CALIFORNIA

1996

ELECTRIC INDUSTRY RESTRUCTURING

ASSEMBLY BILL 1890 (Brulte)

ASSEMBLY BILL 3153 (Aguiar)
CONFERENCE REPORT COMMITTEE ANALYSIS

Bill No: AB 1890
Author: Assembly Member Brulte
(Principal Assembly Coauthors: Assembly Members Conroy, Kuykendall, and Martinez)
(Principal Senate Coauthors: Senators Leonard, Peace and Sher)
(Senate Coauthors: Senators Alquist, Ayala, Calderon, Costa, Craven, Dills, Haynes, Hughes, Johannessen, Johnston, Kelly, Killea, Knowles, Kopp, Leslie, Maddy, Marks, Monteith, Petris, Polanco, Rosenthal, Russell and Solis)

RN: 9628401
Report date: August 28, 1996

SUBJECT: Electric Industry Restructuring

Were the Conference amendments heard in committee? Yes.
If yes, were they defeated? No.

SUMMARY:

The restructuring of the California electricity industry has been driven by changes in Federal Law intended to increase competition in the provision of electricity. Through this Bill, the Legislature wishes to ensure that California's transition to a more competitive electricity market structure allows its citizens and businesses to achieve the economic benefits of industry restructuring at the earliest possible date, creates a new market structure that provides competitive, low cost and reliable electric service, provides assurances that electricity consumers in the new market will have sufficient information and protection, and preserves California's commitment to developing diverse, environmentally sensitive electricity resources.
This Bill provides the legislative foundation for transforming the regulatory framework of California’s electric industry. Under the current framework, electric energy is to sold to retail customers principally by regulated utilities with exclusive service monopolies. This framework is partially responsible for California’s electricity rates being some 50 percent higher than the national average. This Bill would help create a new electricity market structure, ending the utility monopoly on generation and opening the generation market to competition, so that retail customers could choose among alternative electric energy suppliers. The transmission and distribution of electric energy would continue to be regulated monopoly services.

The key issues in the transition from the current regulatory framework to a competitive market structure are: 1) how to handle the recovery of transition costs; 2) how the new market structure should be organized; 3) how system reliability should be ensured, 4) how the funding of current public purpose programs should be continued, and 5) how consumers should be protected in the new electricity market.

**Transition Costs**

Transition costs, also known as stranded costs, consist primarily of continuing obligations for past utility power plant investments and power purchase contracts that will not be recovered in a competitive generation market. The Bill finds that these costs should be recovered because utilities assumed the original obligations under the previous regulatory structure in which they had the exclusive obligation to provide electric service to all consumers in their territories. These costs are currently included in utility rates.

The Bill provides that such transition costs shall be subjected to accelerated recovery through a nonbypassable charge, called the Competition Transition Charge (CTC), levied on all consumers in proportion to the amount of electricity they use, subject to two broad restrictions. The first restriction is that no customer shall pay a higher rate for electricity than they paid on June 10, 1996. The second restriction is that investor-owned utilities have through December 31, 2001 to complete the accelerated recovery of all but a few of their uneconomic costs. Publicly-owned utilities are also authorized to accelerate recovery of their uneconomic costs within a framework and schedule that comports with their unique governance and fiscal circumstances.

To further safeguard the interests of the residential and small commercial customers of investor-owned utilities, AB 1890 does the following:
(1) Provides for immediate rate savings for residential and small commercial consumers by mandating a no less than 10 percent rate reduction beginning January 1, 1998 and lasting until March 31, 2002.

(2) Makes these rate reductions possible by creating a unique financing mechanism that will permit “securitization” of a portion of the CTC amounts that are already being paid by customers. This portion of CTC will be financed over approximately 10 years, producing immediate savings for residential and small commercial customers without creating a debt or liability for the state of California.

(3) Provides that securitization of the CTC creates significant additional benefits for residential and small commercial customers that could total more than $2 billion by: a) reducing their total CTC costs by at least $500 million; b) providing capital for the restructuring by investor-owned utilities of stranded long-term obligations and funneling savings from such restructurings, conservatively estimated at $600 million, directly to residential and small commercial customers, c) guarding against the imposition of hidden financing, transaction and service fees; d) retaining interest rate float benefits, conservatively estimated at $120 million, and e) providing the opportunity to achieve additional savings of up to $875 million through variable interest provisions and possible federal tax-exempt treatment.

