The Bear Facts

Citizens' Utility Board of Oregon...because the utilities bear watching

CUB

Winter 2003-2004

CUB Concerned about Texas Pacific Group's proposal to purchase PGE

In November, a private investment company called Texas Pacific Group announced their intention to purchase Portland General Electric from Enron's creditors. The deal contains significant risks and CUB's initial review of the proposal shows there will be no real benefit for customers.

Under the terms of the deal, Texas Pacific Group would pay approximately $2.35 billion to purchase PGE from its bankrupt parent company, Enron. To comply with current federal restrictions (the Public Utility Holding Company Act), a new company would be formed to act as the holding company for PGE stock. The new company would be called the Oregon Electric Utility Company with former Governor Neil Goldschmidt as its Chairman. But this new company is simply a front that allows Texas Pacific to control PGE without having to comply with the federal restrictions that apply to utility holding companies.

"This is really Texas Pacific buying PGE," said Bob Jenks, CUB Executive Director. "They are the ones putting up the money and they are the ones who will call the shots. What is dangerous to customers is that they are an absentee landlord who will try to make some money off PGE, and turn around and resell it for a big profit in a few years."

CUB has been a supporter of the City of Portland's attempt to buy PGE and form a regional non-profit utility. The city was offering a similar price as Texas Pacific and would have provided customers with a long-term ownership and a commitment that reductions in costs would be used to lower rates.

"This deal has a long way to go," said Bob Jenks. "Attempts by Enron to sell PGE to NW Natural and to Sierra Pacific failed and this one may also. Under Oregon law, the Public Utility Commission can only approve the deal if it ensures a benefit to customers, and it is difficult to see any benefit in this deal."

What you can do:

1. Call the PUC, (503) 378-6161, and urge them to be diligent in reviewing this proposal and urge them to reject it unless there is a proven benefit to customers.

2. Call Mayor Vera Katz of Portland, (503) 823-4120, and urge her to keep the City's efforts to purchase PGE alive.

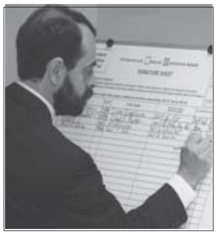
Texas Pacific specializes in borrowing money to buy distressed companies, cutting their costs and reselling them for a much larger price. This raises several concerns:

1. They have suggested to us that cost cutting will be used to pay down their debt, not to lower rates. PGE customers continue to suffer from the highest rates of any large utility in the Northwest and urgently need rate relief.

2. If they resell PGE for significantly more than they purchased it, that purchaser will be expecting to recover the purchase price from customers, putting more upward pressure on rates.

3. Texas Pacific is not interested in PGE for the long-run. Enron has been trying to sell it for the last 5 years. Because they do not have long-term stability, PGE management and employees cannot develop a long-term plan to meet customers' needs

4. PGE cannot offer stable rates without a large investment in power supply. Currently the biggest reason PGE's rates are so high is that it buys much of its power in the short-term market. It seems unrealistic to expect Texas Pacific, after spending $2.35 billion buying PGE, to turn around and spend hundreds of millions of dollars securing long-term power resources.



From the Executive Director

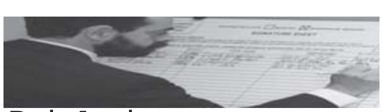
Twenty years ago this month, Oregon activists, including two members of CUB's current staff, began a campaign that passed an initiative creating the Citizens' Utility Board of Oregon.

According to a January 9, 1984, campaign memo: "We should not underestimate the resources—both human and financial—and the energy that a CUB ballot initiative will require. Any statewide campaign is a major undertaking, but one with so much riding on it requires an even greater effort. The utilities see clearly the potential impact of a procedural reform such as CUB, and we can expect their continued vigorous opposition."

The campaign was a huge undertaking, involving hundreds of volunteers throughout the state in an unprecedented grassroots effort. I worked with dozens of great volunteers in Klamath Falls, Medford and Grants Pass. We were outspent more than 40-to-1, yet we prevailed. For those of us involved in the campaign, it was an exciting time – a lot of hard work, but a lot of fun. I still regularly see friends that I made during that campaign.

In the 20 years since that campaign, CUB has proven to be worth the tremendous effort. We've saved customers more than $1 billion in lower rates. We've ensured that Oregon's energy policy is environmentally responsible with a real commitment to energy efficiency and renewables. And we've worked to make sure that Oregon adopts policies promoting good service quality and protecting customers' privacy.

Over the course of the next twelve months, we will be highlighting our 20 years of protecting customers. In the meantime, I invite everyone who has been involved with the organization during that time to send me an email or letter describing their favorite CUB memories. Send to: bob@oregoncub.org or 610 SW Broadway, Suite 308, Portland, OR 97205.



