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The 1995 Oregon Legislature directed that a review be conducted of, among other things, what is referred to as the "need for power" standard in ORS 469.501. With changes likely to occur in the electric power supply industry, you have asked the Commission to comment on its responsibilities as they relate to power plant siting in Oregon under the above standard.

The Commission's responsibilities in protecting customers of electric utilities rest in Oregon Revised Statutes, Chapters 756, 757, and 758. The statutes, as they have been employed over time, essentially provide a process that places the financial risk for nonperformance on the serving electric utility. For one thing, ORS 757.355 does not allow inclusion into rates of expenditures on power supply facilities not yet placed into service. If the power supply facility is never completed, it is the utility's investors, not customers, who must bear the costs of the abandoned facility.

For a power supply facility in operation but operated at unreasonably high costs, the Commission's authority is more general, but nonetheless conclusive. The Commission's authority permits it to disallow costs from rates that are unreasonably high as compared with reasonable power supply alternatives. The most recent and significant example of an issue in this regard involved disallowances of substantial costs from PGE's rates relative to the Trojan Nuclear Plant.

Although least-cost planning is not established by statute, the Commission currently requires biennial planning reviews for electric utilities. These reviews are designed to allow for Commission review, in an open and public process, of utility decisions to build power supply facilities or otherwise acquire power supplies. The company is still responsible for management of its operations, but the Commission's process is designed to avoid the type of costly mistakes made in the 1970s and 1980s regarding power supply facilities.

John A. Kitzhaber
Governor

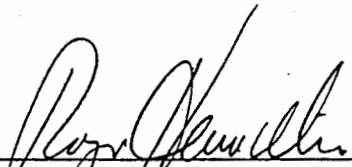


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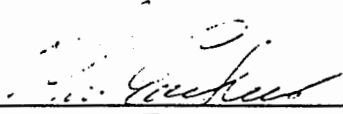
As you know, the bulk power supply market has transformed itself considerably. No longer are utilities constructing large central station generating facilities. Smaller units, for the most part developed by third parties, are being deployed. With shorter lead times, utilities are able to remain more flexible in their planning for new power supplies to serve customers. If supply contracts are structured appropriately, the financial risk associated with potentially unnecessary power supply facilities is lessened.

Finally, the tendency now is for market forces to heavily influence decisions regarding new power supply facilities. These market forces have come about primarily through the persistence of low natural gas costs, enabling independent parties to construct and operate new generation facilities at relatively low prices. Therefore, utility avoidance of large-scale central generation facilities, the financial risk of uneconomic decisions, the Commission's planning review activities and market forces all lead to a process that will bring on new power supplies as they are "needed." In concert, these factors will adequately protect customers of Oregon electric utilities from any negative effects of excess power supplies. Therefore, we no longer see a purpose for a "need for power" standard. Obviously, however, the Commission's activities would have no bearing on construction and operation of power supply facilities which are either not owned by Oregon's investor-owned electric utilities or not part of a purchased power arrangement by an Oregon investor-owned electric utility.

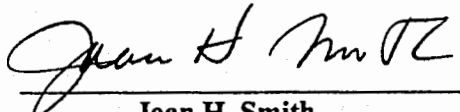
We hope this is helpful. Please call if we can help your review of this matter.



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Chairman



Ron Eachus
Commissioner



Joan H. Smith
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