CUB
February 2001
THE BEAR FACTS
Citizens' Utility Board of Oregon...because the utilities bear watching

SPECIAL EDITION

The Energy Crisis

Isn't this California's Problem?

Why can't California keep its energy problems to itself?

For one thing, the Oregon and California are part of the same system. Usually, this works in our favor. If there's a heat wave in California, people there crank up the air conditioning, and demand for power outstrips local capacity. But there's an easy fix: ship some excess power down from Oregon. Similarly, if there's a cold snap in Portland, California sends extra power north, and everybody's happy.

Of course, none of this is free. A power company trying to meet local demand has to buy the extra power it needs on the open market for wholesale power, a market created by Congress in 1992.

However, the prices on that wholesale market are not regulated. That means that when demand is high, prices go through the roof.

California's power companies are now faced with huge energy bills because they are required by the state's deregulation law to buy 100% of their power on the expensive wholesale market. Buying enough power to meet local demand has exhausted their credit. That's why the federal government should cap wholesale prices. (See page 3, "Solving the Crisis," for details.)

Eventually, rising prices on the wholesale power market will affect everyone. Tacoma ratepayers have already seen their power bills jump 50%. Seattle, Vancouver, Boise, and even Eugene, Oregon have also had significant rate hikes, or are staring them in the face.

So far, Oregon's two largest utilities haven't followed suit -- but they're trying. Portland General Electric (PGE) has requested a 15-20% rate hike, and Pacific Power has asked for an additional

Continued on p. 3

What You Can Do

Do your part to conserve. Need ideas? We've enclosed a brochure from Oregon's Office of Energy packed with tips on how to save energy at home during the winter.

Demand that federal regulators do their job. Write your senators. Ask them to ensure that the Federal Energy Regulatory Commission (FERC) regulates prices on the wholesale power market as the law requires. You can reach Senator Ron Wyden's office at (503) 326-7525 or e-mail him at senator@wyden.senate.gov. Senator Smith's office can be reached at 503-326-3386 and e-mailed at Oregon@gsmith.senate.gov. If you're mailing a letter, address it to them at U.S. Senate, Washington D.C. 20510.

You can also write the Chair of FERC directly: Chairman Curt Hebert, Federal Energy Regulatory Commission, 888 First Street NE, Washington, D.C. 20426.

Support CUB and urge your friends to do the same.

Remember, utilities get to bill you for the slick corporate lawyers and high-dollar "experts" who fight their battles for them. CUB proudly pays its own way. Please help us with a special gift -- and ask your friends to join!

CUB's Fair and Clean Energy Plan

The Alternative to Deregulation

In 1998, Enron, Portland General Electric (PGE), and industrial customers proposed that Oregon adopt California's approach to deregulation. They wanted to require that all of our utilities sell off their low-cost generating resources -- paid for by ratepayers -- to wholesalers. Customers would then purchase their power at "market rates."

Backers of this plan said that competition between energy providers would naturally bring prices down. In fact, those very "market rates" would have caused our power bills to jump as much as 500% this year.

CUB led the fight against California-style deregulation in Oregon. We rejected the idea that our only choice was between sticking with our current system -- where utilities can make profits on failed investments, as PGE did with Trojan nuclear power plant -- and switching to a California-style system, where individual customers would have to negotiate with new for-profit power marketers to buy their electricity at inflated prices.

Instead, CUB proposed the Fair and Clean Energy Plan, which was the basis for Senate Bill 1149 (SB 1149), adopted by the 1999 legislature. Here are its key principles:

1. Keep Oregon's low-cost resources and regulated rates. Electricity customers of the Northwest have paid to develop generation assets that produce some of the cheapest power in the nation. The system benefits all its customers -- and all customers must continue to receive their share of the benefits. Under the plan (and under SB 1149) residential and small business customers will continue to receive regulated cost-of-service rates, overseen by the Public Utility Commission. This means that you won't be victimized by power marketers taking advantage of skyrocketing energy prices. Large commercial and industrial customers will be allowed additional choices for purchasing power, but will continue to get their share of the value of existing resources.

2. Promote new energy resources, including renewable energy. The region needs new energy supplies. Residential customers should have the option of purchasing new renewable resources, developed at regulated rates. If large commercial and industrial customers want to take the financially riskier path, and contract with new developers to buy energy, or build their own power generators, they should also have that option.

3. Invest in energy efficiency. In the short run, there is only one way to ease the crisis we face: energy conservation. While this means that people should turn down their thermostats, it also means that we should invest in more efficient lighting, more insulation, better windows and doors, and more efficient appliances. CUB's Fair and Clean Energy Plan restores funding to these programs to the tune of about $60 million per year.

THE BEAR FACTS is the quarterly newsletter of CUB and the CUB educational Fund.

CUB is:

- a non-profit organization established by Oregon voters to advocate on behalf of Oregon's utility ratepayers.
- governed by a Board of Governors from throughout Oregon, elected by Congressional District.
- a member of the National Association of State Utility Consumer Advocates (NASUCA) and the Consumer Federation of America (CFA).

