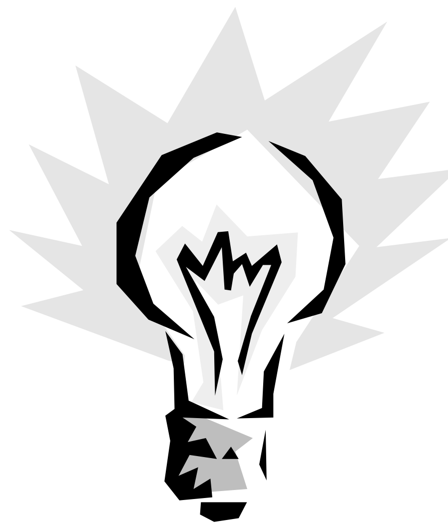
Oklahoma State Senate

Legislative Brief

July 2000

ELECTRIC RESTRUCTURING

Issue Background



Electric restructuring refers to the process of reorganizing vertically integrated monopoly electric utility service into separate providers of electric generation, transmission and distribution. Currently, Oklahoma consumers receive their electric power from either an investor-owned utility, an electric cooperative or a municipal system. Consumers purchase this electricity at a tariffed rate set by the Corporation Commission or other jurisdictional entity. This is a bundled rate consisting of the generation, transmission and distribution costs. Under electric restructuring the cost associated with each of these components will be unbundled and identified by the Corporation Commission. After the unbundling process is completed, the transmission service rate will be set by the Federal Energy Regulatory Commission and the distribution service rate will set by the Corporation Commission, the electric cooperative board of trustees or the municipal governing body. The generation of electric power will be deregulated with the purchase price being set by the competitive market. All electric consumers will be able to choose the electric generator, which will provide electricity over the consumer's current transmission and distribution company's wires. The goal of this process is to allow a competitive market for generation to develop, which will result in lower prices for all consumers. Consumers will also have the option to purchase electricity produced by wind, solar, hydro-electric or other environmentally-friendly sources.

The restructuring process began in Oklahoma with studies created by the Legislature in 1995 with various bills being enacted in years since, further detailing the lengthy study process. Hundreds of interested parties participated in numerous meetings, including representatives of utilities, electric marketers, industrial users and residential consumer advocates. An internet web-site was created for the exclusive purpose of allowing access to the documents discussed by the various working groups involved in the study and providing anyone interested an opportunity to post their views on such issues. The web-site has been visited more than 50,000 times since it's inception in October of 1998. The website may be found at: www.restructureok.net.

National issues relating to electric restructuring:

To date, there has been no federal legislation enacted which mandates states to restructure their electric industry. The movement toward restructuring began in states where the cost of electric power is very high. Oklahoma enjoys the favorable position of being one of the lowest-cost states in the nation. Congress is currently debating, and may be close to enacting, legislation which could dictate how the industry is restructured in those states which have not enacted their own restructuring process. It is unknown at this time how such legislation might affect Oklahoma.

The surrounding states of Texas, Arkansas and New Mexico have implemented restructuring legislation with consumer choice in those states beginning January 1, 2002. These states have not addressed the tax issues related to electric restructuring which are very significant and central to the process. Kansas, Missouri, Louisiana and Colorado have not enacted legislation implementing restructuring.

Summary of Actions

SB 220 (authored by Senator Kevin Easley and Representative Jim Glover) was a comprehensive bill addressing the issues relating to electric restructuring, including revamping the current tax structure which funds Oklahoma schools, cities and counties. It failed to be enacted in the House of Representatives on the final day of the 2000 session after gaining passage in the Senate. Significant issues addressed in SB 220 were:

1. Investor-owned utilities and electric cooperatives were required to participate in electric restructuring, while municipalities were given the option to participate. The Grand River Dam Authority, a state beneficiary public trust providing wholesale power to municipalities located in Northeast Oklahoma, was required to conduct a study to determine the benefits of participating in the Act. Municipalities not participating would be prohibited from extending services outside their corporate boundaries and their consumers would not have access to a choice of generation providers.

2. The ad-valorem tax currently levied on electric utilities, which funds a large portion of local school districts, was replaced with a system of taxing generation, transmission and distribution facilities based on consumption. This method would provide a potential growth source of revenue as opposed to a declining source from depreciating electric generation facilities. This method would also allow taxes to be collected on sales of electric power out of state.

3. Significant consumer protections were included in SB 220, including a freeze on electric rates for industrial and residential consumers for a certain time period, to allow a competitive market to develop. The bill also created additional powers for the Corporation Commission to mitigate any market power problems if it was demonstrated that competition did not exist in the electric generation marketplace. The bill required open access to all transmission and distribution systems to guarantee that new entrants to the generation marketplace would be able to compete for customers. The bill provided funding for a consumer education program to inform the public about the new system and it provided a complaint process with easy access for consumers to report any dissatisfaction with their electric service, regardless of their provider. SB 220 further protected residential consumers by prohibiting telemarketing calls,

requiring the consumer's express authorization prior to initiating any change of electric service and giving consumers three business days to rescind any contract if they so choose.

4. SB 220 required electric power distributors to purchase nine percent of the electric power consumed in this state from renewable energy technologies by January 1, 2008, if such renewable power is available and it further provided an Oklahoma income tax credit for any entity building a new facility generating zero emission electric power in this state.

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