(4) Establishes a “fire wall” that completely protects residential and small business consumers from having to pay for any statewide policy exemptions to the CTC that are necessary for reasons of equity or business development and retention.

(5) Through implementation of this Bill, ensures that residential and small commercial ratepayers will receive a total cumulative rate reduction of no less than 20 percent by April 1, 2002 from rates in effect on June 10, 1996, excluding the costs of energy and monetization.

(6) Protects the interests of utility employees who might otherwise be economically displaced in a restructured industry by allowing the recovery of reasonable employee costs for severance, retraining, early retirement, and outplacement.

**Market Structure**
Critical to realizing the benefits of electric industry restructuring and the justification for allowing the accelerated recovery of transition costs is the establishment of a competitive market structure, free of monopoly power, with transparent market prices, in which customers are able to readily
choose among competing providers of electric energy while at the same time continuing to receive reliable electricity service. To accomplish this objective, the Bill establishes two new independent, public benefit, non-profit market institutions, an Independent System Operator and a Power Exchange.

The Independent System Operator will be responsible for providing centralized control of the state-wide transmission grid and charged with ensuring the efficient use and reliable operation of the transmission system. The Power Exchange is charged with providing an efficient, competitive electric energy auction, open on a non-discriminatory basis to all providers, to meet the electricity loads of exchange customers. The Power Exchange will provide the results of its auction to the Independent System Operator. The Independent System Operator will combine the results of the Power Exchange auction with schedules for private direct access contracts in a manner that provides for the most efficient and reliable use of the transmission system.

A five-member Oversight Board, comprised of three gubernatorial appointees who are subject to Senate confirmation, a non-voting member of the Senate appointed by the Senate Rules Committee, and a non-voting member of the Assembly appointed by the Speaker of the Assembly, will oversee the two new institutions and appoint governing boards that are broadly representative of California electricity users and providers.

The Bill requires California’s publicly-owned electric utilities and investor-owned electric utilities to commit control of their transmission facilities to the Independent System Operator and to jointly advocate a pricing methodology for the Independent System Operator to FERC that provides an equitable return on capital investment to all participants.

The Bill further authorizes direct transactions between electricity suppliers and end-use customers, commencing with the operation of the Independent System Operator and the Power Exchange, but not later than January 1, 1998. Direct transactions are subject to the payment of relevant transition costs and the development by the Public Utility Commission of an equitable phase-in schedule.

**System Reliability**

(1) The Bill directs the Independent System Operator to seek, and the Public Utilities Commission to support, authorization by FERC to perform its system functions and be able to secure the generation and transmission resources needed to achieve specified planning and operational reliability reserve criteria.
(2) To reduce the potential for system-wide outages such as those that occurred on July 2, 1996 and on August 10, 1996, AB 1890 requires both the Independent System Operator and the Public Utilities Commission to adopt inspection, maintenance, repair and replacement standards for transmission and distribution systems, respectively.

(3) In the event of a major power outage that affects more than 10 percent of the customers in a given service area, the Independent System Operator is required to conduct a review as to the causes of the outage, the response time and effectiveness of the response, and the extent to which an electric utility’s operation and maintenance practices enhanced or undermined the timely restoration of service. The Independent System Operator will be authorized to levy appropriate sanctions on non-performing participants.

(4) The Bill requires the Independent System Operator, in consultation with the California Energy Commission, the Public Utilities Commission, and concerned regulatory agencies in other Western states, to conduct an exhaustive reliability study of the interconnected transmission and generation system that provides electricity to California. It is to provide a report to the Legislature, within six months after it receives FERC authorization, recommending cost-beneficial improvements to electric system reliability for the citizens of California.

(5) AB 1890 expresses Legislative intent to enter into a compact with Western Region states that would require the utilities located within those states that sell energy to California retail customers to adhere to enforceable standards and protocols to protect the reliability of the interconnected regional transmission and distribution system.

