CUB
Spring 1998
THE BEAR FACTS
Citizens' Utility Board of Oregon...because the utilities bear watching

Electric Deregulation Threatens Northwest Consumers

Deregulation of the electric industry—it's happening all around us:

- California launches a bold experiment in energy deregulation later this year.
- Several other states have recently passed laws committing them to electric deregulation.
- Large energy companies are lobbying Congress to require all states to deregulate their electric utilities.
- Enron, the parent company of PGE, wants broad deregulation in Oregon by August of this year.
- Hillsboro, Sandy, Oregon City and St. Helens are already participating in a deregulated electric marketplace as part of an Enron/PGE test in Oregon.

What's going on and who's going to benefit?

The answer to either question depends on where you live. In the states with high energy rates (per kilowatt hour):

- California—11.6¢
- New Hampshire—13.5¢
- Maine—12.5¢
- Rhode Island—11.5¢

advocates of electric deregulation hope that competition will lower electric rates. In some states (California, Massachusetts, Pennsylvania), utility companies are even guaranteeing at 10% rate reduction after deregulation goes into effect.

But if you live in the cheap energy states of the Northwest:

- Oregon—5.5¢
- Washington—5.0¢
- Idaho—5.3¢

there really is no financial benefit to deregulation for most consumers. In fact, electric rates are projected to rise 20-30%, according to a new study by the Federal Energy Information Agency.

So why are we considering a plan that will raise our rates?

CUB believes that the real agenda behind deregulation is deregulation of utility profits. For example, under deregulation, a Northwest utility can take low-cost (hydro) resources currently used to serve Oregon customers and can sell that power at a much higher rate in California. In fact, they can label the power "clean, green and renewable" and sell it for a premium.

This issue of The Bear Facts is dedicated to examining the details and the implications of electric deregulation for ratepayers in the Northwest. Find out what's going on and what you can do about it.

The alternative to deregulation

The Fair and Clean Energy Plan

So what's the alternative to Enron's deregulation plan, a proposal that will throw out consumer protection and could raise our electric rates? The Fair and Clean Energy Plan, developed by CUB and other public interest groups, will protect consumers, the environment, and universal electric service.

The Fair and Clean Energy Plan grew out of the work of the Fair and Clean Energy Coalition, a group formed by CUB and other public interest groups to lobby during the 1997 legislative session for fair and equitable utility policies.

Consumer activists have become aware that some problems do, indeed, exist in the current electric utility industry. That residential rates are too low was not one of those revelations:

continued on p. 3

From the Executive Director

Dear CUB member,

Proponents of electric deregulation always make the claim that consumers have benefited from deregulation in other industries: airlines, long distance, cellular phones, trucking, and banking. (Notice that no one ever uses cable television as an example of the benefits of deregulation.)

Two incidents recently brought home to me the downside of deregulation:

1. The day before I was to leave for my sister's wedding in Boston, I got a call from my travel agent telling me that the airline had canceled my flight. It seems that particular flight wasn't profitable enough. However, they had rescheduled me onto a flight 13 hours later that would conveniently arrive after the rehearsal and the rehearsal dinner. **Welcome to the world of airline deregulation.**

2. The wireless phone (cellular and PCS) industry is often used as an example of a competitive, deregulated utility. Just before I left for my sister's wedding, a man called the CUB office to complain because his cellular service with Nextel had been canceled with no notice. Nextel is what we call a "reseller." They buy air time in bulk from AT&T and sell it to you. Nextel and AT&T, however, got into a dispute over pricing; AT&T cut service to Nextel with 45 minutes notice; and my caller suddenly found himself without phone service. **Welcome to the world of phone deregulation.**

Both of these examples are becoming far too common in the deregulated world: You can purchase services from a number of vendors, but there's no guarantee that service will be available when you need it. Dissatisfied? Go get service elsewhere. Lots of choices. No guarantees.

Which brings us to deregulation of the electric industry. Once an industry is deregulated, we can never go back. It just doesn't happen. Here in the Northwest, where hydroelectric dams have given us relatively cheap electricity (and far fewer fish), there is no reason to deregulate. Let the states that suffer from high electric rates experiment with (the horrors of) deregulation.

