUSPENSION OR REVOCATION OF CERTIFICATES. Upon complaint or upon its own motion the commission, after notice and opportunity for hearing and for good cause shown, may amend, modify, suspend, or revoke a certificate, in whole or in part. Good cause for amendment, modification, suspension or revocation of a certificate includes

(1) the requirements of public convenience and necessity;

(2) misrepresentation of a material fact in obtaining the certificate;

(3) unauthorized discontinuance or abandonment of all or part of a public utility's service;

(4) wilful failure to comply with the provisions of this chapter or the regulations or orders of the commission; or

(5) wilful failure to comply with a term, condition, or limitation of the certificate. (emphasis added)

[6] SECTION 42.05.141. GENERAL POWERS AND DUTIES OF THE COMMISSION. (a) The Alaska Public Utilities Commission may do all things necessary or proper to carry out the purposes and exercise the powers expressly granted or reasonably implied in this chapter, including

(1) regulate every public utility engaged or proposing to engage in such a business inside the state, except to the extent exempted by AS 42.05.711;

(2) investigate, upon complaint or upon its own motion, the rates, classifications, rules, regulations, practices, services and facilities of a public utility and hold hearings on them;

(3) make or require just, fair and reasonable rates, classifications, regulations, practices, services and facilities for a public utility; . . . .

cream-skimming problems. However, because of limitations within these statutes or their general nature, the Commission's authority may not reach all variations of cream-skimming problems that may arise.

The discussion below shows how these statutes provide Commission authority to protect the public against cream-skimming, and discusses the limitations.

AS 42.05.221(d). Where the Commission finds competition exists and is not in the public interest, this statute authorizes the Commission to take action to "eliminate the competition and any undesirable duplication of facilities." This statute seems to contemplate a remedy that would eliminate the competition, not a remedy that would seek to make competition serve the public interest. For example, if an appropriate cream-skimming remedy may be to order a competitor in a concentrated market to also serve a remote community, this statute does not seem to provide that authority.

AS 42.05.241. This statute gives the Commission broad authority to impose conditions needed to protect the public when it grants a certificate. The Commission can attach to the grant of a certificate the terms and conditions it considers necessary to protect the public interest. One common remedy against cream-skimming is specifically authorized in this statute--the Commission can require a certificate applicant to provide a service that the applicant does not seek to provide. The language also clearly authorizes other remedies the Commission may devise at the time a certificate is granted. However, if the need for a condition to prevent cream-skimming does not become apparent until after the certificate is granted, this statute may not help.

AS 42.05.271. This statute is quite broad, and, along with the Commission's general powers, AS 42.05.141, arguably provides authority to address cream-skimming by requiring a utility to provide service to neglected customers. However, in the past, Commission orders have been challenged on the basis that the Commission's statutory authority is not "explicit," resulting in costly litigation over the extent of the Commission's "implied" authority.

Very truly yours,

BRUCE M. BOTELHO
ATTORNEY GENERAL

By: Virginia A Rusch
Virginia A. Rusch
Assistant Attorney General

VAR:jem

APR 2 2 1997

Cordova Electric Cooperative, Inc.

April 16, 1997

Representative Norman Rokeberg
Chair, House Labor and Commerce Committee
State Capital
Juneau, Ak 99801-1182

Dear Representative Rokeberg:

On behalf of Cordova Electric Cooperative, the Board of Directors and I support the passage of HB 235, regarding protection of electric utility rate payers. Before any electric utility is certificated to offer retail electric service in an area that is already served, it is important that clear and convincing evidence demonstrates that such competition is in the public interest, and not just for the benefit of some large consumers.

This bill provides needed direction to the Alaska Public Utility Commission for ensuring that the best public interests are served by such competition. We would appreciate your support in obtaining approval of your committee for HB 235.

Sincerely,

Jim Roberts
General Manager

NAKNEK ELECTRIC ASSOCIATION, INC.
POST OFFICE BOX 118 • NAKNEK, ALASKA 99633 • PHONE (907) 246-4261 • FAX (907) 246-6242

APR 16 1997
12:58pm

April 16, 1997

Representative Norm Rokeberg, Chairman
House Labor and Commerce Committee
State Capital Building
Juneau, AK 99801

Via Fax No. (907) 465-2040

Re: HB235 - Utility Service Area Protection

Dear Representative Rokeberg:

Naknek Electric Association strongly supports passage of HB235 - legislation that will require that the Alaska Public Utilities Commission find that it is in all of a utility's customers best interests for an overlapping service area certification to be issued to a competing utility.

