

# Electric Utility Deregulation— A Failed Experiment

## *Thirty-first Installment on the History of Public Power in the Northwest*

California's restructuring program featured a transition period during which the rates paid by most retail customers were frozen, shielding them from the direct effects of the chaos in wholesale prices in 2001. Customers of San Diego Gas & Electric, however, were not protected and within months their bills doubled or tripled. Angry ratepayers hit the streets with protests and demonstrations, in some cases burning their utility bills. A state senator, who'd been the principal legislative advocate of restructuring, urged citizens not to pay their bills.

By summer, after months of costly resistance, the Federal Energy Regulatory Commission (FERC) reversed gears and put in place a de facto cap on western power prices. In the meantime, Californians and other West Coast consumers began to reduce their usage. In the Northwest, BPA launched a fervent and expensive demand reduction program credited with removing over 1,700 MW from the market, including almost all of its Direct

Service Industry (DSI) load. Its utility customers committed to reduce their demand by 10 percent. BPA also declared a system emergency allowing it to divert water slated for fish spill to power generation or storage; these actions saved some 7,000 megawatt-months and helped increase reservoir storage for the coming winter.

Ultimately, about 4,000 MW were removed from the market region-wide through a series of utility-initiated programs, appeals to the public and customer response to price increases. By the fall of 2001, spot prices were back to where they'd been before the first spikes of May 2000, but there was no guarantee they would remain stable. The damage, as measured in utility debt, power rate hikes and job losses, joined a set of other economic issues that helped drag the nation into recession.

There is little agreement on what specifically drove and sustained the price spikes. Many market observers believed there were clear indications of market manipulation and price gouging, but felt there was little mileage to be gained in pushing claims. Others said the invisible hand of

the market, fed by extreme weather and an inadequate supply of generating resources in California, due to excessive environmental sensitivity, worked its will.

While a few Northwest utilities demanded that FERC enforce its "just and reasonable" price mandate, the federal agency responded that prices were "just and reasonable" under market conditions that existed. Most of the region's utilities were resigned to the course of events and said it was time to let "bygones be bygones." In any case, they argued, it would be next to impossible to work back through and unwind over a half million suspect transactions without creating an even greater inequity.

On September 30, 2001, the old 20-year contracts came to an end. The next day, BPA's 46% rate increase took effect and Northwest consumer-owned utilities turned their attention to life under the new subscription contracts. Before the month was out, new regional discussions were initiated on the post-2006 disposition of federal power benefits and the role of BPA. ■

*Source: Public Power Chronicles, Public Power Council*

# Salem Electric Fights Identity Theft

**I**n 2003, the Fair and Accurate Credit Transactions (FACT) Act, was passed to set standards for customers' information protection. The FACT Act states that a utility is required to have policies and procedures in place which meet specific standards outlined by Federal agencies including the Federal Trade Commission.

**In 2007**, the Red Flag Rule was added which holds businesses accountable for the prevention, detection and mitigation of identity theft. A "Red Flag" is defined as: *A pattern or specific activity that indicates the possible risk of identity theft.*

**For utilities** like Salem Electric, any breach in information

puts the relationship and trust between us and our members in jeopardy. Your board of directors has adopted a policy that meets the requirements of the FACT Act putting in place written policies and procedures to identify and respond to relevant Red Flags.

**Below are a few changes Salem Electric has implemented to verify and protect our members' information:**

- Account information, including the account balance, is only provided to persons listed on the account. If a spouse or roommate is not listed, we are unable to release information to them. The primary person on the account can add a spouse or



roommate to the account by calling Customer Service at 503 362-3601. Persons requesting changes to an account may be asked to verify account identification information.

- We are unable to accept credit card payments from anyone except the cardholder. When taking a credit card payment, we will ask members to verify information before accepting payment. ■

*We appreciate your cooperation and apologize for any inconvenience these procedures may cause our members.*

## Avoid Electrical Hazards at Halloween

The decorative lights, fog machines and black lights of Halloween make for adventurous, entertaining times for children and adults. With these decorations comes the risk of fire or electrocution which could be lurking around the corner. It is important to check for electrical hazards before accidents happen. Use the following tips to keep electrical hazards from haunting you this Halloween:

