

May 21, 1996

Mike Katz, Chairman
Energy Facility Siting Task Force
1600 SW Fourth Avenue
Suite 770
Portland, Oregon 97201

Dear Mr Katz:

Portland General Electric (PGE) would first like to thank the members of the Task Force for accepting the Governor's charge of rethinking the state's role in the siting of energy facilities.

I think we should pause here to express our gratitude to the Oregon Department of Energy (ODOE) and the Energy Facility Siting Council (EFSC) for the help and consideration we received during the siting of PGE's Coyote Springs Plant. The siting process that PGE, ODOE and the EFSC went through was open and straight forward. The problems developed after the Council issued the final order when, at the very last minute, an intervenor appeared. This began a lengthy and costly appeals process.

The Coyote Springs Plant was exempt from the need-for-power issue, yet, incredulously the need for power was central to the appeal.

Our experience with the Coyote Springs Plant leads us to the conclusion that there are two areas of the siting process that must be changed.

THE NEED FOR POWER:

The need-for-power statutes were developed in the early 1970's when thermal generating resources were very large nuclear and coal plants. At that time in Oregon there were ten or twelve large projects being discussed. While very few people thought they all would be constructed, a concern was developing that Oregon was becoming an "energy farm" for California. Washington had on the drawing boards five major nuclear power plants, three of which actually started construction. It was natural that Oregon should take a serious look at how we were using our natural resources.

Another issue was a utility's virtual lock on their customers coupled with an economic incentive to construct large facilities whose costs would ultimately be born by the rate payers. Least cost plans had not become a part of our vocabulary. Now, if a utility constructs a plant that is not in their least cost plan, their ability to put the plant in their rate base is questionable at best.

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When the Federal Energy Regulatory Commissions (FERC) issued their Order (888), wholesale markets became truly competition. Utilities had for years made wholesale sales but the sales could, and sometimes were, limited by access to the transmission system. With FERC Order 888 access to transmission facilities became mandatory. Now utilities by law must allow anyone, even competitors, full access to their transmission system at a cost the utilities charges themselves for access. Over forty states are actively considering some variation of deregulation, or re-regulation if you prefer, in all segments of our industry. What this means for the utility industry in the future is uncertain. What is certain is the industry is rapidly moving to a competitive environment.

Because of these inevitable competitive market forces, the need-for-power rule developed in the 1970's does not work in the environment of the 1990's. It is time to delete the need-for-power statute. Energy facilities are no longer the very large projects of the 1970's. Projects are now small, both in output and physical size. If a utility or developer determines a facility is needed in the market and is able to obtain the necessary financing, does it make sense for the state to have to make a determination whether or not the facility is needed? The cost of facilities no longer is automatically passed on to the ratepayer. With the oversight of the Public Utilities Commission (PUC) and the FERC one must ask the question "what is the difference between the rate payer's exposure to risk from a utility constructing a plant to provide power and the risk faced by the ratepayer from the purchase of power from a plant the utility doesn't own or operate"?

The industry of the past was a monopoly; the industry of today is in transition; and the industry of tomorrow will be a competitive market. The need statute has become an anachronism in a competitive world. It no longer has the function of protecting Oregon's electric consumers. It must be repealed.

GLOBAL WARMING:

Since the passage of SB 951 in the 1995 session of the Oregon Legislature the issue of global warming has been at the forefront of the 500 MW exemption granted by the legislature. Global warming must not be taken lightly. But a single industry in a single state acting by itself cannot and should not be expected to be held responsible for dealing with this global problem.

Quoting from the BPA Final Environmental Impact Statement (FEIS) for the Satsop Combustion Turbine Unit 1 on page 5-6, "the heat recovery steam generator produces steam from the exhaust of the combustion turbine without the need to burn additional fuel. This greatly increases the amount of power generation per unit of fuel burned compared to a simple-cycle power plant. From a global warming perspective, CT plants like the Chehalis Generation Facility are the best method of power generation using fossil fuel."

At the March 11, 1996 meeting of Washington's Energy Facility Site Evaluation Council the Council adopted an order recommending issuance of a site certification for the Satsop Combustion Turbine Project and sent the order to the Governor with a recommendation that he should approve the order. Washington relied on the BPA FEIS which included their position on global warming mentioned above. What a difference between the two states on how they deal with global warming. How can Oregon expect to site needed energy projects when Washington takes such a different position?

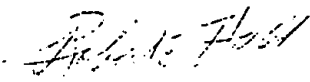
New hydroelectric development has reached its zenith. All large sites are in protected areas. Other renewable resources such as solar and wind offer promise for the future but, due to their costs, are not presently considered a viable alternative as new central generating facilities. Their current value to the Northwest is limited to gaining knowledge of how to integrate these resources into the Northwest electric system. Currently fossil fueled plants are the only commercially viable resource for the Northwest. Does it make sense to effectively eliminate these resources due to Oregon's siting statutes and how they treat global warming? Why would a developer not construct their plants across the river in Washington?

Before you think by the forgoing statement that PGE is anti-renewable let me assure you we are not. Utilities that buy "good" resources from an environmental perspective find themselves making "bad" economic decisions when customers exercise their choices and search out lower-cost-energy options in the open market we will be facing. Global warming must be addressed, but it should not be part of the siting process.

If in determining the state's interest in siting Energy Facilities, the Task Force reaches a conclusion that a "need" or some other qualifying standard should remain, the Task Force must then carefully define the purpose for that standard. The language must then be drafted so the intent is very clear. Both the developer and the state must have a clear, concise process to follow. The process must not be allowed to become an unintended impediment to siting in Oregon and drive good projects into another state.

Portland General Electric would like to again thank the Task Force for accepting this daunting task, and we stand ready to work with you in any way we can.

Sincerely



Robert E. Hall
Governmental Affairs Representative