

Will Two November Ballot Measures Turn Out the Lights on Two of Oregon's Largest Private Utilities?

An Interview with PacifiCorp CEO Judi Johansen

By Jim Pasero

BrainstormNW: What's on the ballot in November? What does it mean? How did it get there?

Johansen: There is an initiative on the ballot (Measure 26-51) to form a Multnomah County PUD (People's Utility District). The PUD would then have the authority to raise revenues and it would have the authority to condemn our system (PacifiCorp) in Multnomah County. We serve 68,000 customers in Multnomah County (roughly a quarter of all Multnomah County customers).

(A second initiative, Measure 26-52, provides the taxing authority to raise property taxes by .003% per \$1,000 to fund Measure 26-51.)

BrainstormNW: Why is it there?

Johansen: It's there because of Enron. Simply put, the public power community, which we know is very robust in the Pacific Northwest, has seized upon an opportunity here to try and create a PUD, and they are using Enron's moral and financial bankruptcy issues as the platform for trying to form the PUD. They are saying in essence that the formation of the PUD will somehow extract Portland General Electric from the control of Enron's creditors and return it to local control and all of our problems will be solved.

Of course PacifiCorp has nothing to do with Enron and its fiascoes, so we're an innocent bystander, but it's a very serious matter for us.

BrainstormNW: What's the largest PUD on the West Coast?

Johansen: The largest Public Utility on the West Coast is the Los Angeles Department of Water and Power. Seattle City Light and Tacoma City Light are other examples. But as for PUD's, the large ones would be Cowlitz County, Clark County, Snohomish County in the state of Washington. In Oregon the PUDs are smaller. This would clearly be the biggest PUD in Oregon and I would imagine certainly bigger than Cowlitz County and Clark. So it's a big one.

Brainstorm NW: When and how did you see this initiative coming?

Johansen: Again, there have been PUDs campaigns in this area in the past. In the '80s, some of the same proponents of this particular PUD attempted to get voter approval to form Pioneer PUDs. These Pioneer PUDs would have been a slightly different geographic area but the attempts failed. The issue at the time was one of public power versus private power, the respective virtues of public versus private power.

But this PUD battle is very different. This PUD battle is a “let’s get Enron out of our backyard” kind of initiative. That’s what’s on the surface...but the reality is the effect would be quite damaging for Multnomah County.

And you ask how did we see it coming? We saw it coming less than a year ago when they started gathering signatures. The city (Portland) had been talking about what to do about Portland General Electric, and this sort of came up all in the mix of that. The proponents of the PUD gathered signatures, had those signatures validated, and so now it’s on the November ballot.

We are taking this very seriously. We feel that we will defeat the initiative, but we are not taking it for granted, and we have initiated a very extensive grass roots campaign because we have a story to tell at PacifiCorp:

- 1) We’re headquartered here
- 2) We’ve been here for about 100 years
- 3) We have some of the lowest rates in the country and
- 4) We have some of the highest customer satisfaction ratings in the country.

So we’re getting out there with our story to our customers and to folks beyond our customer base to make sure they understand that this isn’t just about the Portland General Electric “Enron” issue, but it’s about our company. And don’t be fooled into thinking that the consequences of this thing don’t go beyond simply the Portland general service territory.

BrainstormNW: Why would it be damaging to have Portland as a PUD?

Johansen: First and foremost it’s risky. The risk comes in a couple of areas: First, the PUD lacks the authority to condemn the generation plants that we own to serve our existing customers here. Therefore, the PUD will have to go out into the volatile energy market to find the energy supplies to put across its poles and wires.

I can tell you--the energy market is not for anybody who is faint of heart or lacks experience. It requires deep and extensive expertise in the engineering of how the western system works, the interconnections with the whole west coast, sophistications and risk management, and knowledge of plant operations. Frankly, the PUD simply won’t have that, and like a lot of small public utilities or even big ones, like Seattle City Light, Tacoma, etc., they will be exposed to the market. And I think that will be very risky for customers here.

