

Approved: JAN. 21, 1999
Date

MINUTES OF THE SENATE UTILITIES COMMITTEE.

The meeting was called to order by Chairperson Sen. Pat Ranson at 1:30 p.m. on January 19, 1999 in Room 531-N of the Capitol.

All members were present except:

Sens. Hensley and Salisbury were excused

Committee staff present:

Lynne Holt, Legislative Research Department

Mary Torrence, Revisor of Statutes Office

Jeanne Eudaley, Committee Secretary

Conferees appearing before the committee:

Matthew Brown, National Council of State Legislators

Others attending:

See attached list

Sen. Ranson announced copies of proposed bills for introduction from Rep. Carl Holmes and the House Utilities Committee have been distributed to the committee (Attachment 1). She then called attention to the Minutes of the Meeting for January 14. Sen. Clark made a motion the Minutes be approved, and Sen. Barone seconded the motion; the Minutes were approved.

Sen. Ranson introduced Matthew Brown, who presented information and slides on retail wheeling activity in other states (Attachment 2). He also discussed unbundling and explained a sample of an unbundled bill (Attachment 3). He discussed the rate structure and rate reduction in California as well as related tax issues. He stated some states are fearful that the federal government will mandate restructuring and that he does not believe that will happen for two to three years. He also discussed stranded costs as well as the divesting of power plants. He emphasized the importance of putting in place rules for transition.

Sen. Ranson announced the agenda for the meeting tomorrow.

Meeting adjourned at 2:30.

Next meeting will be January 20.

SENATE UTILITIES COMMITTEE GUEST LIST

DATE: JAN. 19, 1999

NAME	REPRESENTING
Jack G. Graves	Nuke Energy - K N Energy
J.C. Long	UtiliCorp United
Mike Carter J.	ENR OW
Diane Gjerstad	USD 259
Don Lawrence	KEC
MIKE REECOFF	ART
Leslie Kaufman	Ks Farm Bureau
Don Ryan	Kan Valley 321
Kim Gully	League of KS Municipalities
Kim Gales	McGill, Gales & Associates
Bob Alderson	Atmos Energy Corporation
Kirk E. Shiner	Payless ShoeSource
Paul A. Seymour	" "
Wayne Kitchen	Western Resources
Jam DAY	KCC
Don Holman	Western Resources
Marsha Jackson for J.P. Small	
Kathy Valentine	SRS
ED SCHAUB	WESTERN RESOURCES

HOUSE COMMITTEE ON UTILITIES
PROPOSED BILLS FOR INTRODUCTION

Attach. 1
FYI
1/12/98
D3

Nonprofit utilities not subject to Corporation Commission (KCC) regulation; size, merger

Retail Wheeling Task Force bill (1998 HB 2619)

KCC authorized to provide competition in retail electric service (1998 HB 2779)

KCC authorized to provide competition in retail natural gas service (1998 HB 2780)

Retail electric and natural gas service; application by consumer or provider to have competition, subject to restrictions

Municipal franchise fees applicable to certain sales within three miles outside city limits

Retail Wheeling Task Force extended for two years

Off-system electric sales contracts required to be interruptible

Industrial electric customers with interruptible contracts allowed to purchase from alternative providers

KCC required to establish uniform base rates for telephone customers within service territory and within same class of company (based on company size)

Universal Service Fund (KUSF); disallow use for construction; disallow use for technology "upon customer demand" and instead allow when technology required by KCC

Deregulate new electric generation; tax as industry rather than utility; proposed siting subject to oversight by Department of Health and Environment

Decrease limitation on time for KCC action in rate cases from 240 days to 180 days with no extensions permitted

Further restrictions on slamming and cramming

Further restrictions on telephone solicitations

Amendments to electric generation facility siting act

Senate Utilities
1-19-99
Attach. 1-1

Electric Industry Restructuring in the States

Matthew H. Brown, NCSL

I. Thirteen states have now passed restructuring legislation

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- New Hampshire
- Rhode Island
- California
- Pennsylvania
- Oklahoma
- Montana
- Arizona
- Nevada
- Maine
- Massachusetts
- Illinois
- Virginia
- Connecticut

In addition, New York and Michigan are moving quickly because of regulatory orders. Other states have orders, but need legislation.

Of those states, four have begun the transition to competition:

- Rhode Island: December, 1997
- Massachusetts: March, 1998
- Pennsylvania: Large pilot programs begun
- California: March 31/April 1, 1998

The general results are as follows:

- Competition is slow to take hold, partly because of mandatory rate reductions in several states.
- Large electricity users are receiving much more attention than small commercial or residential electricity users.
- Cost reductions are not in general exceeding the "standard offer" legislated rate reduction for residential or small commercial customers.
- Companies appear to be differentiating their products by some reference to a "green" product mix and by offering incentives.
- The mechanics of the system appear to be working well to this point.
- Restructuring is already causing a fundamental change in the way that electric utilities and other electricity providers operate and structure their businesses.

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2-1

California Update

California's Market is Up and Running

I. What does "up and running" mean?

Three investor-owned utilities, the Sacramento Municipal Utility District and others now compete for their customers. The new system began on March 31. New and old entities serve new purposes:

- The *power exchange* and the *independent system operator*, manage power flows, maintain reliability, monitor market power abuses and provide a way for everyone to know the current market clearing price.
- The *California Public Utilities Commission* monitors market power abuses, certifies power providers and assists in consumer education programs.
- The *California Energy Commission* provides information to consumers and runs a multi-million dollar set of programs on renewable energy and energy efficiency.
- Over 200 *registered power marketers* attempt to sell power, at retail, to customers.

