

NIPPC Testimony in Support of SB 978-2
Oregon Senate Committee on Business & Transportation
April 5, 2017

Mr. Chairman and members of the Committee, my name is Irion Sanger and I am testifying on behalf of the Northwest & Intermountain Power Producers Coalition (NIPPC) today in support of SB 978.

NIPPC is a trade association whose members include private industry participants active in the Pacific Northwest and Western energy markets. The purpose of NIPPC is to represent the interests of independent power producers and marketers in developing rules and policies that help achieve a competitive electric power supply market in the Pacific Northwest.

We recently amended SB 978 as a “study bill” to direct the OPUC to evaluate whether the over century-old “regulatory compact” that underlies the IOUs’ service is still appropriate.

Now is the time to investigate the fundamental question: what are functions we want regulated monopoly utilities to perform in the modern world?

There have been significant changes in technology, law and policy that warrant revisiting the current utility business model to ensure that the generation resources serving customers are the least cost and least risk options.

This review needs to occur promptly because the utilities are planning on acquiring enormous amounts of new and potentially more expensive and risky generation resources in the next few years.

Now, what is the utility business model or regulatory compact that we are requesting that the OPUC re-evaluate?

The electric utility business model is based on a de facto regulatory compact in which utilities are granted a monopoly electric service territory and authorized to recover all their prudently incurred costs, including a reasonable return or profit on their investments. In exchange, the OPUC acts as an economic regulator to ensure the utilities provide adequate service at fair, just and reasonable prices.

This regulatory compact provides the utility an economic incentive to invest, build and own physical distribution, transmission, and generation assets because this is how they obtain a profit for their shareholders.

In the first part of the 20th century, this incentive had a positive impact with the practical result of the utilities constructing up the modern electrical system and electrifying the nation.

The world has changed dramatically over the last few decades, and the question that the OPUC should study is does this approach make sense? Specifically, is it in customers interests for the utilities own and operate new generation that sells power to Oregon customers?

Since the late 1970s, there have been major changes in regulatory policy which has created independent, non-utility owned electric generators who can sell their electricity to the utilities and end use consumers when allowed by law.

IPPs put their own capital at risk rather than ratepayer money, which can result in more efficient development at lower cost and that places less risk upon consumers.

From the Trojan nuclear power plant to PGE's recent Carty gas fired generation facility, there have been numerous examples of utility investments that call into question the current regulatory model.

The Carty Power Station, which PGE put on line last July came in roughly \$150 million over what it told the OPUC the plant would cost. If PGE is unable to recover these costs from its insurance companies, you can be certain that PGE will ask the OPUC to have ratepayers to make up the difference – Wall Street will insist they do so.

This would never happen with an IPP because the IPP shoulders these risks.

Utility investments are becoming even more risky as new technology boosts energy efficiency, and moves the state towards distributed generation.

Changes in Oregon energy policy from the recently passed Coal to Clean and Renewable Portfolio Standard to potential greenhouse gas regulation make utility generation investments more risky and suggest that the IOUs not invest ratepayer dollars in new generation.

While there have been ambitious Oregon policy changes, these have been adopted in a piece meal fashion and none have addressed the fundamental regulatory and economic incentives that drive utility decision making.

The OPUC should conduct a study to comprehensively review whether the state's wide variety of energy laws and policies (which still provide utilities with an incentive to own all generation resources) are sufficient to ensure end use consumer rates are fair, just and reasonable.

Finally, why does this study need to occur now?

Over the past ten years, the IOUs have used Commission approved competitive bidding guidelines that were designed to protect against the utilities' bias to own generation resources rather than buy electricity from independent power producers.

The results have not been pretty as the IOUs have won approximately 95% of the generation capacity, despite not always being the least cost and least risk generation option.

PGE is planning on acquiring 175 renewable resources by 2018 and 850 capacity (like gas generation) resources by 2021, and PacifiCorp is planning on acquiring over 1,000 MW of wind generation by 2021.

The commission to re-visit the regulatory compact before the utilities acquire thousands of MWs and the stable doors cannot be shut because the proverbial horse has left the barn.