In the meantime, let's take the opportunity to improve the electric system that has served us fairly well. CUB, along with the 95 other public interest groups in the Fair and Clean Energy Coalition, is proposing an alternative to deregulation (see page 3) which will give consumers some choices without abandoning either the protections or our historic low rates.

Bob Jenks, Executive Director

THE BEAR FACTS is the quarterly newsletter of the Citizens' Utility Board of Oregon (CUB).

CUB is a non-profit organization established by Oregon voters to advocate on behalf of Oregon's utility ratepayers.

CUB is governed by a Board of Governors elected by Congressional Districts throughout Oregon.

Citizens' Utility Board
921 SW Morrison St., #550
Portland, OR 97205
(503) 227-1984 (phone)
(503) 274-2956 (fax)
E-mail: cub@teleport.com

The Fair and Clean Energy Plan

continued from p. 1

1. Large industrial customers have seen their rates drop as the wholesale price of electricity has decreased, but residential customers have seen none of those savings.

2. Utilities have slashed spending on weatherization programs and renewable energy.

3. Access to the Northwest's cheap hydro power is being threatened. Enron is proposing to sell off PGE's hydro assets to the highest bidder, and residential customers of Oregon have lost their access to the federally-owned dams.

4. As rates increase—and federally funded energy assistance programs are cut—many low-income families are finding it difficult to heat their homes.

The Fair and Clean Energy Plan is based on four principles:

- protecting customers
- protecting the environment
- preserving low-cost hydro
- providing universal service

Protecting customers

The Fair and Clean Energy Plan is based on the concept of affordable electricity rates for everyone—not just the aluminum companies that buy huge quantities of electricity, but the elderly couple in rural Eastern Oregon who only need a small amount of power.

The Fair and Clean Energy Plan proposes capping rates for residential customers and lowering them, if necessary, to guarantee that any reduction in electric rates are enjoyed by all customers.

Protecting the environment

The electric industry causes significant harm to the environment, from endangered salmon to nuclear waste; from global warming to acid rain. The Fair and Clean Energy Plan would require the electric industry to invest at least 3% of total retail revenue in programs designed to reduce the demand for electric power, such as weatherizing older homes and promoting renewable sources of energy, such as wind power.

The Fair and Clean Energy Plan would also allow customers to buy their electricity directly from clean, renewable resources, such as wind and geothermal generation.

Preserving low-cost hydro

Under the Fair and Clean Plan, residential customers of Oregon would be allowed to purchase power from the region's hydro system. This will keep rates down and provide for rate stability. In addition, Northwest residential customers are more likely to support salmon recovery efforts and understand the connection between hydroelectric power and endangered species.

Providing for universal service

The Fair and Clean Energy Plan would establish a universal service fund to guarantee everyone affordable electric service, even those with impaired credit, special needs or rural locations. The need for this guarantee has become ever more evident as Congress cuts heating assistance programs and electric companies set rates based on cost of service.

Electric Deregulation Pilot Program Fails in Northwest

So, just how well would electric deregulation work in the Northwest?

Not too well, if the pilot programs conducted in 1997 are any indication. All three of these tests proved that electric deregulation, by itself, does not create a competitive market.

- Washington Water Power (serving Spokane) opened up part of their territory to competition. No company, however, was willing to come in and sell to residential customers.

- Puget Power (serving Western Washington) did the same thing and also found no takers.

- Enron had a little bit more luck when they opened up part of PGE's territory in Oregon to competition—one small company from South Carolina was willing to sell to residential customers.

A deregulated marketplace needs multiple competitors so customers can have a true choice of electric service providers. One company willing to compete for service in only one of three test markets does not indicate that a competitive marketplace exists at this time.

And why is this so? Perhaps it's because the Northwest already has the lowest electric rates in the country. New companies cannot enter the market, absorb the start-up costs, invest in marketing services, and still beat the current, established electric rates.