Second, our customers benefit from a very low cost generation base. So not only would the PUD have to go to market to replace our low cost generation, it would be more expensive, I promise you. Even if they end up buying their power from Bonneville Power, which they can, it will be at a rate that’s higher than the average cost of our generation. So PacifiCorp customers are immediate losers under the PUD formation.

And on top of that, that's even setting aside the fact that they have to issue the debt for the poles and wires--a billion dollars. It will be an extraordinary issue. A billion dollars, two billion dollars, or whatever the debt number is--just to condemn the facility. You are going to have an entity which is brand new in the market, burdened with a lot of debt just to take on the cost of condemnation of our facilities. That's just the basic fundamentals of the business. It's going to be quite risky.

And I didn't mention the fact that we contribute to the tax base, and contribute on the charitable side.

Brainstorm: Give us some examples of some of the generation capabilities that you have?

Johansen: Of the Pacific Northwest utilities we probably have the largest generation fleet of any utility in the Northwest. Our fleet is as big as Bonneville's. Actually Bonneville doesn't even own theirs. Our fleet is as big as the federal system's. We have 8,000 megawatts of generation and it is a combination of our low cost and flexible hydro capabilities. We have the Lewis River project, Merwin Dam, Yale Dam, Swift Dam up on the Lewis River, and we have the North Umpqua hydro facilities. We actually have over 52 hydro plants across our six states.

We serve six states, predominantly in the Northwest. We also have a very efficient coal-fired fleet, located in Wyoming and Utah, which benefits Northwest customers because we operate our system in a very integrated way. We operate all these resources together to serve all our customers. And we have some very efficient natural gas fired plants, so that we have a generation base that would be the envy of any utility manager in terms of its flexibility and cost position, which is why we are one of the lowest cost utilities in the West.

Brainstorm NW: The Portland City Council, the Mayor and Erik Sten have said that they think this is an interesting idea. How did you react when you first heard those statements?

Johansen: Let me just say that we are very grateful for the support we have gotten from Commissioner Francesconi, who has stepped right out and said that this is an idea that is not good for the citizens of this city and the customers of PacifiCorp. And Commissioner Leonard sent a letter as well expressing his opposition in concern to a Multnomah PUD. We're grateful for that, and on that point, we're also grateful to the Multnomah County Commissioners. Some of them commented during their piece of the proceeding that they felt that it was a very bad idea.

BrainstormNW: And what about the city of Portland's formal reaction?

Johansen: I am very disheartened that this city hasn't officially opposed the PUD formation, because it is bad for the city. I am disheartened by that. After all, we are headquartered here. In Portland we have 1,800 employees, in Oregon 2,300 employees.

We are a very big employer and a very big contributor to the tax base and the revenue base of this community and we have substantial assets in Oregon. I think we are a good corporate citizen. And I understand that there are other issues that complicated this possible PUD formation, and I understand that the city itself was trying to negotiate its own transactions with the creditors of Enron. I think that issue is separable from the PUD, because the PUD is a condemnation. It is a government condemnation of a private company. I would have thought that the city would be taking an official position in opposition to it and that's the disheartening part of it.

BrainstormNW: How do you feel when you read the quotes in the paper by the Mayor and Erik Sten, which seem to be pushing this measure?

Johansen: I haven't seen quotes from the Mayor. I think she's been careful not to be very specific about the PUD. As for Commissioner Sten, I just flat out don't agree with him. I've worked in public power so I have nothing against public power, but for me this is not a public vs. private power issue. This is an issue of what is the best way for the citizens of this city to be served with electric service, and I think he's flat out wrong if he thinks that the PUD is the way to go for all the reasons I've mentioned in terms of cost and risk and lack of expertise, etc. Moreover, I believe that the city has many other high priority issues that it needs to attend to and getting into the utility business, which is something that we do full time, will be a huge distraction for the city. Why not instead support the incumbent PacifiCorp in terms of what we do and do well.

BrainstormNW: Does Sten have a credibility problem because of the Water Bureau?

Johansen: I've read about that.

BrainstormNW: Comment?