Customers have different options.

1. Do nothing: continue to buy from the same utility, and receive a 10 percent rate cut.
2. Change supplier: buy from a new electricity retailer and receive a rate cut and, perhaps other service options or incentives.

But few people have switched suppliers, although the number is increasing:

Approximately 3 percent of residential customers have switched providers. Up to 12 percent of the total load has switched to a new provider.

The relatively small number of people who have switched is partly because of the 10 percent rate cut that took effect on January 1, 1998. Most people see

little immediate need to go through the trouble of pursuing new electricity suppliers.

Note that this rate cut had nothing to do with restructuring: witness that competition didn't begin until March 31, 1998, while the rate cut kicked in on January 1.

II. *Mechanics of the New California Power Markets*

1. Utilities sell to the power exchange.
2. The power exchange is a non-profit independent corporation that schedules power transactions by matching electricity supply with demand.
3. Buyers purchase power from the power exchange.
4. Both buyers and sellers currently submit their needs to the exchange 24 hours in advance of the need. In the future, the buyers and sellers will be able to do so just an hour in advance.
5. Buyers include any purchaser who want to buy power, but notably includes the three investor owned utilities as well as any other power provider. The three utilities must purchase their power from the power exchange, since they are the companies that serve the customers who decided not to switch electricity providers, also known as the default provider.
6. Buyers aside from the three utilities can also buy power from sources other than the power exchange.
7. In practice, this means that a power marketer could sign up a customer for a year's time at a certain price. Perhaps the marketer also agrees to sell power that is 50 percent "green." The marketer would then could buy 50 percent of its power from the "green" suppliers like wind power generators, and could then buy the remaining 50 percent of its remaining "non-green" power from the power exchange.

III. *Changes at the Utilities*

California's investor owned utilities were required by AB 1890 to divest some of the fossil-fired power plants. They have done so and more, having announced the sale of most of the generating plants in the state. In general, these power plants have

sold for greater than their book value, resulting in a surprising influx of new cash for the utilities.

IV. *Securitization*

California's three investor owned utilities issues approximately \$7 billion of "securitization bonds." Moody's gave these bonds a very high quality rating, and they sold very quickly. In general the proceeds from these bonds were used to buy back expensive debt and equity.

V. *Billing*

Electricity customers in California now see a very different electricity bill. Instead of a single charge for power delivered, they see separate charges for generation, transmission, distribution, stranded cost recovery, securitization, stranded benefit charges and also a 10 percent rate cut. Customers also see information on the environmental characteristics of their electricity purchase.

VI. *Ballot Initiative*

Consumers who oppose the securitization attempted to pass a ballot initiative that would have repealed certain provisions of the restructuring law. That measure failed by a margin of 3:1 in the November, 1998 election.

VII. *Stranded Benefits*

The California Energy Commission manages a fund to support renewable energy and energy efficiency. The fund amounts to approximately \$500 million.

Company	Capacity	Sale amount	Book Value	Buyer
Boston Edison	1983	\$657	N/a	Sithe Energies
DQE	276	N/a	N/a	AYP Capital
Edison International	7532	1100	421	AES, Houston Industries, NRG Energy & Destec, and Thermo
NEES	4600	1590	1100	US Generating Co.
Pacificorp	412	N/a	N/a	NRG Energy
PG&E Corp.	2,745	501	380	Duke Energy
Unicom	1598	240	N/a	Southern Energy and Dominion Energy



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JANE SAMPLE
JJQ 99 99999-9

ELECTRIC ACCOUNT DETAIL

Rate Schedule: E1 XB Bundled Service
Service: From 05/11/98 To 06/10/98 Billing Days: 30 Electric Meter #: J99999

	<u>Prior Meter Read</u>	<u>Current Meter Read</u>	<u>Difference</u>	<u>Constant</u>	<u>Usage</u>
ELECTRIC	86467	86967	500	1	500 Kwh

Total Electric Charges	\$60.99
Legislated 10% Reduction	6.10-
Net Charges	\$54.89

The net charges shown above include the following components. Please see definitions on Page 2 of the bill.

Electric Energy Charge	\$0.02400*	\$12.00
Transmission		2.03
Distribution		17.72
Public Purpose Programs		2.10
Nuclear Decommissioning		0.26
Competition Transition Charge (CTC)		12.70
Trust Transfer Amount (TTA)		\$8.08

* This rate is based on the weighted average costs for purchases through the Power Exchange. This service is subject to competition. You may purchase electricity from another supplier. (Call 1-800-743-0040 for a supplier list).

ELECTRIC	Kwh	Price
Baseline Quantities	324	
Baseline Usage	324	@ \$0.11589
Over Baseline Usage	176	@ 0.13321

Usage Comparison	Days	Kwh Billed	Kwh per Day
This Year	30	500	16.7
Last Year	29	493	17.0

Note: All customers pay a Competition Transition Charge as part of the charges above, including those who choose an electricity supplier other than PG&E.

JJQ 99 99999-9



sewate utilities
1-19-99
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