

COUNCIL OF ECONOMIC ADVISORS

MINUTES

Tuesday, July 15, 2003

2:00 - 5:00 p.m.

State Capitol - Room 223

MEMBERS PRESENT:

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|-----------------|----------------|
| ASHDOWN, Neil | DEA/GOPB |
| BURKS, Jeff | UEO |
| MACDONALD, Doug | Tax Commission |
| MATTHEWS, Kelly | Wells Fargo |
| ROVIG, Lance | DEA/GOPB |
| KNOLD, Mark | DWS |

OTHERS PRESENT:

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| KLEIN, Robert | PacifiCorp/Ut Power |
| NIELSEN, John | Land and Water Fund |
| LARSON, Doug | Western Interstate Energy |
| ANDERSON, Richard | Energy Strategy, Inc. |
| HARVEY, John | PSC |
| CAMPBELL, Ric | PSC |
| BOYER, Ted | PSC |
| SUNAGEL, Mark | OLRGC |
| SANCHEZ, Sarah | Utah Foundation |
| ALLIS, Rick | DNR/Ut Survey |
| LEBARON, Brenda | DEQ/Air Quality |
| ISAACSON, Alan | BEBR/U of U |
| WOLF, Betsy | Salt Lake CAP |
| DONNER, Peter | DEA/GOPB |
| DICARO, Sophia | DEA/GOPB |
| FARR, Justin | DEA/GOPB |
| SUZUKI, Paul | DEA/GOPB |
| ROBSON, Jim | DWS |

Call to Order/Introductions

Neil called the meeting to order and asked the group to look at a recently revised table of the Actual and Estimated Economic Indicators. The Revenue Assumptions Committee, which produces the sheet, revised most of the economic indicators for the state. He then turned the time over to Jeff Burks, of the Utah Energy Office, to preside over the meeting.

Jeff discussed the energy crisis of 2001 and how prices of natural gas and electricity climbed. He went on to describe how the Western Region is moving back to regulating retail services and that this CEA meeting will investigate the changing market environment and volatility of energy, what the implications are with respect to the state's energy policy and issues that are important to Utah's economy. Jeff then introduced Doug Larson of Western Interstate Energy Board and Robert Klein of PacifiCorp.

Trends and Issues in Electricity & Natural Gas Markets - *Doug Larson, Western Interstate Energy Board*

Electricity Situation

Doug began by giving the current electricity situation. He told the group that Utah has the second lowest electricity prices in the West, with high electricity growth, and less opportunity for market manipulation of electricity, unlike in the 2000-2001 electricity crisis in California and elsewhere.

Our electricity market is a regional market. Within the region, the Western Electricity Coordinating Council sets regional reliability standards so there are no blackouts. They also do assessments of loads and resources over a ten year period. Because of power plant cancellations over the past year, a new approach has been created to evaluate the accuracy of the system. A "best case" and "worst case" scenario assessment of the system.

FERC is doing active market monitoring with electricity and gas. They have instilled price caps in the West and have on-going investigations and penalties as a result of the fallout of the 2000-2001 price crisis. More long-term contracts are being signed, more attention is being paid to

resource adequacy across the grid, and recent utility resource plans are in place that minimize exposure to the wholesale market.

Finally, there are problems in electric and gas markets that remain, but through monitoring by resource planning and minimizing market exposure, Utah should move more toward recovering some ground in the next few months.

Natural Gas

Unlike electricity, gas is a North American market. Electricity is a regional market, though gas and electricity are linked. Gas uncertainties are prices, storage, and demand.

There is unease about gas prices and supply, with prices rising during the past 6 years from \$2.00 per million Btu to more than \$4.50. Outside of the energy field, industries using gas are seeing impacts from the cost of gas. The winter outlook and storage should hold firm in the West through this winter. The long-term gas outlook shows a world-wide adequacy of resource base, with North America laying pipeline as needed. Utah's gas producers will benefit from higher prices, but consumers won't.

Observations show Utah moving toward a low cost for electricity in the West, with room to add gas without facing the high degree of gas dependence of economic competitors. Utah has one of the lowest fuel cost resource options in the West (coal, wind, solar) and great efficiency potential. However, transmission efficiency of electricity and gas will be dependent on which resource Utah seeks.

Fuel Risk & Integrated Resource Planning - Robert Klein, PacifiCorp

Dr. Klein began with an overview of the gas demand and supply in 1995 and 2000. When projected out to 2020, there is a significant increase in demand, with a projected decrease in supply. At least half of the natural gas will be used to make electricity and almost half the electricity used will be made from natural gas.

The 2002 production of gas is down 3% from 2001 and current production rates are 4% below 2002. The decline in production brings a higher price environment and higher price volatility. Natural gas and electricity prices will depend mainly on the economy and price caps. PacifiCorp's current position shows a need for new resources.

An electricity demand growth update illustrates the diversity of state jurisdictions. The strongest growth in Utah is driven by strong economics and demographics. Short-term results show Utah as still being in gradual recovery from the recession. The long-term outlook shows a diversifying business sector, with commercial and residential sectors showing the strongest growth. The greatest increased demand on power in the residential area will be from central air conditioning usage.

PacifiCorp's task is to honor their obligation to serve with the least cost and at the same time be flexible. A long-term cooperative vision is being developed for serving customers' future needs for a safe, reliable, low-cost, low-risk supply of energy. A resource planning program that performs well under a variety of future scenarios has been created that is financially prudent for PacifiCorp, while delivering economic solutions to customers and shareholders and reduces commodity risk by earning an allowed rate of return.

During Dr. Klein's presentation the Council became aware that offering economic and demographic figures from time to time could assist PacifiCorp with their resource planning program.

Response Panel - Richard Anderson, Strategies, Inc.
John Nielsen, Land and Water Fund

The panel asked questions concerning the potential impacts to the state and the economy in relation to the IRP put forward by PacifiCorp. Each member also gave comments on concerns.

Richard represents the industrial community and spoke of the effort at risk of evaluation, particularly recognition of the risk involved and the issue of transmission. Transmission is the most critical issue in the West right now. Bottlenecks of transmission and lack of investment that will ultimately affect the ability to deliver, cost, and efficiency by which all generators PacifiCorp owns and elsewhere are going to play in, where power will be sighted and how it's going to get to the markets.

John represents the "Land and Water Fund" which is an environmental group involved in the region and has been involved in the IRP with PacifiCorp. Environmental concerns are on the air side, such as: haze, visibility, ozone levels rising, and ecosystems. Mercury is another concern that will begin to be seen in the West, along with Carbon Dioxide emission concerns. Coal also enters into the environmental impact of the State. PacifiCorp's IRP has recognized these risks and tried to address them. An important piece is that it's not stopping at the IRP level, but looking more closely at how to evaluate the resources and combine power resources.

CEA Discussion: Economic Impacts and Policy Implications of the IRP

Questions concerning whether Utah's rates will be going up or down were addressed as; in line at the present time and manageable. Managing utility expansion and diversifying it were also discussed and an example of Colorado's expansion was cited. Transmission continued to be questioned and how regulatory entities are addressing how susceptible transmission fees are to trades as in the Enron and California power crisis.

The Council ended by discussing the underlying demand and supply of power, pricing, coal use, and how to generate economic activity particularly in rural areas. Utah's economy can benefit from what has been addressed through a cooperative team effort from all entities involved in environmental, natural resource, economic and industrial issues.

Adjourn:

The meeting adjourned at 5:00 p.m. The next meeting will be announced at a later date.