- ✓ Inspect electrical decorations. Look for cracked or frayed sockets, loose or bare wires, and loose connections.
- ✓ Read manufacturer's instructions regarding installation and maintenance. Check the instructions to see how many light strings can be connected together.
- ✓ Always unplug light strings before replacing any bulbs.
- ✓ Fasten outdoor lights securely to trees, walls or other firm supports. Do not use nails or tacks that could puncture light strings or electrical/extension cords.
- ✓ Don't overload extension cords or place them near, or in, water.
- ✓ Provide well-lit walkways and porch lighting for trick-or-treaters and make sure the walkways are clear.
- ✓ Make sure electrical decorations are approved by a nationally recognized certification organization like "UL" (Underwriters Laboratory) and marked for outdoor use if you are using them outside.
- ✓ Do not overload your circuit breakers or fuses.
- ✓ Plug exterior lights and decorations into circuits protected by ground fault circuit interrupters (GFCIs).
- ✓ Make sure decorative lighting is well-ventilated, protected from weather and a safe distance from anything flammable like dry leaves and shrubs. Do not coil power cords or extension cords while in use or tuck under rugs or drapes.
- ✓ Turn out all lights and decorations before leaving or going to bed. Always have at least one fire extinguisher available and know how to use it. ■

*Sources: Home Safety Council & Electrical Safety Foundation International*

# Electric Co-ops Fare Well in a Tough Legislative Session

The 75th Legislative Assembly was a challenging session for Oregon's electric cooperatives. Working through the Oregon Rural Electric Cooperative Association (ORECA), electric cooperatives managed to defeat several onerous new regulations and fees that could have increased monthly bills for consumers.

Many believed in January that climate change legislation was destined to pass the legislature, but the reality of over 200,000 unemployed Oregonians made legislators leery of passing an untested cap and trade program embodied in SB 80. While Oregon's electric cooperatives were certainly concerned with SB 80 because of how Wall Street speculators could manipulate the carbon market, we were also bringing our own proactive carbon reduction proposal to the table.

ORECA worked with rural legislators on HB 3155 to increase electric cooperatives' energy efficiency and conservation programs in a way that made sense for small utilities and rural communities. Throughout the controversial

debate on SB 80, Oregon cooperatives were recognized for putting forth a credible carbon reduction alternative. While both SB 80 and HB 3155 failed to pass, it is clear that carbon reduction will be debated in future sessions. Because of our work this session, electric cooperatives are poised to be at the forefront of this debate.

Another win in the 2009 session was the passage of landmark metal theft legislation (SB 570). This legislation will help curb thefts of metals that have been costly for utilities, threatening public safety and utility reliability. Oregon co-ops also defeated legislation (HB 2042) that imposed a new franchise tax on utilities serving in the county. For some cooperatives, this tax could have amounted to a quarter of a million dollars annually.

Even though the 2009 legislative session has concluded, it continues to be an interesting and challenging time for electric cooperatives. Currently, the U.S. Congress is pushing forward on climate change legislation to reduce emissions of greenhouse gases.



With so much at stake with our energy's future, we need to have a voice for Salem Electric. If you are interested in lending your voice to our issues, please sign-up with the grassroots Power of Community Program by visiting [salemelectric.com](http://salemelectric.com) and selecting "Your Cooperative."

Salem Electric's electricity is almost 97 percent carbon free because of our reliance on clean, renewable hydropower. We are proud of our record of providing clean, reliable, affordable electricity and will continue to protect our members' access to it. ■

## Tree Trimming Notice

Over the next few months our line crew and a contract tree trimming company will be cutting branches away from high voltage lines that serve your homes and businesses.

Tree trimming is necessary, not only to maintain the high level of reliability enjoyed by Salem Electric members, but also to

comply with state and federal laws and regulations related to electrical safety.

We don't anticipate any power interruptions due to this work. If you have any questions about this, or any other matters concerning Salem Electric, please contact our office. ■

# Cooperatives: A Business Model You Can Trust

The past year has been filled with grim financial news and scandals that have rocked the economy and consumer confidence. As fraudulent schemes and poor decisions on Wall Street have rippled throughout the country hitting the pocketbooks of consumers, we can celebrate a business model that people trust: the cooperative, or "co-op."

In October, Salem Electric will join more than 900 electric cooperatives and 29,000 other cooperative businesses around the nation in recognizing National Co-op Month.

Consumers trust co-ops because these businesses are directly accountable to their member-owners. They are structured to guarantee that the business serves the best interests of its members and the values of the

community by being owned and governed by the people who use their services or buy their goods. The four types of cooperatives — consumer, producer, worker and purchasing/shared — have been recognizing National Co-op Month since 1930.

Co-op members elect a board of directors that represents them from within the membership. As a member-owner of an electric co-op in Oregon, you have the opportunity to elect representatives who are responsible for bringing you electricity that is reliable and affordable. This maintains local control, allowing your electric co-op to make decisions and set policies that best reflect the interests of the consumers and their communities.

Oregon's 18 electric co-ops, serving over 200,000 members, are all non-profit businesses. All co-ops are operated to provide at-cost electric service to their members and Salem Electric's board and staff take that responsibility very seriously. We are constantly working to improve efficiencies and keep costs as low as possible, while providing quality service to member-owners. An additional unique benefit of belonging to a non-profit cooperative is that surplus revenue is returned to members in the form of

capital credits. Our members have received approximately \$14 million in capital credits since payments began in the late 1970's.