Johansen: Only to draw an analogy, and that is to say that a utility like PacifiCorp has very similar systems to provide an essential public service and assure that service is delivered in a reliable way and that there is customer confidence in what we do and how we do it. I think you need a proven track record, and obviously the water billing issue is something that deserves examination. We are regulated by the state PUC and the PUC's job is to make sure that the customer is protected. They track everything from the costs that go into our rates to how we bill. That's part of the equation that gets dismantled with the PUD formation. That independent oversight of an independent public utility goes away and problems can emerge from that. As for Eric Sten, I think the billing system matter has to speak for itself.

BrainstormNW: Did you see heavier scrutiny of your company after the Enron scandal?

Johansen: Yes.

BrainstormNW: When were you purchased by Scottish Power?

Johansen: In '98. I wasn't here when the merger happened. I was across the way working in a government entity. But the public scrutiny and the demand for transparency are tremendous and it comes in many ways: 1--the PUC regulates us 2--We're regulated at the federal level by the FERC (Federal Energy Regulatory Commission) and the SEC (Securities and Exchange Commission). We make all of those types of filings -- public disclosure filings around our accounting systems, and all these things that any publicly traded company would. So there's a tremendous amount of transparency around what we do, everything from how much the executives make to how we spend every penny that goes into our rates.

BrainstormNW: Isn't it the truth that PGE was doing a good job delivering power, that PacifiCorp is doing a good job delivering power--both companies keeping rates down--and that Enron's purchase of PGE created a fiasco.

Johansen: I think that's right. If you can step back a minute and look at Portland General Electric, you know that PGE is a good company. They provide a good service. They have good customer service, reliability, and they're good community citizens. Unfortunately, they got bought by the wrong group.

BrainstormNW: Your company didn't get bought by the wrong group? Your company's purchase has been a success?

Johansen: It's self-serving for me to say that, but yes, it's been a success.

BrainstormNW: Does the consumer have a grievance that PGE was bought by Enron and that it ended up the way it did?

Johansen: No. The place where the consumer is protected is at the Public Utility Commission, and I think the Public Utility Commission, and people will argue this point, including the proponents of the PUD, but I think the Public Utility Commission has done a very thorough job of scrutinizing PGE's rate filings, just like they do ours. Nothing has changed in that respect. They go through every line item of what's in and out of rates in terms of what's a justified cost for a PGE customer.

Now the people who are affected by Enron, the investors and pensioners, the PUC can't solve those problems. It's extraordinary what happened with Enron and you can't expect a public utility commission to solve those problems. With respect to the customers themselves, the commission has had tremendous authority to protect those customers.

BrainstormNW: They approved the sale?

Johansen: In '96

BrainstormNW: When Enron was about the hottest company in the country?

Johansen: At the time, in '96, who was to know that all this would happen. Scottish Power is a different company than Enron. Scottish Power is a company that is culturally more like a utility because they own generation plants and have customers they serve over in the United Kingdom. Maybe the history of this is that the commission will generally be more careful about who buys companies going forward.

BrainstormNW: Does PGE, like PacifiCorp, have generating ability that would not be part of the take over?

Johansen: That is correct. They have a different generation fleet, and they don't have as much generation as we do, but they still have a substantial generating base. As I understand it, the PUD would not have the authority to condemn it. There are a lot of legal reasons that I won't try to articulate here, but that is the case.

BrainstormNW: Is it fair to say that the Portland metro area has a national reputation for being a hard place to do business?

Johansen: I've read that.

BrainstormNW: Since that image became fixed, the City Council could have gone one of two ways. They could have said we do have problems and need to be more business friendly or, instead, the council could move aggressively in the other direction. Are you surprised that they continue to move fast forward in the latter direction?

Johansen: You have to separate what the city is doing in its own desire to purchase PGE, which frankly I don't have a big problem with at the very conceptual level because--and I've said this to the city folks--so long as you are engaged in a bona fide arms length transaction with a willing buyer and a willing seller, I'm okay with that. Whether or not you can pull that off is another matter.