**Public Programs**
The Bill preserves California’s commitment to developing diverse, environmentally sensitive electricity resources which enhance system reliability by continuing support consistent with historic levels for cost-effective energy efficiency and conservation activities, for in-state renewable energy resources, and for public goods research, development and demonstration (RD&D) that would otherwise not be provided by electricity markets. The Bill also extends the provisions covering expenditures for services provided to low-income electricity customers.

The Public Utilities Commission is authorized to determine how best to utilize funding for cost-effective energy efficiency and conservation and public goods RD&D directed towards transmission and distribution. The
California Energy Commission is directed to recommend to the Legislature how best to utilize market-based mechanisms to allocate resources for in-state renewable energy and authorized to administer the remainder of RD&D funds. Publicly-owned utilities retain their authority to collect and direct the expenditure of comparably intended funds. Charges for continued funding for these programs are unbundled on consumer bills in the same manner as are other continuing service charges including those for competitively acquired energy, competition transition charges, transmission charges and distribution charges. All provisions, other than those relating to low-income programs, sunset on December 31, 2001.

**Consumer Protection**

The restructuring of the electricity industry will create a new electricity market with new marketers and sellers offering new goods and services, many of which may not be readily evaluated by the average consumer. AB 1890 requires that electricity consumers be provided with: 1) sufficient and reliable information to be able to compare and select among available products and services, and 2) mechanisms to protect themselves against unfair or abusive marketing practices.

The Consumer Protection provisions of the Bill require registration of sellers, marketers and aggregators of electricity service to residential and small commercial customers, define information to be provided to consumers and by whom, provide for the compilation and investigation of complaints, extend “anti-slamming” and contract recision protections to electricity consumers, and extend private attorney general entitlements for consumer damages.

Responsibility for Consumer Protection is vested with the Public Utilities Commission and sunsets December 31, 2001 pending legislative review of any continuing need.

By: Conference Committee on Electricity Industry Restructuring

John Rozsa
Summary of AB 1890

The restructuring of the California electricity industry has been driven by changes in Federal Law intended to increase competition in the provision of electricity. The Legislature wishes to ensure that California's transition to a more competitive electricity market structure: 1) allows its citizens and businesses to achieve the economic benefits of industry restructuring at the earliest possible date, 2) creates a new market structure that provides competitive, low cost and reliable electric service, 3) provides assurances that electricity customers in the new market will have sufficient information and protection, and 4) preserves California's commitment to developing diverse, environmentally sensitive electricity resources.

AB 1890 provides the legislative foundation for transforming the regulatory framework of California's electric industry to meet the above objectives. This Bill would create a new electricity market structure, end the utility monopoly on generation and open the generation market to competition, so that retail customers could choose among alternative electric energy suppliers. Transmission and distribution will continue to be regulated.

Transition
During a limited transition period ending March 31, 2002, AB 1890 provides for:

- Accelerated, equitable, nonbypassable recovery of transition costs associated with uneconomic utility investments and contractual obligations;
- An immediate, rate reduction of no less than 10 percent for residential and small commercial ratepayers;
- Making these rate reductions possible by creating a unique financing mechanism that will permit "securitization" of a portion of the CTC amounts that are already being paid by customers, without creating a debt or liability for the state of California.
- Significant additional securitization benefits for residential and small commercial customers that could total more than $2 billion by: a) reducing their total CTC costs by $500 million; b) funneling savings from the restructuring of stranded long-term contracts, conservatively estimated at $600 million, directly to residential and small commercial customers, c) guarding against the imposition of hidden financing, transaction and service fees; d) retaining interest rate float benefits, conservatively estimated at $120 million, and e) providing potential additional savings of up to $875 million through variable interest provisions and federal tax-exempt treatment.
- A subsequent, cumulative rate reduction for residential and small commercial customers of no less than 20 percent by April 1, 2002;
- A "fire wall" that protects residential and small business consumers from paying for statewide transition cost policy exemptions required for reasons of equity or business development and retention; and
- Protection of the interests of utility employees who might otherwise be economically displaced in a restructured industry.

Market Structure
AB 1890 also directs the creation of a proposed new market structure featuring two state chartered, non-profit market institutions: 1) a Power Exchange charged with providing an efficient, competitive auction to meet electricity loads of exchange customers, open on a
non-discriminatory basis to all electricity providers; and 2) an Independent System Operator with centralized control of and responsibility to ensure the efficient use and reliable operation of the state-wide transmission grid.