I am assured that legislators are aware that the electric public utility industry is a very highly capital intensive industry. NEA, for example, has a capital investment of almost $12 million to serve the 1,000 consumers in our three communities. Over half of our investment provides the electrical needs of some 20-30 large users. It is entirely conceivable that a competitor could fire up a generator for three months of the year, pick up three or four of our seasonal loads and skim 20% off the top of our sales. The impact to the remaining consumers would be dire and immediate.

Only customers with clout (translate - large load) could ever enjoy the benefits of open market competition between electricity providers. The other 90% of a certicated utility's customers would pay the tab for competition.

Your support in passage of this vital legislation will be greatly appreciated.

Sincerely,

Meera Kohler

Meera Kohler
General Manager

APR 16 1997
12:50p.m

Cordova Electric Cooperative, Inc.
P.O. BOX 20 • CORDOVA, ALASKA 99574 • (907) 424-5555 • FAX (907) 424-5527

April 16, 1997

Representative Norman Rokeberg
Chair, House Labor and Commerce Committee
State Capital
Juneau, Ak 99801-1182

Dear Representative Rokeberg:

On behalf of Cordova Electric Cooperative, the Board of Directors and I support the passage of HB 235, regarding protection of electric utility rate payers. Before any electric utility is certificated to offer retail electric service in an area that is already served, it is important that clear and convincing evidence demonstrates that such competition is in the public interest, and not just for the benefit of some large consumers.

This bill provides needed direction to the Alaska Public Utility Commission for ensuring that the best public interests are served by such competition. We would appreciate your support in obtaining approval of your committee for HB 235.

Sincerely,

Jim Roberts
General Manager

APR 16 1997
2:20 pm

Barrow Utilities and Electric Cooperative, Inc.

P.O. Box 449
Barrow, Alaska 99723
TEL.: (907) 852-6166
FAX: (907) 852-6372

April 16, 1997

Representative Norman Rokeberg
Chair, House Labor and Commerce Committee
State Capitol
Juneau, AK 99801-1182

Dear Representative Rokeberg:

Barrow Utilities and Electric Cooperative, Inc. supports the passage of HB 235 which is under consideration by the House Labor and Commerce Committee. Before any electric utility is certificated to offer retail electric service in an area that is already served, it is important that such competition is in the public interest.

In essence, HB 235 would preclude the practice of "cream skimming" or "cherry picking" the best customers in a given service area and consequently causing the rates to rise for all of the other customers.

The bill provides needed direction to the Alaska Public Utility Commission for ensuring that the best public interests are served by such competition.

We would appreciate your support in obtaining approval of your committee for HB 235.

Sincerely,

BARROW UTILITIES & ELECTRIC COOPERATI . E, INC.

Wayne Parkin
General Manager

Homer Electric Association, Inc.

CORPORATE OFFICE
3977 Lake Street
Homer, Alaska 99603-7690
Phone (907) 235-8167
FAX (907) 235-3313

Central Peninsula Service Center
280 Airport Way
Postal 5280
Kenai, Alaska 99611-5280
Phone (907) 283-5821
FAX (907) 283-7122

April 16, 1997

APR 16 1997
2:20 pm

Representative Norman Rokeberg, Chairman
House Labor and Commerce Committee
State Capitol Building
Juneau, Alaska 99801

RE: Support for HB-235 Electric Consumer/Service Area Protection

Dear Representative Rokeberg:

Homer Electric Association supports the passage of House Bill 235. Homer Electric Association serves a large mix of commercial and industrial consumers. The economic benefits are proportionate to that mix. Competitive electric service should only occur after it has been shown there would be no deterioration of service quality and the remaining consumers would not experience higher rates.

We would appreciate your committee's approval of HB-235.

Sincerely,

HOMER ELECTRIC ASSOCIATION, INC.