CUB's board meets 8 times per year. For the next meeting date, check CUB's web site. A proposed agenda for each meeting will be posted at least two days prior to the scheduled meeting.

CUB Educational Fund
921 SW Morrison St., #511
Portland, OR 97205
(503) 227-1984 (phone)
(503) 274-2956 (fax)
E-mail: cub@teleport.com
web: www.oregoncub.org

Solving the Crisis: More Steps Necessary

Keep Energy Affordable

Many new generators were built across the country to provide energy to the wholesale market after it was created by Congress in 1992. Northwest utilities, such as Portland General Electric (PGE), buy a significant portion of the energy they need to serve their customers on that wholesale market.

However, when demand is greater than supply, prices go up unless supplies can be increased. Since more generators can't be built overnight to meet demand, prices will stay up, and will quickly be unaffordable for ordinary people -- especially for low-income families, and those living on fixed incomes.

To protect them, we should cap the price of energy on the wholesale market, so that it remains affordable. Federal law already requires that wholesale rates be "just and reasonable," so CUB has called on regulators at the Federal Energy Regulatory Commission (FERC) to intervene and ensure reasonable wholesale prices. However, FERC has yet to step in and do its job.

Think Small

In the long run, the crisis in which we now find ourselves can be solved by investing in small-scale energy resources that homeowners, businesses and communities can develop themselves. Small-scale power generation will begin to replace large-scale power plants in much the same way that small personal computers replaced mainframes.

We're already on this path. In 1999, Oregon passed a net-metering law that allows people with a solar photovoltaic energy system to hook up to the electric grid and sell their excess power back to the community. Within a couple of years, businesses will be able to use microturbines for their power. Finally, within the decade, fuel cells will be produced that allow any house to produce its own electricity, making many people less dependent on the decisions of a handful of utility executives, private marketers or government regulators.

Renew It

New power plants of any kind can't be built to meet the power shortage on short notice. And most plants in the planning stages use gas turbines for power -- and there's a 5-year waiting list just to get one. Renewable energy plants don't have that drawback. Wind-power plants, for example, could be brought on line much more quickly if siting procedures are streamlined. Therefore, this should be a priority.

Problem: It's Regional

continued from p. 1

$120 million over five months -- compared with the $800 million it now gets in a year from its Oregon customers. And that isn't the only request. Pacific Power is also asking for an additional 30% hike on top of the first.

Needless to say, CUB is fighting these rate hikes vigorously, in part because they aren't entirely driven by rising energy prices. Which only proves what we've always known: that big utilities aren't above taking advantage of a crisis for their own profit.

Nukes Won't Save Us

You may have heard that nuclear power is the answer to our current problems. Don't hold your breath -- new nuke plants aren't very likely.

First of all, it's illegal under Oregon law to build a new nuclear power plant. A 1980 law states that no one can build one until (a) the citizens of Oregon vote for one, and (b) there's a permanent facility for storage of nuclear waste, licensed by the federal government (there's none in sight).

So what, right? Laws can be changed. But money talks. Let's listen to what it has to say:

Before 1992, when Congress created the wholesale power market, a utility could build a nuclear power plant knowing that its captive customer base would pay for it (plus a profit) over 30 years. That's no longer true. Now, private investors have to put up the money, with no guarantees at all. Given nuclear power's questionable safety and reliability record, and the fact that it's politically controversial, don't expect to see any new nukes any time soon.

The Energy Crisis: Why Is it Happening?

Unprecedented Economic Growth

1 The United States as a whole -- and the West Coast in particular -- has seen historic economic expansion throughout the 1990s. This has led to a tremendous growth in energy consumption.

Changes in Federal Energy Policy

2 In 1992, Congress passed the Energy Policy Act, which allowed non-utilities to produce and sell power on a wholesale basis, creating a significant new wholesale electricity market. This caused utilities to slow or stop their investment in new generators, and rely on purchases from the wholesale market to meet the growing demand for power. Currently, most utilities buy some power from the wholesale market. In addition, the wholesale market provides back-up to our regional hydrosystem – providing power when hydro conditions are poor, as they are this year.

Reductions in Energy Efficiency Investments

3 Utilities have slashed their conservation programs by as much as 80%, even though demand for electricity has gone up.

Poor Hydro Conditions

4 Dry weather has reduced the output of the region's hydroelectric dams, which produce 50% of the region's electricity. Right now, power output from the dams is 50% of normal.

Increased Natural Gas Prices

5 New power plants rely primarily on natural gas to generate power. Just as gas prices have jumped for homeowners, they have also jumped for generators, raising electricity prices in general.

California Deregulation

6 California made a mess of its electric system when it deregulated. It required its utilities to sell off their power plants and buy all their power from the wholesale electric market. This made them vulnerable to extreme price spikes when demand was high. In addition, the state prohibited them from buying power ahead of time, which could have protected them somewhat. (Just as a homeowner with oil heat purchases oil in advance of a cold snap, when prices are low, it makes sense for an electric utility to buy power before a cold snap or heat wave hits).

Federal Regulators Aren't Doing their Job

7 Even though Congress gave federal regulators the responsibility to ensure that wholesale rates are "just and reasonable," those regulators refuse to intervene.

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

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