- AB 1890 creates a five-member Oversight Board comprised of three gubernatorial appointees, an appointee of the Senate Rules and an appointee of the Speaker of the Assembly to oversee the two new institutions and appoint governing Boards that are broadly representative of California electricity users and providers.
- AB 1890 requires California’s publicly-owned and investor-owned electric utilities to commit control of their transmission facilities to the Independent System Operator.
- AB 1890 authorizes phased-in direct transactions between electricity suppliers and end-use customers, commencing with the operation of the Independent System Operator and the Power Exchange, but not later than January 1, 1998.

Reliability

- AB 1890 directs the Independent System Operator to seek, and the Public Utilities Commission to support, authorization by FERC to perform its system functions and be able to secure the resources needed to achieve specified reliability criteria.
- To reduce the potential for system-wide outages such as those that occurred on July 2, 1996 and on August 10, 1996, AB 1890 requires the Independent System Operator and the Public Utilities Commission to adopt inspection, maintenance, repair and replacement standards for transmission and distribution systems, respectively.
- In the event of a major power outage that affects more than 10 percent of the customers in a given service area, the Independent System Operator is required to conduct a review as to the causes of the outage and the extent to which an electric utility’s operation and maintenance practices enhanced or undermined the timely restoration of service, and to levy sanctions on non-performing participants.
- AB 1890 requires the Independent System Operator, with the California Energy Commission, the Public Utilities Commission, and concerned regulatory agencies in other Western states, to conduct an exhaustive reliability study of the interconnected transmission and generation system that provides electricity to California.
- AB 1890 expresses Legislative intent to enter into a compact with Western Region states that would require those states’ utilities that sell energy to California retail customers to adhere to enforceable reliability standards and protocols.

Consumer Protection

AB 1890 requires registration of sellers, marketers and aggregators of electricity service to residential and small commercial customers, define information to be provided to consumers and by whom, provide for the investigation of complaints, extend “anti-slamming” and contract rescission protections to electricity consumers, and extend private attorney general entitlements for consumer damages.

Public Programs

AB 1890 preserves California’s commitment to developing diverse, environmentally sensitive electricity resources by continuing support consistent with historic levels for cost-effective energy efficiency and conservation activities, for in-state renewable energy resources, and for public goods research, development and demonstration. The Bill also extends programs for services provided to low-income electricity customers.
PROPOSED CONFERENCE REPORT NO. 1 - August 27, 1996
AB 3153 (Aguilar)
As Amended June 19, 1996
Majority vote

ASSEMBLY: 77-0 (May 31, 1996) SENATE: 40-0 (June 24, 1996)

ASSEMBLY CONFERENCE: 3-0 SENATE CONFERENCE: 3-0

Ayes: Conroy, Brulte, Martinez Ayes: Peace, Leonard, Sher

Original Committee Reference: U. & C.

SUMMARY: Extends the sunset date for the interruptible rates programs offered by the utilities to heavy industrial users in response to the Legislature's mandate to make industrial electricity rates more competitive with other states. Specifically, the conference committee amendments:

1) Extend the existing January 1, 1999, sunset for the interruptible rate program for heavy industrial users to at least March 31, 2002.

2) Require that the California Public Utilities Commission (PUC) continue its efforts to reduce rates charged to heavy industrial users.

3) Require that the interruptible rates do not exceed rates in effect as of June 10, 1996, until March 31, 2002.

4) Eliminate the utility reporting requirement.

FISCAL EFFECT: Unknown

EXISTING LAW requires utilities to make available to heavy industrial users optional interruptible or curtailable service pursuant to a legislative mandated effort to reduce rates charged to large industrial users to levels competitive with other states. The rate reduction accomplished through the interruptible service option cannot shift costs to other customer classes.

AS PASSED BY THE ASSEMBLY, this bill had a different author and dealt with the recovery of employee-related transition costs.

The Senate amendments set forth intent language specifying legislative goals concerning reliability, choice, obligation to serve, public policy programs, and commitment to past obligations. This bill was double-joined with the former AB 1890 (Brulte), pending in conference.