Norman L. Story

Norman L. Story
General Manager

rokeberg.ltr:NLS/ss

cc: Eric Yould, ARECA

APR 16 1997
2:20 pm

April 16, 1997

Representative Norman Rokeberg
Chair, House Labor and Commerce Committee
State Capitol
Juneau, Alaska 99801-1182

Dear Representative Rokeberg:

INN Electric supports the passage of HB 235 which is under consideration by the House Labor and Commerce Committee. Before any electric utility is certificated to offer retail electric service in any area that is already served, it is important that clear and convincing evidence demonstrates that such competition is in the public interest.

Approval of competitive electric service without due consideration of possible adverse impacts on the rates and quality of service to retail electric consumers has the strong potential of creating winners and losers. The losers will most certainly be residential and small commercial customers.

We would appreciate your support in obtaining approval of your committee for HB 235.

Sincerely,

Tinny Hedlund
INNEC President

Iliamna • Newhalen • Nondalton Electric Cooperative
P.O. Box 210 Iliamna, Alaska 99606 • Phone: 907-571-1259 • Fax: 907-571-1444

Municipality of Anchorage
Rick Mystrom, Mayor

Municipal Light & Power
[illegible] rst Avenue
[illegible] Alaska 99501 1685
[illegible] 907 279-7671, Telecopiers: (907) [illegible]

April 16, 1997

Representative Norm Rokeberg, Chairman
House Labor and Commerce Committee
State Capital Building
Juneau, Alaska 99801

APR 16 1997
2:20 pm

Re: Support for HB 235
Electric Consumer/Service Area Protection

Dear Rep. Rokeberg:

I am writing in support of House Bill 235. I believe it only appropriate that the Alaska Public Utilities Commission be required to make a finding of public interest before any utility or power producer is allowed to make sales within the certificated service area of another.

This will assure that the Alaska Public Utilities Commission has actually weighed the merits of any proposal before implementing it.

Your very truly,

Thomas R. Stahr
General Manager

JERRY REINWAND

Consultant • Lobbyist

2 Marine Way, Suite 219
Juneau, Alaska 99801

FAX sender: Jerry Reinwand
2 Marine Way
Suite 219
Juneau, AK 99801

FAX number: (907)463-3979

Date: 4/27/97

No. of pages: 1

To: (Company)
Representative Norm Rokeberg
FAX No. 465-2040

Attention:

Subject:
Potential Hearing on H.B. 235

Message:

Mr. Chairman, I have double-checked with the top officials of Chugach Electric and they have been working hard to come to some type of agreement with all parties interested in H.B. 235. They say that progress has been made and that momentum is underway to move H.B. 235 along.

I know that you are concerned about addressing H.B. 235 this late in the session but we would appreciate it greatly if you could see your way clear to have a Subcommittee hearing this week or next week to address the bill and a potential Chugach Electric amendment which would allow retail competition in the Chugach and ML&P certificated retail areas.

Thanks for considering this request.

APR 28 1997

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Alaska Star

28 pages plus a 4 page supplement and inserts Successor to Chugiak-Eagle River Alaska Star April 24, 1997

IBEW, utilities wrestle for control

By LEE JORDAN
Alaska Star Editor

What is behind the battle for control of the boards of directors of Alaska's cooperative electric utilities?

For the International Brotherhood of Electrical Workers (IBEW), the answer is more employment and job protection for its members. The union also wants to avoid loss of its own income, according to documents prepared by Local 1547 for a lawsuit against Chugach Electric Association.

For backers of free and open participation in utility construction projects — including some individuals and firms who stand to gain financially, as well as consumers who hope to hold down power costs — the answer is savings to be realized from increased competition that will help the utilities face competition of their own.

How well the two sides do in advancing their goals will be seen in next week's election of directors. Both Chugach and Matanuska Electric Association (MEA) meet Wednesday when each utility will elect two directors. Incumbents on both utilities represent the open bidding concept. They are not supported by the union which represents most of the utilities' employees.

IBEW Local 1547 is not a penny-ante operation. A 1996 study done for Chugach by a national consultant found the local's annual report to the U.S. Department of Labor on April 25, 1995, showed an annual income of $6 million and assets of $2 million.

The cooperative utilities have huge budgets. Chugach is Alaska's biggest and one of the nation's largest cooperatives. Its 1996 operating expenses were in excess of $100 million.

