



February 2005

The Bear Facts

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

CUB opposes Texas Pacific at PUC, Texas Pacific Releases Confidential Documents, Opposition to Deal Grows

As this edition of The Bear Facts goes to print we are waiting for the PUC decision on Texas Pacific's purchase of PGE. After that order is released, we will post CUB's response to it on our web site: www.oregoncub.org. In addition CUB is now posting the confidential version of our testimony in the TPG case on our website.

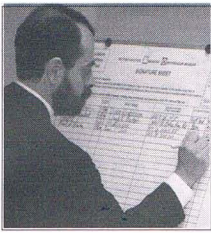
In December, CUB came out strongly against the Texas Pacific purchase of PGE at the Public Utility Commission (PUC). CUB's attorney Jason Eisdorfer represented CUB at the oral arguments before the Commission and pointed out that Texas Pacific is unlike any other proposed utility owner we have ever seen. TPG is a leveraged buy-out firm that has no interest in electricity, but expects that it can sell PGE for a big profit in just a few years. This plan goes against the history of utility regulation, which assumes that investors own utilities for the long term. CUB has found that the dangers associated with a short-term speculator are too great.

In January, after confidential documents were leaked to Willamette Week, Texas Pacific agreed to release most of the confidential documents associated with this case. CUB has had access to these documents, and referred to them in our testimony to the PUC, as well as submitting many of them as exhibits in the PUC proceeding. We were unable to share them with the public. Now that they have been publicly released we can discuss them. There are two issues from these formerly confidential documents that have been key to

CUB's opposition to this deal:

The documents make clear that Texas Pacific expects to make a big profit selling PGE to another company in a few years, probably to a large national or international energy company. While Texas Pacific has claimed that they might spin PGE off into an independent, stand-alone company based in Portland, these documents prove that Portland would likely lose PGE as a locally headquartered company should Texas Pacific acquire and sell it. According to those documents, selling PGE to another company would create a profit that is \$200 million to \$400 million greater than the profit generated by spinning PGE off into an independent company. It is hard to imagine that Texas Pacific would walk away from that much money just because the local population wants to keep their utility local.

Texas Pacific has a business model that is based on making major cuts in operating costs and investment in PGE. Because Texas Pacific would only own PGE for 5 to 7 years, they can afford to make significant cuts, because they will not be around to face the consequences of such cost-cutting. Cutting maintenance on power plants may not have an effect for a few years, but could lead to significant plant outages eventually. Reducing capital investment in new generation, or transmission and distribution facilities would have a long-term impact, as those investments will become more and more necessary over time.



From the Executive Director

I was offended by Texas Pacific's latest tactic in trying to gain sympathy for their proposal to buy PGE. They are now attacking us. According to an article in the Portland Tribune, Texas Pacific partner Kelvin Davis said: "I question whether customers' interest is being represented fairly by the Citizens' Utility Board." Without Texas Pacific, "there is no \$43 million rate credit," he is quoted as saying.

Because of Texas Pacific's business plan, PGE customers would overpay \$75 million in state and federal taxes in just the first five years. Texas Pacific gets to keep this and offers in return a \$43 million rate credit (less than 50 cents per month per customer) that is not even guaranteed. We can do the math.

We will let you, our members, not Texas Pacific, be the judge of how well we are representing customers. We think we do a pretty good job. During our 20 years we have saved customers more than \$3.4 billion.

Mr. Davis accused us of working in our own self interest. In a way we are, because all CUB employees live in Oregon and will continue to do so whether the deal is approved or not, and our mandate is to protect Oregon ratepayers. Texas Pacific's business model is based on cutting costs and investment at PGE, then quickly selling the company to a "strategic purchaser" for a profit of between \$800 and \$1.2 billion. The new owner will then expect customers to pay it a profit over and above the purchase price.

We reaffirm our position: Texas Pacific's proposed purchase of PGE is a bad deal for customers. And we will let our members, not Texas Pacific, be the judge of our work.

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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CUB's board meets 8 times per year.