BACKGROUND: The high cost of electricity in California, as compared to other states, places heavy industrial users at an economic disadvantage. Interruptible rates were introduced in an attempt to mitigate the energy costs of these users without
shifting the cost to the other consumer classes. The program was to sunset January 1, 1999.

ARGUMENTS IN SUPPORT: Currently, the interruptible rate program is due to terminate before the deregulation is implemented or some large users become eligible to contract for power through direct access. A loss of interruptible service would significantly increase the costs of energy to the heavy industrial user thereby placing them at a competitive disadvantage.

ARGUMENTS IN OPPOSITION: None

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Utility competition: Turn on the plan

LAST year the California Public Utilities Commission rolled out a plan to turn electric power monopolies into free-market competitors. It was a flickering bulb. A half-dozen legislators and their staffs burned the midnight oil this summer to improve it. What they have produced glows brightly.

Their plan protects residential and small business customers; it treats public and investor-owned utilities fairly; it maintains important social programs such as energy efficiency and assistance to low-income customers. It has won the praise of businesses, utilities and environmentalists. Only the consumer group TURN is less than enthusiastic, and TURN is willing to accept it.

This is legislative work at its best. The full Legislature should quickly ratify it.

Last December, the PUC put California in the vanguard of electric power delivery with its plan to break up traditional utilities and establish competition, beginning in 1998. Given electric rates in California that were often 60 percent above the national average, the PUC had the right approach.

Under the new system, producers of power would compete to sell to a central power exchange that would pick the lowest-cost producers. Customers would buy from the exchange. The transmission of electricity over long distances and the local distribution to homes and businesses would remain a regulated monopoly.

The Legislature liked the approach, but not all the details — with reason. The PUC had shortchanged residential and small business customers.

So a committee of three senators and three Assembly members rewrote the plan, reducing rates economical to operate in a competitive market.

The committee proposes to reduce the amount utilities can recover from $36 billion, which the PUC proposed, to $28 billion, which will be paid over time by customers. The share paid by small ratepayers will be reduced further through an ingenious state bonding scheme that reduces interest costs.

TURN feels that these changes still leave small consumers paying too much.

Though sticking utilities with an even larger share has a certain populist appeal, the committee remembered that many average Californians are not only ratepayers, they are owners of utility stocks, either directly or through pension or retirement funds.

All consumers of electricity will pay for maintaining the electric grid. Long distance transmission will be under the auspices of a new entity, the Independent System Operator, which should alleviate the communications problems that led to regional blackouts this summer.

Local distribution will remain the responsibility of municipal systems, as in Palo Alto, or investor-owned utilities such as PG&E, subject to regulation as at present. In the state budget passed earlier this year, the Legislature instructed the PUC to enforce reliability standards relating to outages from storms and other disasters.

The legislative committee also has protected important elements of a statewide energy policy that could have been neglected in a free market system.

All electric customers will pay small amounts to programs that encourage energy conservation, develop renewable energy and assist low-income customers.

The members of this committee deserve credit by name: Senators Steve Peace, D-Chula Vista; Byron Sher, D-Redwood City; and Bill Leonard, R-Upland; Assembly members Jim Brulte, R-Rancho Cucamonga; Mickey Conroy, R-Orange; and Diane Martinez, D-Alhambra.

Their work was bipartisan, exhaustive and, even by the account of the only slightly unhappy party, TURN, "open to the full airing of views."

This plan will improve the price and reliability of electricity in California. The full Legislature should plug it in, turn it on and let it run.
Electricity pact would lower bills, deregulate

By James P. Sweeney
COLETTI NEWS SERVICE

SACRAMENTO — State lawmakers appear to have struck a landmark accord on legislation to deregulate California's massive electric power companies while cutting consumers' bills by at least 10 percent.

Statewide, the potential impact could be enormous and enduring, with future savings measured in the billions of dollars.

"This is the most significant economic measure of the year," Senate Majority Leader Bill Lockyer, D-Hayward, said yesterday. "This is the most real thing for real people that the Legislature will do."

The deregulation plan would lop only about $7 a month off the average household bill of $65. But it could trim millions from the bills of large industrial power users.

The intricate compromise has been driven by Sen. Steve Peace, an El Cajon Democrat who has pushed the conference committee through a grueling string of hearings, many of which stretched into early morning. Most of the work had been done since the Legislature returned Aug. 5 from its summer recess.