MEA two years ago faced an attempt by Chugach to woo members away from the smaller Valley-based utility, offering lower rates. A chart in Chugach's current annual report compares its rate of $70.10 for 750 kilowatt hours of monthly service to those for Anchorage ($70.05) and MEA (83.33).

All electric utilities now find themselves under competitive pressure. Under recently adopted "wheeling" policies, customers can be served by a distant utility — using the same connecting lines designed to increase efficiency and system stability. Much the same as practiced by telephone utilities, one buys a block of service from another, then sells portions of that block to individual consumers, generally larger users, at a profit.

Another aspect of competition arises when large consumers such as a hotel or hospital, who have their own generation facilities for emergency purposes, threaten to take care of their own power needs if they can't get lower rates from their present utility. Several organizations, including the McDonald recreation center in Eagle River, already have co-generation agreements.

Both the utilities and the union are working to expand electric power facilities in the state. In the works are two $40-50 million "interties" that would link all Railbelt utilities with alternate lines that would provide backup transmission routes.

A 1990 agreement guaranteeing that intertie construction would be done only by members of IBEW was drawn to recognize the union's successful lobbying of the Legislature. The Legislature appropriated $90 million from what once was the Railbet Energy Fund for use on two intertie projects.

The Memorandum of Understanding on IBEW-only hiring has come under attack from two utilities, one of which the union is currently suing in federal court. The document also got a belated boost when Anchorage Municipal Light & Power General Manager Thomas Stahr signed the document last December.

Only days after it was signed by then-manager Ken Ritchey, the MEA board of directors promptly rejected the agreement.

Chugach Electric Association (Chugach) in June of 1996 advised the IBEW that Chugach was withdrawing its support of the memorandum. IBEW is suing in federal court, saying the utility cannot back out of the agreement and asking payment for alleged damages.

Chugach's action followed release of a study done for them that showed a supposed $20 million reduction in construction costs if bidding were opened to all potential contractors.

IBEW disputes those numbers, saying the study done by economists at the University of Pennsylvania's Wharton School was deficient. In reality, that study covers a wide range of scenarios with labor cost savings for just the Northern Intertie ranging from $9.5 million to as low as $193,953.

During the time since the memorandum was signed, both sides have dumped large sums of money into election campaigns for the utility boards. In 1995 the Chugach board swung toward the open-bidding side and last year the faction gained a clear majority.

Both incumbents, Chugach Board President Ray Kreig and Director Chris Birch, are in the majority group. They are being opposed by former Anchorage Assemblyman Jim Kubitz and business executive Muriel Taylor.

At MEA, incumbents Barbara J. "Tamie" Miller and Bill Folsum are being challenged by former directors R. Ole Larson and Thomas Staudenmaier. The latter candidate, who pushes for merger of all utilities, in 1985 was recalled (removed by members) from the MEA board after he was charged with disruptive behavior, harassment and disclosure of confidential information.

Despite extensive campaigning which included bitter personal attacks, no changes were made in the MEA board last year.

IBEW's Anne Hays commented that the union "is playing it low key this year" and will not make donations to candidates or become involved in the campaigns. Union representatives and utility directors several months ago attended a seminar on an East Coast Ivy League campus where they were told to work cooperatively and avoid political clashes.

Those suggestions apparently resulted in shifting of electioneering to indirect sources.

Backing the Chugach incumbents is a new organization called Chugach Consumers. It uses the same smiling lightbulb emblem used in previous elections by CICE (Citizens for an Independent Chugach Electric)

Kubitz and Taylor's candidate statements say "Endorsed by Fair Rates and Reliable Power."

Backing Miller and Folsom for re-election to MEA's board is REACH (Rural Electric Associations' Consumer Help), an organization that surfaced during the hard-fought 1996 campaign.

MEA candidate R. Ole Larson's unsuccessful bid to regain a seat last year was backed by "Return Cooperation to our Co-op Committee." He was also backed in the 1996 election by VALUE (Valley Alliance of Labor Union Employees). This year information advocating Larson's election comes from Mat-Su Utilities Council, Inc. which is said to represent MEA and Matanuska Telephone Association workers.

Extensively supported by IBEW in 1996, Larson has stated emphatically that he will accept no money from the union this year. He told The Star that he is not aligned with any faction.

Although the 1997 utility board campaigns have been quieter in the press and on the air, they nevertheless have been busy through the mails and on the Internet.