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CUB is a member of the National Association of State Utility Consumer Advocates (NASUCA) and the Consumer Federation of America (CFA).

Portland Tribune Friday, January 14, 2005

Texas Pacific rips watchdogs

*PGE suitor accuses
consumer groups of
acting in self-interest*

By KRISTINA BRENNEMAN
The Tribune

Texas Pacific Group partner Kelvin Davis says Oregon's consumer groups — whose mission is to protect utility customers — are acting in their own self-interest when they try to hinder the company's proposed \$2.35 billion purchase of PGE.

If the sale is turned down by the Oregon Public Utility Commission, he said, "there is no \$43 million rate credit. Customers will

lose hundreds of thousands of dollars in rate relief.

"Who is representing whose interest here?" he continued. "I question if customers' interest is being represented fairly" by the Citizens Utility Board of Oregon and Industrial Customers of NW Utilities.

Davis made the comment Wednesday, a day after the Portland Building Owners and Managers Association filed a motion to reopen regulators' briefings on the sale.

BOMA attorney Ann Fisher said the acquisition needs to be reconsidered, now that Texas Pacific has said that recently leaked documents are not the investment group's definitive

Inside

■ Documents unsettle PGE employees.
See Page B4

CUB Celebrates 20 Years with Members and Supporters

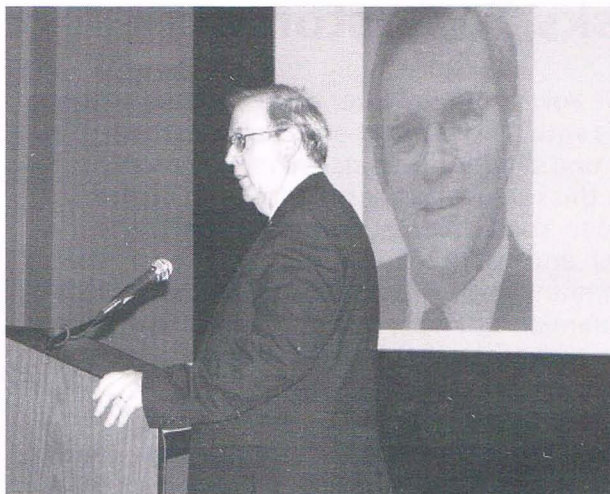
On Saturday, November 6, 2004, CUB members and friends gathered in a downtown Portland ballroom for a dinner to celebrate the efforts of dogged campaigners to establish CUB 20 years ago. In his opening remarks, executive director Bob Jenks said, "I know where I was 20 years ago tonight. I know where several people in this room were 20 years ago tonight. Do you know where you were?"

November 6, 1984 was Election Day and the hard work of hundreds of volunteers all over the state paid off as Oregon voters approved Ballot Measure 3, creating CUB as the official representative of residential utility ratepayers in Oregon. Campaign workers nervously watched returns all night until it was clear that their dedication had resulted in victory.

The crowd of some 200 activists, politicians, and even some utility representatives listened to several speakers underscore the monumental nature of the effort, starting in the 1983 legislative session. Grattan Kerans, former Speaker of the Oregon House, was the primary sponsor of a bill to create a Citizens' Utility Board that session. He reminisced about bringing lawmakers

Below: former Speaker of the Oregon House Grattan Kerans, then and now

from the House chamber to his office to strongarm them as best he could. But the



utilities prevailed and defeated the bill.

Tom Novick talked about becoming the new director of OSPIRG and being faced with the opportunity to put the CUB issue before voters. "It was the result of a lot of hard work by a group of idealistic, energetic and enthusiastic staff and volunteers that collected the 97,000 signatures and then overcame impossible odds to pass the ballot measure."

Public Utility Commission Lee Beyer congratulated CUB on its first 20 years and said that CUB's perspective on behalf of residential customers is needed and respected. "I may not always agree with you," he said, "but I always read your material because I want to hear what you have to say."