"Our effort," Peace said yesterday, "was to attempt to make sure we don't revisit the kind of horror stories we saw in the telecommunications restructuring, where it took 20 years to make the transition and there were a lot of dislocations that occurred in the process."

"This is designed to reduce costs to all consumers of all classes and simultaneously bring stability to the system."

Peace said the three Republicans and three Democrats on the conference committee have all agreed to sign the legislative agreement.

In addition to the bipartisan backing, the proposal has the support of the three large utilities that would be affected — San Diego Gas & Electric Co., Southern California Edison and Pacific Gas & Electric.

"All customers get a good deal out of this, as well as utility shareholders and employees," said Bill Reed, an SDG&E vice president.

Electricity

All panel members agree to sign pact

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Said Bill Sessa of PG&E, the nation's largest investor-owned utility: "The most important result of this bill is that it will produce lower prices for all customers, whether they are large or small. It's setting some new rules for how electric utilities function, but it's something we think we can live within."

Consumer groups opposed the plan as late as last week, but it was unclear yesterday whether they would continue to fight it.

Prodded by similar efforts at the federal level, some 27 states are considering some form of electric utility deregulation. The movement has been spurred in California by rates that are 50 percent higher than the national average.

Peace decided to tackle the issue after the Public Utilities Commission issued a deregulation plan in December that provided no immediate rate relief for residential customers or small businesses.

Over a five-year transition period, the legislation would attempt to establish a free market for electricity, including a power exchange or spot market where electricity would sell at the same rate to all buyers.

The transition period would start Jan. 1, 1998, with an immediate reduction of at least 10 percent for residential and small business customers. After five years, Peace and others say, ratepayers could expect further rate relief, in the range of another 10 percent or 15 percent.

"PG&E had proposed and the PUC had accepted a rate freeze during that (initial five-year) period," said Sen. Byron Sher, D-Stanford. "We didn't think that was enough because rates were going to go down anyhow."

Negotiators cleared a major hurdle involving the recovery of stranded costs, financial commitments the big utilities have made in expensive projects and power contracts that would be uneconomical in a competitive environment.

The PUC planned to stretch recovery of those costs out over 10 years. The pending legislation would finance them with bonds.

The legislation also provides safeguards to ensure continued maintenance of the overall transmission grid and requires a public review in the event of any outage affecting more than 10 percent of the customers in a given service area.

A provision tailored for SDG&E would allow only that company to raise rates during the transition period. After a small rate reduction in June, SDG&E's rates are slightly below those of Southern California Edison and PG&E. If fuel costs increased, SDG&E could raise rates only to those levels now charged by Edison and PG&E.

"We've had a rate decrease this year, while the others have not," Reed explained.

Peace hopes to accomplish electric deregulation in tandem with an overhaul of the PUC to position the long-standing regulatory agency to respond more quickly to a rapidly evolving competitive electric market.
AB 1890 (Brulte)
Summary of the Conference Committee Report Plan for Electric Industry Restructuring

The Conference Committee on Electric Industry Restructuring has approved a bill for consideration by the full legislature. The primary components of the Report are as follows:

A COMPETITIVE MARKET
All electric customers will benefit from market competition beginning January 1, 1998. Customers will have a choice of electric providers and the opportunity to secure lower electric rates. Large and small customers will be able to choose their supplier from among a variety of new independent suppliers or from their current utility and control their costs and customize their energy supply services. Investor-owned utilities will be compensated for their "stranded costs" (generation-related capital assets and obligations incurred under the current regulated market) through a non-bypassable system-wide Competition Transition Charge (CTC).

GUARANTEED RATE REDUCTIONS
Residential and small business customers of industry-owned utilities will receive assured rate reductions of at least 20% by 2002. Expectations are that moving electrical generation from regulated monopoly to free market will result in substantial cost savings for all ratepayers. The Legislature has made sure that these savings will be a virtual certainty for the residential/small business class. An initial 10% reduction will be gained by way of a financing mechanism to buy out CTC liability for this class. The remaining, unfinanced portion of CTC (another 10% of current rates), will be retired by December 31, 2001. The legislation guarantees that the overall payoff for residential/small business ratepayers will be at least 20% over the next six years.