Each cooperative business subscribes to the seven principles which are outlined in Director Van Meter's article on the back page of this newsletter.

Not-for-profit, local control and commitment to community — those are the promises Salem Electric makes to our member-owners. Isn't it nice to know you are invested in a company whose first concern is serving you? In celebrating National Co-op Month, Salem Electric honors this trusted and democratic way of doing business. ■



## Power of Community

**members:** Please take a moment to share or update your e-mail address by calling Member Services at 503 362-3601 or visiting [salemelectric.com](http://salemelectric.com) and selecting "Your Cooperative." We'll protect your privacy — your e-mail address will never be sold or shared with anyone!



from AUGUST 25, 2009



Presented by:

Carl E. Beach,  
Secretary/Treasurer

OCTOBER 2009

**Legislative  
Update:**

Ted Case, the Oregon Rural Electric Cooperative Association Executive Director, provided an update on the many bills that were before the legislature this last session which affected co-ops. He said the session was very successful for co-ops citing the defeat of SB 80 – Cap & Trade bill (see related article on page three).

**Red Flag Rules:**

The board was updated on new SE policies and procedures that were adopted to further protect the privacy of member information (see related article on page two).

**Reliability  
Upgrade:**

SE has installed an IntelliRupter PulseCloser, the first in Oregon. An alternative to an automatic circuit re-closer, it is designed to work in conjunction with Supervisory Control And Data Acquisition (SCADA) equipment to sense a line fault, and rather than have a full re-closure it uses a low-energy pulse to verify if the fault has cleared, which is safer and reduces line stress.

**Conservation  
Programs Active:**

Even with the current economy, Member Services is very busy helping members with the many conservation programs available. More people seem to be looking to improve their current home as an option to purchasing a new home.

**Board Action:**

The board voted to approve the Power Supply Committee's recommendation to select BPA's short-term product to meet any Tier II power needs for the first three years of the contract. The board will re-evaluate what products are available from BPA during the open enrollment prior to September 30, 2011.

The board also approved the Rate Committee's recommendation to not pursue any type of rate adjustment to offset the BPA rate increase effective October 1, 2009, but will revisit this issue prior to the implementation of the 2011 BPA Power Sales Contract.

UPCOMING BOARD MEETINGS

October 27      November 24      December 22

BOARD OF DIRECTORS

Jerry Berger  
President

Jeff Anderson  
Vice-President

Carl Beach  
Secretary/Treasurer

Alicia Bonesteel  
Jim Dyer

Paul Ennor  
Joe Van Meter

**JOE VAN METER, Director**



# Achieving Goals

With October being National Co-op Month it seemed like a good time to talk about our goals and the cooperative principles listed to the right. Goals are always a good thing to have and most people set goals and try to achieve them.

Co-ops operate under a fairly simple concept: they are organizations that members own and manage, and they are designed to advance their members' economic interests. The co-op business model is currently part of the discussions relating to the delivery of a national healthcare system for citizens.

As a board member since 2004 and a member of Salem Electric since 1972, I was pleased to learn of Salem Electric's five main goals that guide decision making:

**Reliable Service** is pretty simple to explain...are we successful in keeping your lights on? The answer is yes. We're one of the most reliable utilities in the nation with a very low outage time per member.

Our **Financial Integrity** is key to our success.

We operate from funds that come from you, our member/owners. We're debt-free and make financial decisions based on all information available.

**Good Customer Relations** is achieved through the staff's flexibility in dealing with our members and their dedication to the communities we serve. We continue to receive positive comments from you.

Due to the fact that the average tenure of Salem Electric employees is just over 14 years, I'm confident that **Good Employee Relations** is being achieved.

Finally, **Low Rates**. Rates could be lower, however, the effect on our other goals could be devastating. Unhappy members, unhappy employees, numerous power interruptions and debt could all result from lowering rates. Our rates are very competitive and I'm proud that staff and the board are able to maintain rate stability in these tough economic times. ■

**JOE VAN METER**  
Director

## Cooperative Principles

### **Voluntary and Open Membership**

Cooperatives are voluntary organizations, open to all persons able to use their services and willing to accept the responsibilities of membership.

### **Democratic Member Control**

Cooperatives are democratic organizations controlled by their members, who actively participate in setting policies and making decisions.

### **Members' Economic Participation**

Members contribute equitably to, and democratically control, the capital of their cooperative.

### **Autonomy and Independence**

Cooperatives are autonomous, self-help organizations controlled by their members.

### **Education, Training and Information**

Cooperatives provide education and training for their members, elected representatives, managers and employees so they can contribute effectively to the development of their cooperatives.

### **Cooperation Among Cooperatives**

Cooperatives serve their members most effectively and strengthen the cooperative movement by working together.

### **Concern for Community**

While focusing on member needs, cooperatives work for the sustainable development of their communities.