



# Restructuring and Seattle City Light

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# Restructuring and Seattle City Light

- ◆ **Deregulation**
- ◆ **Industry Restructuring**
- ◆ **A Closer Look at “Competition”**
- ◆ **Standard Market Design and Other FERC Initiatives**



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# A Short History of “Deregulation”

- ◆ 1994 - California retail wheeling
- ◆ 1996/7 - Debate comes to Olympia
- ◆ 1994/8 - Federal retail wheeling
- ◆ 2000/1 - West Coast crisis
- ◆ 2002 - Standard market design, interconnection, standards of conduct proposals



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# Restructuring - 1998

- ◆ Cheap gas, surplus transmission and pipeline capacity
- ◆ Increased reliance by utilities on wholesale market
- ◆ Generation divestiture +100 GW
  - ◆ Driven by regulation or business goals
- ◆ Unregulated subsidiaries
- ◆ Short term business planning



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# Restructuring - 2002

- ◆ **Merchant generation collapse**
  - ◆ 4x Enron bankruptcy lost in market capitalization
  - ◆ \$60-90 billion in short term paper due
- ◆ **Reduced liquidity, transparency, creditworthiness in market**
- ◆ **Reduced reliance on wholesale**
- ◆ **RTOs stalled; retail stalled**
- ◆ **High gas prices**

# Setting the Context

## ◆ Retail competition

- California and Seattle examples

## ◆ What Boards should worry about

- Resource portfolio - long term competitive standing
- Cyclic, volatile wholesale market
- Changes in law, regulation, and technology that increase risk



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# California Example

	1995	1997	1998	Later
Gen	7.0	2.5	2.5	3-5
SC	0.0	4.5	3.5	3.5
T&D	4.0	4.0	4.0	4.0
Total	11.0	11.0	10.0	11.5



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# Seattle Example

	1999	2003
Gen	2.2	2.3
Loans	0.0	2.0
T&D	2.0	2.0
Total	4.2	6.3



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## Four Restructuring Cases

- ◆ **1-2. New generation cheaper than old generation**
  - ◆ Total cost below existing operating cost? - (e.g., UK)
  - ◆ Total cost above - common, but many tough issues
- ◆ **3. Old generation cheaper - no**
- ◆ **4. Marginal total cost of new less than total retail rate - (e.g., telephony)**



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# Appraising the Risks

◆ *All Four Cases True Sometime Between 1998-2001!*

◆ **Key long term indicators**

- ◆ Owned generation vs new resources

- ◆ Retail rate vs distributed resources

◆ **These indicators drive markets, regulation, law, and technology**

- ◆ But - regional differences may not be reflected in national debate



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# FERC Initiatives

- ◆ **7/2002 - Standard Market Design**
  - “vertical integration is undue discrimination under FPA.” Ergo:
    - ◆ no priority for retail transmission
    - ◆ transmission rights auction
    - ◆ locational marginal pricing
    - ◆ resource adequacy standards
- ◆ **8/2002 - Standards of Conduct**
- ◆ **4/2002 - Interconnection**



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# Relevance to SCL

## ◆ “Reciprocity”

- ◆ no access to wholesale markets without compliance

## ◆ “FERC-lite”

- ◆ FERC jurisdiction over terms and conditions of service by publics

## ◆ SMD doesn’t work without full participation



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# Possible Impacts

- ◆ **FERC oversight of resource additions and forecasts**
- ◆ **Potential loss of ability to manage service reliability**
- ◆ **Volatile energy and transmission markets**
- ◆ **New risks that are hard to manage or hedge against**



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# Other Potential Impacts

- ◆ **FERC-licensed hydro projects (Boundary and Skagit)**
  - GAO land rent study, etc.
- ◆ **Transmission**
  - not clearly defined
  - no 888 tariff
  - BPA dependence
- ◆ **Separations/interconnection**



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# Lessons and Non-Lessons

## ◆ Restructuring - not dead or “inevitable”

- FERC loss of political legitimacy
  - ◆ West Coast Crisis
  - ◆ Congressional opposition to SMD
- G&T investment stalled; rebundling

## ◆ Non-lessons

- “Long and independent”
- “Restructuring is dead”
- “Long term planning is back”



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# Lessons Learned

## ◆ **Planning - Necessary, but Harder**

- not just resource planning
- must integrate G/T, rates, loads
- 3-5 year horizon
- living document

## ◆ **Business risks substantially higher at current rate levels**

- 6.3 cents/kWh leaves little margin for mis-steps

# NW Industry Environment

- ◆ **Enduring challenges for G&T without FERC**
  - **BPA vulnerabilities**
    - ◆ **Appropriations process**
    - ◆ **Footprint creates enduring image of market power**
    - ◆ **Prices lower or higher than market attract political attention**
    - ◆ **Regional Act implies much larger G&T role than economically or politically feasible**



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# NW Industry (continued)

- **California market structure very important, but very uncertain**
  - ♦ **Utility reintegration?**
  - ♦ **Counterparty credit issues?**
  - ♦ **State ownership?**
  - ♦ **Island?**
- **Transmission investment easier in NW**
- **Generation perhaps harder**
  - ♦ **BPA footprint; hydro variability**



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# External Affairs

## ◆ Key functions

- Analyze business impacts of restructuring proposals - CA, UK
- Represent SCL in Olympia, Portland, and Washington, DC
- Maintain and cultivate coalitions
- Prepare formal filings in FERC proceedings - caps, refund, SMD
- PNUCC, LPPC, APPA, NWECA, etc



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# Key Coalitions

## ◆ Slice

- ◆ OMB, CEQ, NW publics

## ◆ Washington retail wheeling

- ◆ Governor, UTC, Puget

## ◆ West Coast crisis

- ◆ West Coast Governors

## ◆ SMD

- ◆ SE/W PUC members, CFA, NW publics, SGA/WGA, conservative think tanks, Southern/Entergy



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