Alaska Star
PUBLISHED WEEKLY
Good News About Alaskans, By Alaskans, For Alaskans Since 1971

LEE B. JORDAN
Editor and Publisher

"No man, for any considerable period, can wear one face to himself and another to the multitude, without finally getting bewildered as to which may be true." —Nathaniel Hawthorne

Electric co-ops meet Wednesday

Members of both Matanuska and Chugach electrial cooperatives meet next Wednesday evening. MEA meets at Palmer High School and Chugach will gather at the Egan Civic and Convention Center in Anchorage.

On the ballots of each of the member-owned utilities are election of two members of the respective boards of directors. In each case, two incumbents are being challenged.

THE 1997 ELECTION campaigns have been more positive and far less vitriolic than campaigns of recent years. That is appreciated by the members.

Even though the utility board campaigns have been quieter, they nevertheless continue to be active in less public venues. There is much at stake in the outcome.

Differing in their support of candidates are organizations and individuals who, on one side, favor free and open bidding on contracts and who, on the other side, are more concerned with protecting the union which represents most of the utilities' employees.

FOR THE MEMBERS of the utilities, millions of dollars can be saved as a result of greater competition among companies who do work for the utilities. Although the figure is disputed, a consultant hired by Chugach to review two large electrical intertie projects sees savings of up to 21 percent resulting from bidding that is open to all firms capable of doing the job.

Savings, in fact, already are being realized from greater competition since MEA and Chugach changed their bylaws to allow free and open bidding. Bids are coming in lower than the engineers' estimates, with a wide variation between high and low bids. Encouraging to the utilities is that there are so many firms that are offering bids.

Adoption of the open bidding rule helps the utilities keep their costs down. With the threat of new competition facing them, MEA and Chugach quite reasonably have looked to competition for their own expenditures for relief.

AN UNFORTUNATE RESULT of the board campaign electioneering is the appearance of a union versus non-union aspect. For people who are told by the union to which they pay dues that their jobs are being threatened, concern for their job security is understandable.

We have nothing but respect for the men and women who keep the power flowing to our homes and businesses. When someone gripes about the pay scale for electrical workers, they only do so when the lights are on and they are snugly confined in warm quarters. When the lights go out in the dead of winter, though, no one envies the compensation given to someone who climbs poles to repair high-voltage lines when strong winds are blowing at 30 below.

It is an inescapable fact that Alaska's economy has changed. Everyone has to tighten their belts in order to get by on the dollars that are available. Increased competition is both the end and the means. That has even been recognized by the International Brotherhood of Electrical Workers through waivers of work rules granted to contractors in order for them to compete with companies who aren't handicapped by all those rules.

FREE AND OPEN bidding is healthy. The utilities are to be commended for taking that courageous step. Members likely will remember that the existing boards of directors are responsible for that boldness and that how they vote will be reflected in future monthly energy bills.

Alaska Star 4 April 23, 1997

Intertie agreement taken to court

By LEE JORDAN
Alaska Star Editor

Just as Chugach Electric Association is being taken to court for backing out of a seven-year-old agreement fostering union hire, Anchorage's Municipal Light & Power has signed onto the document drawn up by Railbelt electric utilities and the union which represents most of their workers.

The International Brotherhood of Electrical Workers (IBEW) is seeking both actual and punitive damages from Chugach Electric Association for its withdrawal. According to documents prepared last October by Helene Antell Brooks, an attorney for IBEW, a decision by the Chugach board of directors to renounce its part in the agreement is illegal.

"The reasons offered by (Chugach Electric Association) to justify its repudiation of the (Memorandum of Understanding) are an ugly, unwarranted attack upon the IBEW," the attorney wrote.

Meanwhile, it was learned recently that the seven-year-old agreement was quietly signed last December by Thomas Stahr, general manager of Anchorage Municipal Light & Power (ML&P). He said his signature "doesn't bind the municipality," but that he "will urge" the municipality to ratify the document.

"If we're still fighting over the issues, chances are the money will go back," Stahr explained in an interview last week. He said some criticism of the agreement is unfactual and defended his signing the document he earlier refused to endorse.

"I've worked on the interties for 10-12 years and to have them hinge on information that's incorrect is not rational," Stahr said.