CUB "Founders": 19 CUB campaigners reunited on Nov 6, 2004 to remember their hard won victory. From L-R: Joel Shaich, Peter Toll, Carl VanderZanden, Harry Shaich, Judy Schilling, Kerry Barnett, Meg Rowe, Amy Gredler, Barbara Head, Rhys Scholes, Grattan Kerans, Allan King, Jon Stubenvoll, Tom Novick, Louise Tippens, Mike Roach, Eric Stachon, Daniel Malarkey, and current CUB Board Chair Kevin Masterson.

continued on page 5.

Utilities Try To Raise Rates, Shift Business Risks To Customers

Pacific Power, Idaho Power and PGE have all made filings with the PUC that are designed to increase rates and shift business risks that have historically been the utilities' responsibility onto customers. If these companies succeed, the effect will be higher and more volatile rates. Over the next few months, CUB will vigorously pursue each case to minimize any rate changes, and to stop the other proposals that will have negative effects on customers.

In this edition of the Bear Facts, we will examine each company's filing, and the effect it would have on customers.

Pacific Power is proposing a 10.4% rate hike and a plan to adjust rates each year

Pacific Power is not only proposing to raise rates for its residential customers by more than 10% but also to put into place an annual adjustment to reflect changes in energy costs. Since Pacific Power was acquired by ScottishPower in 1999, they have been aggressive at seeking rate increases, with a new rate case almost every year.

Their new annual adjustment mechanism will make these yearly increases automatic. Rates will be based each year on the costs for fuel and power that the company projects for the upcoming year with an abbreviated rate case. This would be a change from the historical practice of setting rates and maintaining those rates, often for several years, until the utility can prove that a rate increase is necessary to allow it to earn a reasonable profit.

This plan will reduce the company's risk that costs will change between rates cases, and the lag time it takes for them to go through a full rate case. But this risk is one of the key principles behind the profit margin we pay the company. We pay them profits because owning a utility company carries some risk, including the risk that costs will increase faster than the company can get the regulatory system to raise customers' rates. Because of this, guaranteeing that rates will change each year with a quick and easy process reduces the risk to the company and ought to reduce the profit margin that we pay

the company to manage this risk. Pacific Power, however, is not proposing that we decrease the profit margin. In fact, they are proposing that the Public Utility Commission increase the company's profit margin.

In 2003, Pacific Power had a rate case, wherein they asked for an increase of \$58 million or 7%. CUB contested that case and in the end the company received a rate increase of \$8.5 million or 1%. We believe that this case is similar and are prepared to contest this increase and their proposal.

Idaho Power wants to raise rates by 17.5% overall and 25% in the summer

Idaho Power, which serves a small number of Oregon customers in Eastern Oregon, is proposing a whopping 17.5% increase for residential customers. In addition, they are proposing that customers pay even higher rates in the summer. Under their proposal, residential rates would increase 25% in the summer months.

Idaho Power has already increased rates recently to collect costs associated with the energy crisis of 2000-01. Adding an increase of this amount will cause serious hardship for customers. CUB intends to review this rate case thoroughly and has already identified some costs that we do not believe belong in rates.

In addition, Idaho Power is proposing to charge higher rates in the summer than in the winter. The company claims that it has significantly higher usage and costs in the summer and wants rates to reflect this. No utility regulated by the Oregon PUC charges rates in this manner and CUB will be reviewing this proposal with a great deal of skepticism. While the company does have higher loads in the summers, residential usage in Eastern Oregon is lower in the summer than in the winter. In other words, Oregon's residential customers are not the ones causing Idaho Power's high summer usage and cost.

PGE proposing that costs associated with variations on hydro be placed on customers

Utility rates are set assuming average weather. We do not know what the temperature will be. We do not know how much rainfall the Northwest will receive. So we set rates based on historical averages. But an actual year is rarely average. Some winters are colder. Some summers are hotter. Some years are wet and some are dry. The result is that, in any given year, the utility's costs are greater or lower than projected and

Utilities' rate cases this year continued from page 4.

the utility will make more or less than its set profit margin.