RELIABILITY
System reliability and customer protections will be enhanced to guard against the loss of energy services (like those recently experienced in California). These standards are secured through required expenditures specifically directed to the maintenance of transmission and distribution lines, regular audits of the operation of the transmission and distribution system and the requirement that the new Independent System Operator (ISO) meet stringent operational standards.

EQUITABLE PAYMENT OF TRANSITION COSTS
All ratepayers will be protected by a rate freeze until 2002, with downward adjustments to refund any over-collected CTC to consumers by the end of the period. Utilities will bear the risk of any shortfalls on the collection of CTC. Additionally, the residential/small business class will be protected by a "firewall" assuring that large industrial users and utilities will be paying for statewide policy exemptions to the CTC which are necessary for equity, business development/retention and market competition reasons (e.g., cogeneration, agricultural water pumping, "pipeline" generation projects).
Access To The Market
An independent system operator (ISO) and power exchange (WEPEX) are established
to assure nondiscriminatory access to a competitive market for all customers over a
reliable, integrated electric grid. In order to achieve wholesale and retail competition
in the electric generation market, monopoly utility transmission and distribution will
be separated (unbundled) from competitive generation activities. An ISO will control
transmission access and system operations and a market clearing forum - WEPEX -
will help establish a visible market price. Customers will be able to choose among
competing suppliers all of which will have access to an open, nondiscriminatory
transmission and distribution system. Governance of the ISO will be provided by a
policy board broadly representative of the public interest to assure a safe, reliable and
accessible transmission system.

Local Government Control
Local governance of publicly owned utilities is respected and preserved. Publicly
owned utilities which adopt the same market structure and open service approach as
the state’s investor-owned utilities will be entitled to recover stranded costs from their
customers. Once local governments approve participation in the new market, all of
the state’s consumers will be able to gain access to market competition.

Protects Environmental and Equity Values
California’s commitment to a diverse, environmentally sensitive electrical energy
portfolio will be protected as the transition to a new, competitive market is implemented.
Renewable energy resources, R&D, low income energy services, and demand side
management programs will be assured continued funding through a public benefits
charge on ratepayers. The California Energy Commission is instructed to design a
program to allocate renewable energy and R&D funds according to market-based
principles and mechanisms. Cal/EPA will evaluate the benefits attributable to solid-
fuel biomass and strategies of shifting costs from electric ratepayers to classes of
beneficiaries.

Protects California Jobs
Provides retraining, severance, early retirement and out-placement services for
employees of investor owned and municipal utilities displaced by electric industry
restructuring. Assures 2 year retention of workers for power plants sold through public
auction.

Customer Protection
Special protections are provided for electricity customers which include special
education programs, enforcement actions against fraudulent marketers, written notice
of contract terms and conditions and "anti-slamming" provisions.
AB 1890 (Brulte)
Electric Industry Restructuring
is supported by
business, industry, environmentalists, agriculture, labor, and consumers.

Agriculture
Agricultural Energy Consumers Association
California Farm Bureau Federation
California Poultry Industry Federation
Foster Farms
Merced Irrigation District
Modesto Irrigation District

Commercial & Small Business
American Association of Business Persons with Disabilities
Black Chamber of Commerce
(San Gabriel Valley/Los Angeles)
California Building Owners & Managers Association
California Chamber of Commerce
California Retailers Association
California Small Business Association
Covina Chamber of Commerce
Fairness for Small Business
Independent Business Coalition
Monterey Park Merchants Association
Pomona Valley Latino Chamber of Commerce
Sante Fe Springs Latin Business Association

Consumer Groups
Consumers Coalition of California
Consumers First

Economic Development
Downtown El Monte Business Association
Economic Development Clearinghouse
Future America
Lincoln Training Center
Pomona Economic Development Corporation
San Gabriel Valley Economic Council

Environmentalists
Environmental Defense Fund
Natural Resources Defense Council

Independent Energy
California Cogeneration Council
Cal Energy
California Solar Energy Industries Association
CEERT Coalition
Cogeneration Association of California
Geothermal Association
Independent Energy Producers
Zond Systems

Industry & Manufacturing
California Independent Petroleum Association
California Industrial Users
California Large Energy Consumers Association
California League of Food Processors
California Manufacturers Association
Energy Producers and Users Association
Western States Petroleum Association

Labor
California Labor Federation, AFL-CIO
California State Building Trades Council
Coalition of California Utility Employees Engineers and Scientists of California
International Brotherhood of Electrical Workers, AFL-CIO
Utility Workers Union of America, AFL-CIO

Utilities
Eastside Power Authority
Pacific Gas and Electric
Northern California Power Agencies
Southern California Edison
San Diego Gas and Electric
WHY ELECTRIC RESTRUCTURING IS NEEDED NOW!