The "money" the ML&P manager referred to is legislative appropriations for $90 million to be used for construction of two electrical interties, one to the north and another to the south. They would link utilities from Homer to Fairbanks.

The legislative appropriation is the "tat" in a tit-for-tat agreement between the IBEW and eight utilities.

IBEW Business Manager Gary Brooks last year explained that after the utilities had been unable on their own to obtain the appropriations, Local 1547 offered to secure the money for them. In exchange, IBEW asked for a guarantee that only IBEW members would be hired to do the work on those projects.

With all but ML&P on board in 1990, IBEW lobbied for the appropriations which were passed.

"We did our part," Gary Brooks said earlier. He was dismayed that Chugach was reneging on the bargain.

Asked last week how IBEW could be successful at gaining something that utilities representing more than half the state's population had failed to accomplish, IBEW political strategist and public information person Anne Hays said, "We're good at what we do."

The January, 1990 signature by Matanuska Electric Association (MEA) General Manager Ken Ritchey was not ratified by the MEA Board. The Valley-based utility maintains that it does not recognize the agreement. IBEW asserts that MEA nevertheless was committed, but the union has not pursued that contention in court.

Chugach, however, did not question the agreement until June 7, 1996 when the board voted to notify IBEW that the utility no longer recognized the agreement as being in effect.

During that time, Chugach members elected directors who campaigned on the platform of "free, open and competitive bidding" on construction projects. They followed a trail blazed by MEA. The Valley-based utility adopted an open-bidding bylaw change in 1993. A similar provision was adopted by Chugach members last year.

Chugach's rejection of the memorandum came after release of a January, 1996 study by consultants at the University of Pennsylvania's Wharton School. The report by Herbert R. Northrup and A. J. Thieblot concluded that the interties could cost $200 million and might not be cost-effective.

The consultants also stated that savings of up to $9.5 million might be realized on just one of the two projects, the Northern Intertie.

Those figures were flawed, Stahr said.

"There's not enough labor to do (to save that much money). People would have to pay to work on the job in order to save $9 million," Stahr said.

The Northern Intertie, which was the basis for the projection, includes what amounts to a huge battery — one that Stahr said will cost about $24 million. Labor related to that "would be supplied by the vendor."

The Intertie Participants Group will be responsible for the construction, although Golden Valley Electric Association will manage the Northern Intertie and Chugach will manage the Southern Intertie.

> ***"Look at the savings that have been generated by free and open bidding. There's been a real ripple effect."*** — Ray Kreig

"They will be subject to prudent utility practices," Stahr said.

In its lawsuit, IBEW claims that Chugach acted to withdraw from the memorandum because of anti-union feeling among the board majority.

Chugach's reason for repudiating the agreement is because of the savings shown in the Wharton study, said Ray Kreig, president of the Chugach board.

"Look at the savings that have been generated by free and open bidding," Kreig said. "There's been a real ripple effect."

Bidding from open shop contractors has driven costs down, according to the Chugach president. He said the Susitna Crossing job came in at 40 percent under the engineer's estimate.

Another project, the Teeland substation upgrade, was won by Vista Electrical Contractors, whose employees are represented by IBEW, in February. At $168,075.50, it came in at one-half the engineer's estimate.

Last Monday, the MEA board again approved a contract to Vista, that bid also below the engineer's estimate.

IBEW is making concessions in order to help contractors make lower bids. Among other things, a 1996 addendum to the intertie memorandum removes the requirement for double time on Sundays, lists only five holidays to be reimbursed at double time, and eases requirements for travel time and expenses.

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APR 1 8 1997

April 15, 1997

Representative Norman Rokeberg
Chair, House Labor and Commerce Committee
State Capitol
Juneau AK 99801-1182

Dear Representative Rokeberg:

Golden Valley Electric Association supports the passage of HB 235 which is under consideration by the House Labor and Commerce Committee. Before any electric utility is certificated to offer retail electric service in an area that is already served, it is important that clear and convincing evidence demonstrates that such competition is in the public interest.

Approval of competitive electric service without due consideration of possible adverse impacts on the rates and quality of service to retail electric consumers has the strong potential of creating winners and losers. The losers will most certainly be residential and small commercial customers.

We would appreciate your support in obtaining approval of your committee for HB 235.

Best regards,

Michael P. Kelly
General Manager

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