So, despite all the free-market theories, competition in the electric industry in the Northwest has proved a failure. The one ingredient needed to make competition work here—substantially higher rates—is not likely to happen as long as Oregon maintains state regulation. If Oregon does deregulate the electric industry and rates do rise substantially, we'll probably have plenty of companies competing to sell us power. **Which scenario do you prefer?**

Enron Proposes Radical Deregulation Plan

CUB says deregulation plan protects shareholders, puts customers at risk

All PGE customers would be forced to buy their energy on the open market by August 1998, according to a deregulation plan recently filed by Enron, PGE's parent company. What the Enron plan doesn't guarantee is that PGE ratepayers will benefit from energy competition.

Enron is a large, international energy company located in Houston, Texas, and is one of the leading advocates of energy deregulation.

Enron's plan for PGE customers is the most radical electric deregulation plan in the country. Under this proposal, Enron's stockholders would be guaranteed hundred of millions of dollars in compensation for bad investments, while PGE's customers would be granted no protection from higher electric rates to pay for those bad investments.

CUB and other energy activists have fought for years to protect Northwest consumers from being stuck with the tab for Trojan and other energy fiascoes. If Enron's deregulation plan is adopted, utility stockholders would be protected from their mismanagement.

There is no legal basis for what Enron is asking, according to CUB attorney Jason Eisdorfer: "The legislature granted the PUC the authority to regulate the energy industry and to ensure that customers pay rates which are just and reasonable. By asking the PUC to deregulate the industry, Enron is asking the Commission to abdicate their responsibility."

According to an analysis by CUB, large industrial customers will receive lower electric rates under Enron's plan, while the typical residential consumer will likely see higher rates. Those rates could be significantly higher for some customers, such as those in rural areas, with poor credit, on low-incomes, or who have language barriers.

"This is Enron's deal," said Bob Jenks, CUB executive director. "A handful of large industrial customers will see rates go down. Stockholders will see hundred of millions of dollars in windfall profits. And everyone else had better keep their fingers crossed."

Don't just cross your fingers. Write or call the Public Utility Commission and urge them to reject the Enron deregulation plan:

Public Utility Comm. of Oregon
550 Capitol St.
Salem, OR 97310
1-800-522-2404

Thanks to Harry Butcher and Olga Freeman, CUB carries on

Have you ever wished that you could just keep on fighting and making a difference? Remember CUB in your will and you CAN help sustain the fight for consumer rights well into the future.

Harry Butcher and Olga Freeman each remembered CUB in their wills. The generous bequests of each of these CUB members is enabling CUB to pursue activities that would not otherwise be possible.

If you would like to find out how you, too, can set aside something to pertetuate your beliefs, call Bob Jenks at 503-227-1984.

CUB may appeal

Court Puts US West Rate Cut on Hold

One of the biggest victories for consumers in 1997 was the order by the Oregon Public Utility Commission (PUC) that US West reduce rates by $93 million and refund more than $100 million to customers.

This victory has been put on hold by Marion County Circuit Court Judge Albin Norblad, who overturned the PUC order and asked the PUC to reconsider several parts of their decision.

"The PUC found that US West was overcharging its customers and ordered them to reduce rates," said Bob Jenks, CUB Executive Director. "This rate case started almost two years ago. Starting it over again which seems to be what the court is calling for means that customers will continue to be overcharged for another two years."

The alternative to starting over again is to appeal the Marion County decision to the Oregon Court of Appeals. CUB, the American Association of Retired People, and the Oregon PUC are all considering such an appeal.

Five Fatal Flaws of the Enron Plan

1. Higher rates

Several studies point to higher rates in the Northwest if the electric system is deregulated, with rate increases of as much as 20-30%. *(Federal Energy Information Agency, Washington Utilities and Transportation Commission.)*

2. Corporate welfare

Enron's deregulation plan would require customers to pay hundreds of millions of dollars for bad investments, like the Trojan nuclear power plant. In the open, deregulated electric marketplace, PGE (whose managers made those bad decisions) would be unable to recover these "stranded" costs. So, Enron wants PGE customers to pay the bill. The irony is that Enron, the leading advocate of competition in the electric industry, is poised to reap huge profits from deregulation, but seeks protection from the risks of a market economy.