When you move to condemnation that's where we will get fired up. We've been very explicit. The Mayor knows that this is my perspective. When you move to condemnation then that's a very different matter. So when I hear Commissioner Sten talking about... we may have to move to condemnation... that does get me worked up. It fuels the perception of the city being unfriendly toward business. Because why would you condemn a thriving business that's providing a good product to local customers? That's my view.

We have a good relationship with the city, so I can't say that the city has done anything directly negative toward us, and in fact the mayor, for example, was careful in some of her early statements when they were first contemplating purchasing Portland General Electric to be explicit that this was about Portland General Electric and not PacifiCorp. In some of her explicit statements she said that, so we're grateful for that, but now this thing seems to be migrating a little bit and that's where we get nervous.

BrainstormNW: Do you think the voters of Multnomah County realize, if they were to vote for condemnation, the message they are sending to businesses around the world?

Johansen: They'd better. Helping them realize that is what our campaign is about. Our campaign is a grass roots campaign aimed at educating the voters about the benefits of the business that *is* here, and about what we bring to this community. They will really be losing out on a very good business that has been headquartered in this city for almost a hundred years if they vote for this initiative.

BrainstormNW: Would PacifiCorp move if this passes?

Johansen: Absolutely we would move. We are in Multnomah County. We are conducting this interview in Multnomah County. We would be gone in a heartbeat. There's no question about it. And we'd probably...we would move out of the state. We would move to one of the other states that we serve. We serve Wyoming. We serve Utah.

BrainstormNW: The reason you would move is simply?

Johansen: First of all, if the initiative passes, a big chunk of our customer base here would be gone. Yes, we serve Medford, and Bend, and some of the other Oregon areas, and they are a very important part of our service territory. We would remain absolutely committed to serving those areas. But if Multnomah County condemns PacifiCorp service territory I will be the first one to be packing my bags and moving to another state. It's a definite sign that they don't want us here.

BrainstormNW: Of the six-state region that PacifiCorp serves, Multnomah County represents a small percentage of the customers you serve. Yet the headquarters is here?

Johansen: And the employees are here, and the control system is here for the entire six states. We have our customer call center here. We have our control center out near Interstate-205. We've got all of our financial people, our lawyers, our accountants here. This building at the Lloyd Center is half-filled with PacifiCorp employees. As are some of the buildings across the street. We have a very substantial presence here.

BrainstormNW: And the kinds of jobs you are talking about are at what level?

Johansen: These are high paying family wage jobs. We are talking lawyers, accountants, engineers. We are talking about people in our call centers--a lot of entry-level jobs as well. They are very important jobs. We transcend the whole spectrum of jobs, so it would be many different types of jobs.

BrainstormNW: PGE is the known name in town, and they are the ones caught with Enron. They are the ones whose message has not been strong in this fight. How do you feel about that?

Johansen: I can't be too critical of Portland General Electric because they are in an awkward spot. They are owned by the creditors' committee, so they have to be careful not to do something that is against the interests of the creditors' committee and against the instruction of the creditors, their own. We are working with them in common areas on this campaign.

BrainstormNW: Do you feel that you need to get out and take the lead now?

Johansen: Absolutely, and we have felt that way all along. We feel that we need to work with Portland General Electric, but we're also fighting this battle ourselves, and that's through our grassroots campaign—that includes my own personal involvement and the involvement of our executives. We're not going to let up. We can't just let Portland General fight the fight for us, because they are limited and constrained.

BrainstormNW: As this campaign progresses, do you think it is bigger now because you have to speak for the whole energy community? And at the same time separate yourself from PGE and their tarnished image?

Johansen: It's not bigger, it's just different, because of the Enron thing. I think it's a battle that we're confident we can take on and win. We can't just sit back and let Portland General Electric take the lead. We have to be really out there, and we have been out there quite a bit. Still, Portland General Electric gets the press.

Brainstorm: There hasn't been a separation of the issues?

Johansen: Very little. There hasn't been an identification of us except in a very few articles and that's part of the frustration.

Brainstorm: You have to fight their fight right now for them?

Johansen: Right. And save our stellar record as well. It's a squirrely initiative.