

HOUSE BILL REPORT

SJM 8012

As Passed House:

April 14, 2003

Brief Description: Asking the federal energy regulatory commission to withdraw a new pricing policy proposal.

Sponsors: By Senators Fraser, Morton and Kline.

Brief History:

Committee Activity:

Technology, Telecommunications & Energy: 4/1/03, 4/4/03 [DP].

Floor Activity:

Passed House: 4/14/03, 93-0.

Brief Summary of Bill

- Requests that the Federal Energy Regulatory Commission withdraw its proposed pricing policy for the rates of transmission owners until such time as a cost-benefit analysis is completed that indicates a positive benefit for Northwest consumers, and the region expresses its desire to form a new transmission organization.

HOUSE COMMITTEE ON TECHNOLOGY, TELECOMMUNICATIONS & ENERGY

Majority Report: Do pass. Signed by 17 members: Representatives Morris, Chair; Ruderman, Vice Chair; Sullivan, Vice Chair; Crouse, Ranking Minority Member; Nixon, Assistant Ranking Minority Member; Anderson, Blake, Bush, DeBolt, Delvin, Hudgins, Kirby, McMahan, Romero, Tom, Wallace and Wood.

Staff: Pam Madson (786-7166).

Background:

In order to further the goals of formation of regional transmission organizations and the separation by utilities of their transmission function from other utility operations, the Federal Energy Regulatory Commission (FERC) recently proposed a new pricing policy. This policy provides an incentive for utilities to transfer operational control of their transmission facilities to a Regional Transmission Organization (RTO), to form

independent transmission companies (ITCs) within RTOs, or to pursue additional measures that promote efficient operation and expansion of the transmission grid.

The proposed policy allows a utility to qualify for an incentive of an additional 0.5 percent on its return on equity for its transmission assets if it participates in and transfers operational control of its transmission facilities before December 31, 2004, to a FERC-approved RTO. The incentive would be available until December 31, 2012.

An ITC may qualify for an additional incentive equivalent to 1.5 percent of the book value of transmission assets at the time they are transferred to the ITC if the ITC also participates in a FERC approved RTO. The ITC must meet FERC's independent ownership requirements which prohibits ownership interests or financial interests between the ITC and any market participants. This incentive would be recovered through transmission rates and would be available until December 31, 2022, and is contingent on continued independence from market participants and continued participation in the RTO.

The final return on equity incentive is equal to 1 percent for investment in new transmission facilities, which are found appropriate pursuant to an RTO planning process.

Summary of Bill:

The Legislature requests that the Federal Energy Regulatory Commission (FERC) leave the Northwest electricity system in place and withdraw its proposed new pricing policy for the rates of transmission owners until such time as a cost-benefit analysis is completed that indicates a positive benefit for Northwest consumers, and the region expresses its desire to form a new transmission organization.

In the event that the FERC does not withdraw its proposal, the President and Congress are requested to take action to prevent the FERC from proceeding with its proposal.

Appropriation: None.

Fiscal Note: Not Requested.

Testimony For: This memorial is the third in a series of three memorials that deal with the Pacific Northwest's electrical system. The electrical system is part of our Northwest heritage and the underpinning of our economy. It needs to be protected and upgraded. We need to keep electricity costs to a minimum and be sure we get value for the money. This Federal Energy Regulatory Commission (FERC) pricing proposal authorizes incentives to utilities to join regional transmission organizations and to form independent transmission companies by giving them an increase in the rate of return on equity for companies at the expense of the consumer by increasing the cost of electricity. The

memorial requests that the FERC leave our electric system in place and withdraw this pricing proposal until a cost benefit analysis is done to ensure that there is benefit to the consumer and the region expresses a desire to form a regional transmission organization.

Testimony Against: None.

Testified: Senator Fraser, prime sponsor.