Deregulation of the electric industry in California will create expanded customer choice, competitive markets, and lower rates for all customers. The California Legislature can take this historic opportunity to be the first in the nation to solve the complex transition issues surrounding the deregulation of the nation's last great monopoly. Consider that:

1. The highest energy rates in the nation make it difficult for California businesses to compete. With lower rates, companies can reinvest literally millions of dollars back into the economy and create new jobs.

2. The electric industry is the last great monopoly in America. Deregulation will open California energy markets to true and robust competition.

3. No other state in the nation has studied the benefits and effects of electric restructuring as thoroughly as California. The Conference Committee Report provides California a historic opportunity to create an equitable electric restructuring model for the rest of the nation.

4. The federal government has just begun reviewing deregulation at the national level. California's failure to act could result in a "one-size-fits-all" federal mandate on California's energy customers and providers.

5. Creating a level playing field for California utilities and their local business partners will keep jobs in California.

6. The Conference Committee Report on restructuring supports California's longtime investment in renewable energy sources, while encouraging them to find new ways to compete.

Without passage of this legislation, we would be leaving electric industry restructuring to the California Public Utilities Commission. This would mean continuing debate and litigation without the opportunity to move to direct access by 1998. This legislation makes significant improvements on what the CPUC planned to do with regard to restructuring; most particularly, guaranteed rate reductions for residential and small business, new requirements for system reliability, municipal utility participation in the ISO, and more equitable treatment for business and agriculture in the transition to the open market. The Conference Committee Report resolves disputes among all parties and provides balance on major policy issues.
ELECTRIC INDUSTRY
RESTRUCTURING SAVINGS

FOR SCHOOLS:
2002 $123 Million*
Enough Savings for:
3,000 New Teachers
1,230 Fully Equipped Classrooms
41,000 Student-Ready Computers
1,537,500 Complete Sets of Reading Materials

FOR CITIES & COUNTIES:
$126 Million

* Investor Owned Utilities only
Califomia's reliabilitg is improved as today's fragmented operating areas are combined and placed under the control of a single, independent operating agent with more stringent operating protocols.
Utility Transition Costs
(billions - 97$)

No Restructuring

CPUC Proposal

Conference Committee Report

- Residential & Small Commercial
- Large Commercial & Industrial

$36 billion

$34 billion

$28.5 billion

$3.70 billion

$.90 billion

$11.0 billion

20% difference with no restructuring to Legislative Action

Legislative Conference Committee Report proposal reduces utility transition costs by 20%
RATE REDUCTIONS
(Assuming zero benefit from generation competition)

Residential Customer and Small Commercial

Large Business

30% REDUCTION
# Potential Ratepayer Savings

## Rate Reduction Bonds

<table>
<thead>
<tr>
<th>Legislative Proposal</th>
<th>Puget Power Model</th>
</tr>
</thead>
<tbody>
<tr>
<td>$375</td>
<td>If Variable Rate</td>
</tr>
<tr>
<td>$500</td>
<td>If Federally Tax-Exempt</td>
</tr>
<tr>
<td>$125</td>
<td>State Exemption</td>
</tr>
<tr>
<td>$600</td>
<td>If 25% of Q.F.</td>
</tr>
<tr>
<td>$120</td>
<td>Collection Account “Float”</td>
</tr>
<tr>
<td>$500</td>
<td>Net Present Value Savings</td>
</tr>
<tr>
<td>$2.220 billion</td>
<td>TOTAL SAVINGS $500 million</td>
</tr>
</tbody>
</table>

No Savings

No Savings

???

TO UTILITY COMPANIES

$500