Bob Jenks
Executive Director & CUB Charter Member

The Bear Facts is the periodic newsletter of CUB and the CUB Educational Fund.

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Keep CUB Prowling

If you have provided for CUB in your estate plans, please let us know. If not, let us show you how. Write Bob Jenks, Executive Director, CUB, 610 SW Broadway Suite 308, Portland, OR 97205, or call (503) 227-1984. Your gifts ensure that CUB will always be around to fight for what you believe in.

PacifiCorp's proposal to allocate costs between states would raise rates

This fall, Pacific Power filed its proposal to allocate electric generation costs between the six states it serves. CUB's initial analysis of their proposal shows that it will raise rates, deny Northwest customers the full value of our hydro resources, and require Oregon customers to subsidize the rapidly growing state of Utah.

In 1999, Utah pulled out of the agreed-upon methodology of dividing up generation costs between the 6 states. This lowered rates in Utah, but left a hole for Pacific Power, where the Company was no longer recovering 100% of its costs of producing power for the states that it serves.

This recent filing is Pacific Power's attempt to fill this hole. However, it has several problems:

1. It would raise rates in Oregon in order to make up for this shortfall. Oregon customers should pay for the costs that Oregon places on Pacific Power's system, but there is no reason that the actions of Utah should cause our rates to go up.

2. While Pacific Power's proposed mechanism allocates the costs of Northwest hydro to the states that have paid to develop that hydro system, the company fails to allocate the output of the hydro system to these states. Instead, their proposal includes a complicated mechanism that gives Northwest residents a value for hydro output that is based on the price of coal. CUB is demanding that the company simply dedicate the output of the hydro to Northwest loads.

3. The state of Utah is growing rapidly and causing Pacific Power to incur hundreds of millions of dollars to serve this load. However, rather than allocate the cost of load growth to the states that are growing, Pacific Power is asking customers of all states to pay for this load growth. CUB believes that all states should pay only for the costs they themselves are putting on this system.

CUB believes that each state served by Pacific Power should pay for the costs it places on the system. This is the only fair way to allocate expenses. CUB is working to remove the subsidies from PacifiCorp's proposal.

CUB opposes PGE's "Low Hydro" rate hike

It might surprise many Oregonians, but according to PGE, 2003 was a drought year. The company is seeking a rate hike it claims is caused by low hydroelectric production due to the lack of rainfall in 2003. However, as CUB is pointing out in our comments with the PUC, 2003 was not a drought year. Rainfall measured at the Portland airport shows 2003 was an average year.

PGE's rates are set based on average rainfall. If there is less than average rainfall, the utility has to replace cheap hydroelectricity with more expensive purchased power. The company claims they had to do that in 2003 because of the lack of rain.

CUB's filing at the PUC argues that there was not a significant variation in normal hydro power in 2003 and even if there was, PGE does not deserve a rate hike. Hydro conditions vary from year-to-year. In wet years the utility has extra hydro power to sell, and shareholders profit. In drier years, the company has less hydro power. This is the normal risk that a utility and its shareholders take.

"PGE is just looking for a reason to raise rates," said Bob Jenks, CUB Executive Director. "But this one does not even come close to being reasonable and fair."

CUB to Hit 20-Year Milestone

In 1984, Oregon voters approved Ballot Measure 3, creating CUB, an organization representing residential ratepayers. Before that, Oregon was one of only a handful of states where residential utility customers had no official voice at the Public Utility Commission or at the state legislature.

CUB was created as the result of a grassroots campaign that overcame a million-dollar barrage of utility propaganda. The utilities ran a slick, media-driven opposition, but Oregon voters saw through the rhetoric, and we won.

A few years back, CUB totaled up all of the ratecases and dockets we've been involved in and discovered our efforts have resulted in more than one billion dollars being saved for ratepayers through rate reductions, rebates and returns. That's one billion dollars that would have ended up in the utilities' pockets otherwise.

CUB will be celebrating its 20th anniversary throughout 2004. When CUB was first formed, it was required to undertake a membership drive in order to fund the organization. True to that spirit and recognizing that our grassroots membership base is the key to our influence, CUB is launching a membership expansion campaign to make sure that utility ratepayers have excellent representation over the next 20 years and beyond.

We will be working with our members throughout the state to make non-members aware of CUB and its work, and encourage them to become a CUB supporter. If every CUB member recruited just two new members, CUB would grow exponentially and have an even greater impact than it does today. If you'd like to be a 20th Anniversary CUB Captain in your community, or would like to help out in any way with the ongoing anniversary activities all year, please call Jeff Bissonnette, CUB Organizing Director at (503) 227-1984 or e-mail him at jeff@oregoncub.org .

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