

# SENATE BILL REPORT

## SJM 8015

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As Reported By Senate Committee On:  
Environment, Energy & Water, February 23, 2001

**Brief Description:** Requesting California to require rate increases to guarantee payment for surplus power it receives from Washington state.

**Sponsors:** Senators Finkbeiner, T. Sheldon, Kline, Sheahan, Morton, Rossi, Oke, Rasmussen and Fraser.

**Brief History:**

**Committee Activity:** Environment, Energy & Water: 2/22/01, 2/23/01 [DPS].

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### SENATE COMMITTEE ON ENVIRONMENT, ENERGY & WATER

**Majority Report:** That Substitute Joint Memorial No. 8015 be substituted therefor, and the substitute joint memorial do pass.

Signed by Senators Fraser, Chair; Regala, Vice Chair; Eide, Hale, Honeyford, Morton and Patterson.

**Staff:** Andrea McNamara (786-7483)

**Background:** When the state of California restructured its retail electricity market in 1996, the California Legislature mandated an immediate 10 percent rate reduction for all residential and small commercial customers. The Legislature further declared its anticipation of subsequent rate reductions reaching at least 20 percent for residential and as much as 30 percent for manufacturers by the spring of 2002. The initial rate reductions were financed by long-term rate reduction bonds that customers pay for through a 10-year surcharge on their bills.

The California restructuring plan also encouraged California utilities to divest themselves of their generating assets and required them to sell any generation they retained into a common wholesale power pool (called the California Power Exchange, or the PX). All utilities were then required to purchase all their power needs from the PX or the California Independent System Operator (ISO) on a short-term basis. This market structure left the utilities completely exposed to the volatility of wholesale prices since they could not manage any portion of their risks by obtaining any of their power through longer-term, fixed-price contracts.

When wholesale power prices began increasing dramatically, the California utilities were precluded from passing on those increases to their customers under the terms of the mandatory rate reductions. During much of last year, California's two largest utilities, Pacific Gas & Electric (PG&E) and Southern California Edison (SoCal Edison) were buying power for as much as \$1 per kilowatt hour and reselling it to consumers at the state maximum of 6.5 cents per kilowatt hour. Their combined losses for 2000 have amounted to approximately \$12 billion.

As the financial instability of PG&E and SoCal Edison became apparent in December, other power producers in the region were unwilling to sell them power for fear they would not be paid. In order to ensure the California utilities could obtain the power they needed to meet their customers loads, the federal Department of Energy issued a series of emergency orders requiring certain utilities, including some Washington utilities, to sell power to California. The emergency orders failed to provide either a federal or state guarantee of payment. In an effort to stay out of bankruptcy proceedings, both PG&E and SoCal Edison have delayed and refused payments to their suppliers, including some Washington utilities.

On January 4, 2001, the California Public Utilities Commission issued an interim opinion authorizing temporary surcharges in response to an emergency application by PG&E and SoCal Edison. The temporary surcharges are in effect for 90 days and equal approximately 9 percent for residential customers, 7 percent for small business and commercial customers, and 15 percent for large commercial and industrial customers.

**Summary of Substitute Bill:** The Legislature requests the Governor of California, the California State Legislature and the California Public Utilities Commission to raise rates for California electric and gas utility customers in order to ensure that Washington utilities and energy marketers will receive payment for the electricity they were ordered by the federal government to sell to financially unstable California utilities.

**Substitute Bill Compared to Original Bill:** The substitute includes recognition of Washington's long history of cooperative power relations with California and the desire to continue that mutually beneficial relationship. It also adds concerns about the California Power Exchange's efforts to recover \$875 million in missed payments from PG and SoCal Edison from other market participants, including Washington utilities and energy marketers. The substitute also clarifies that the situation affects Washington energy marketers as well as Washington utilities.

**Appropriation:** None.

**Fiscal Note:** Not requested.

**Effective Date:** Ninety days after adjournment of session in which bill is passed.

**Testimony For:** None.

**Testimony Against:** None.

**Testified:** No one.