For several years, PGE has been trying to change this traditional way of setting rates and shift both of these risks to customers. CUB defeated a PGE proposal in 2002 to create a Power Cost Adjustment that would have added a surcharge to account for variations in customer usage, weather and utility cost. CUB argued that this risk has traditionally been placed on the utility and its shareholders and managing this risk is part of the reason that we pay utilities a profit.

PGE is back with a new annual adjustment plan that would apply to hydroelectric production only. If we have a dry year and there is less hydro power available, customers would likely pay more. If there is a wet year and extra hydro available, customers could receive a credit. Of course, these do not balance out. The cost of replacing hydro in

dry years, when the lack of hydro raises the wholesale price of electricity, is much greater than the benefit of selling excess hydro in a wet year, when the availability of hydro depresses the wholesale price of electricity.

In addition, PGE has designed their proposal in such a way as to nearly guarantee that they overcollect the cost of replacement power in a dry year and under-refund credits for excess power in a wet year. Their approach seems to be 'heads we win and tails you lose.'

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.

CUB's 20th Anniversary Celebration continued from Page 3.

Secretary of State Bill Bradbury exhorted the crowd to continue its support of CUB by noting that few other organizations do their work as energetically and efficiently. Secretary Bradbury also said that, given its broad-based membership, CUB was apparently "everywhere." Attendees also viewed a short film made for the event about the history and founding of CUB that will soon be available on our website, www.oregoncub.org.

There were 21 individuals in attendance who were involved in the CUB campaign back in 1984. The evening ended with these stalwart folks being recognized as "CUB Founders" and applauded for their hard work and dedication in making sure that utility consumers in Oregon gained a seat at the table. As Louise Tippens, one of the original CUB campaigners attending the dinner said, "I'm proud to say that I was involved in creating CUB. I look forward to saying the same thing 20 years from now."

Louise Tippens and Meg Rowe celebrate CUB's 20th anniversary. All 20th Anniversary photos taken by Evan Manvel.



Save PUHCA! Contact Your Senators Today

The Public Utility Holding Company Act (PUHCA), a little-known law that protects consumers, is in danger of being repealed by Congress. PUHCA is a consumer protection law that is designed to prohibit parent companies of utilities from engaging in high-risk investments that threaten the utility company. It requires utilities to list all their lobbyists, bans utilities and their executives from donating to federal campaigns, requires companies that own utilities to either incorporate in the state where the utility operates or register with the SEC, and has ensured that profits from utilities were not funneled into high-risk investments that could threaten the stability of the utility. Between 1929 and 1935, 53 utility holding companies went bankrupt; between the passage of PUHCA in 1935 and 2000 there were none.

This is a critical law for protecting PGE customers in Oregon. According to Texas Pacific documents, the repeal of PUHCA would allow foreign and other companies currently prohibited from owning PGE to purchase PGE. Texas Pacific profits on its

ownership of PGE could increase from around \$700 million to more than \$1 billion. Of course, the company that purchases PGE from Texas Pacific would expect to recover its purchase price from customers.

"PUHCA is an example of a federal law that works. Utility customers have benefited greatly from its protections," said Bob Jenks, CUB Executive Director.

You can help stop the repeal of PUHCA and keep customers protected. Contact Senator Smith (R-OR) and Senator Wyden (D-OR) and let them know you think PUHCA should not be repealed.

Senator Ron Wyden: DC (202) 224-5244, Portland (503) 326-7525, Eugene (541) 431-0229, La Grande (541) 962-7691, Medford (541) 858-5122, Salem (503) 589-4555, Bend (541) 330-9142. Web: <http://wyden.senate.gov/contact/> Mail: 230 Dirksen Senate Office Building, Washington DC 20510.

Senator Gordon Smith: DC (202) 224-3753, Bend (541) 318-1298, Eugene (541) 465-6750, Medford (541) 608-9102, Pendleton (541) 278-1129, Portland (503) 326-3386. Web: <http://gsmith.senate.gov/webform.htm>. Mail: 404 Russell Senate Office Building, Washington, DC 20510-3704.

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