3. No protection

Customers with credit problems, language barriers, or who live in rural areas may not find **anyone** willing to sell them electricity in a deregulated world. Under Enron's plan, such customers would receive a "standard offer," that is, a plan which by design is over-priced. In addition, Enron's plan would guarantee that rates in rural communities would rise because the cost of service is greater.

4. No competition

Pilot programs designed to test electric competition in the Northwest have failed to find more than two companies willing to sell electricity here: Enron and a small South Carolina company, Electric Lite (see page 3). Two companies hardly makes for a competitive marketplace. The worse (and most likely) scenario for consumers looks like a deregulated market with no competition. In other words, no regulation and no choice.

5. No need

The Northwest has some of the lowest electric rates in the country. Consumers have no need to replace the current system with a new and untested theory that carriers substantial risk. Why abandon the system that has given Northwest ratepayers the low costs others are seeking? We can incorporate some of the benefits of competition and choice without trading low electric rates for higher Enron profits (see pages 1 and 3).

CUB Works to Reduce PGE's 12% Rate Hike

PGE's residential and small farm customers were handed 12% rate hikes in January 1998 so that aluminum companies and other large customers could receive a rate cut from the Bonneville Power Administration (BPA).

PGE increased rates to cover revenue lost when Bonneville Power Administration (BPA) eliminated a program which shares the benefits of Columbia River hydropower with PGE's residential and small farm customers. BPA eliminated this program to pay for rate cuts for its large industrial customers.

PGE and BPA had been negotiating from more than a year in an attempt to find a way to phase out this program with minimal customer impact. When negotiations collapsed last month, PGE implemented the 12% rate increase.

CUB has been closely following the negotiations. Jason Eisdorfer, CUB's legal counsel, expressed disappointment that the parties failed to reach agreement. CUB has been working to get PGE and BPA to return them to the bargaining table and to craft a compromise which would reduce the rate hike.

"We are close to having a deal," said Eisdorfer. "We have narrowed the gap to the point where I am optimistic a settlement can be reached.

"CUB's goal is to reduce the rate hike and allow PGE customers to benefit from the federal system for many years to come."

Volunteer with CUB and Fight to Preserve Affordable Energy

CUB is seeking volunteers:

■ to help with the Fair and Clean Energy Campaign;

■ to volunteer in the CUB office;

■ to serve on the CUB Board of Governors.

Never before has your energy future been more at risk:

■ Hydroelectric dams decimate fish to generate low-cost power.

■ Fossil fuels (such as coal and natural gas) contribute to air pollution and global warming while utility companies are cutting conservation and renewable energy programs.

■ Electric companies are fighting to deregulate their profits and give industrial users a break, while residential rates are on the rise.

Now is the time to join the fight to preserve our way of life. Here's what you can do:

1. Help out on the Fair and Clean Energy Campaign. Work with campaign organizers to educate the community and build support for fair and clean energy policies.

2. Be part of CUB's Grassroots Action network. We'll keep you abreast of critical issues and clue you in on how to make your voice heard.

3. Help CUB's staff in the Portland office. Consumer advocacy generates reams of paper and phone calls. Apply your skills and talents and help CUB stay on top of it all.

4. Serve on the CUB Board of Governors. Help steer CUB through the next few years as one of 15 board members. Apply your organizational and business skills to CUB's mission of consumer protection.

To volunteer, just pick up the phone and dial 503-227-1984, or fill out this form and mail it to CUB.

Dear Anita,

Please contact me about volunteering with CUB. I would like to help out with these activities:

- ☐ Fair and Clean Energy Campaign
- ☐ CUB's Grassroots Action Network
- ☐ Work in the CUB office
- ☐ Serve on the CUB Board of Governor's

Here is my name, address and the best way to contact me:

Name: ______________________________

Address: ______________________________

City/State/Zip: ______________________________

Phone: ______________ **Best time of day to call:** ______________

The Bear Facts is printed with soy-based ink on 50/35 recycled paper.

ADDRESS SERVICE REQUESTED

Citizens' Utility Board of Oregon
PO Box 6345
Portland, OR 97228

Non-Profit Org.
US Postage
PAID
Portland, OR
Permit No. 2134