



2005 REPORT

THE CITIZENS' UTILITY BOARD OF OREGON & THE CUB EDUCATIONAL FUND

Dear Friend of CUB,

As a University of Oregon student in 1984, I volunteered on the campaign that created CUB. Last year, we celebrated CUB's 20th anniversary, and it was an opportunity to reunite many of the folks who were involved in that effort. Now CUB, like the rest of us, is another year older.

As you'll see inside, it has been an interesting year. 2005 started with David Bonderman and Texas Pacific's attempt to buy PGE, and is ending with Warren Buffett and MidAmerican's bid to buy PacifiCorp. In between, we grappled with major issues such as global warming and smaller, but important, issues such as phantom taxation by utilities.

Through it all, CUB has been there as an advocate for customers, providing in-depth analysis to the Public Utility Commission, defending the environment, educating the media, and offering our expertise to the general public. I want to highlight the strengths that I believe are key to our success:

1. **Credibility.** CUB has a history of telling it like it is. We have publicly criticized policies proposed and endorsed by politicians of both major political parties. We can support our positions. The regulatory process at the PUC requires evidence to support positions, CUB supplies it, and we often win.
2. **Staff.** I have been on the Board of several non-profit advocacy groups, and none has come close to the continuity of staff that CUB has maintained over the last decade. Our executive director, who worked on the campaign in 1984 as I did, has been on staff for 14 years. Our legal counsel has been here for 11 years, our organizing director for almost 8 years, and our development director for 5 years. We have limited resources, and don't pay the best salaries, but our staff believes in our mission and is committed to the cause.
3. **Citizen Support.** Support from thousands of Oregon utility customers forms the base of our funding. Every year that I have been on the Board, we have seen the average contribution from each member increase. This has allowed us to increase the size of our staff and increase our effectiveness. These individual donations will continue to be key as we go forward. Thank you for your support -- past, present, and future -- of this great organization.

Sincerely,

A handwritten signature in black ink that reads "Keri Keri Keri".

President, CUB Board of Governors

P.S. Take a look at the work that we have done this year and consider giving an end-of-the-year tax deductible contribution to the CUB Educational Fund.

Global Warming

There is no issue that will have a larger effect on energy policy in coming years than global warming. CUB first wrote about global warming in our newsletter more than a decade ago, long before it had become part of the commonly accepted part of the energy discussion. In 2005 we fought global warming in the following arenas:

- *We helped pass legislation that improved the state's tax credit for solar energy.
- *We worked to expand the Energy Trust of Oregon energy efficiency programs.
- *We got additional renewable investment commitments from PGE and Pacific Power.
- *We opposed Pacific Power's plans to build a new coal plant.
- *We got Idaho Power to increase their energy efficiency programs in Eastern Oregon by 600%.
- *We demanded that utilities address global warming in their long-term resource plans.

At the same time, we concluded that **this is not enough**. Historically, the way to increase renewables and decrease fossil fuels has been to get utilities to recognize the cost of carbon dioxide (CO2) emissions in their resource planning. With Pacific Power, for example, we value CO2 emissions at \$8/ton and add this to the projected cost of new fossil fueled power plants. This figure is designed to represent the unknown cost of complying with whatever carbon regulation will exist over the life of the new power plant.

The cost to Oregon customers from global warming emissions, however, is not simply the cost of dealing with the regulations that will be attached to carbon. It is also the cost of rising sea levels as the polar ice caps melt. It is the disturbance to our rivers and forests as snowpacks are reduced and river temperatures rise. It is, furthermore, the cost to the world of continuing to expand our use of resources that cause global warming, rather than providing the leadership that is needed to significantly reduce the volume of global warming pollutants that we create with our energy systems.

In May of this year, the CUB Board of Governors adopted a new policy which states that "Energy production is a significant contributor to greenhouse gas emissions. The impacts of global climate change could be devastating and the true costs may be enormous." Under this new policy, when it comes to including the costs of global warming in utility planning, CUB will not limit our analysis to attempting to impute the cost of potential CO2 regulation, but instead will also support policies that will actively **reduce** Oregon's emissions of greenhouse gases.

Utility Consolidation

This year, Congress repealed the Public Utility Holding Company Act (PUHCA), which since 1935 has limited who could own electric and natural gas utilities. Advocates of repeal claimed that PUHCA was hampering investment in energy utilities. CUB opposed the repeal. Utilities have no trouble raising money to invest in utility infrastructure, since regulators will ensure that ratepayers fund those investments. In fact, the repeal of PUHCA most likely will increase the amount of money invested in *buying* utilities, not the money invested in utility infrastructure. In 2005, Oregon saw two big attempts to purchase Oregon utilities:

CUB led the opposition to Texas Pacific's attempt to purchase PGE. Texas Pacific's goal was to buy an undervalued PGE from Enron and resell the utility for a billion dollar profit. In denying Texas Pacific's bid, the PUC relied heavily on CUB's analysis of the risks and dangers associated with Texas Pacific ownership.

CUB is currently involved in analyzing MidAmerican's proposal to purchase PacifiCorp from Scottish Power. MidAmerican is owned by Berkshire Hathaway, which is in turn owned by Warren Buffett, a leading proponent of PUHCA repeal. CUB's opening testimony, filed on November 21st, found that the proposed deal would lead to higher rates and offer little benefit. MidAmerican will respond to our testimony in December, and we expect the case to be decided next year.

Phantom Taxes

Phantom taxes occur when a utility charges its customers more for state and federal taxes than the utility's parent company pays in taxes related to the utility. Corporate parents like Enron and Scottish Power use phantom taxes to increase their profit margins. Utility purchasers like Texas Pacific and MidAmerican count on phantom taxes as a way to recover the cost of purchasing the utility. Because a big holding company or corporate parent has additional tax loopholes that an independent utility does not, allowing phantom taxes creates an incentive for big holding companies to purchase Oregon utilities.

In 2005, CUB has led the fight to eliminate phantom taxes, most specifically on the following fronts:

When Texas Pacific was trying to buy PGE, we identified the cost of the phantom taxes that Texas Pacific planned to keep and argued that they should not be allowed to retain phantom taxes.

We participated in the legislative working groups that led to the passage of SB408, a law which aims to eliminate phantom taxes.



We won a \$26 million reduction in Pacific Power's 2006 rates which removed the phantom taxes associated with the utility's corporate structure.

We continue to fight numerous utility efforts to weaken SB 408 through the PUC rulemaking process.

Rates

A core function of CUB has always been to represent customers when utilities are seeking higher rates. CUB wins tens of millions of dollars in rate reductions for Oregon utility customers *every year*. In 2005, CUB has fought for the following rate reductions for customers:

We fought for, and won, a PUC order that reduced Idaho Power's rate increase for customers in Eastern Oregon by 86%, a huge margin that will pay off as temperatures drop this winter.

We won a Commission order that eliminated approximately 75% of the rate increase sought by Pacific Power, including those resulting from phantom taxes, and we successfully challenged a billing process that overcharged customers during winter months. This decision alone will save Pacific Power customers \$76 million in 2006.

We fought PGE's efforts to charge customers millions of dollars in costs the company claimed were related to 2005's low hydro conditions. CUB argued that the financial loss was unproven, and that any loss the company did suffer was well within the expected risk of variability; therefore, PGE's attempt to charge customers more was inappropriate. A PUC order in this case is expected soon.

We fought efforts by PGE and Pacific Power to gain generous power cost adjustment mechanisms. These mechanisms would automatically raise rates due to relatively small changes in fuel costs, purchased power costs, plant outages, and hydro conditions.

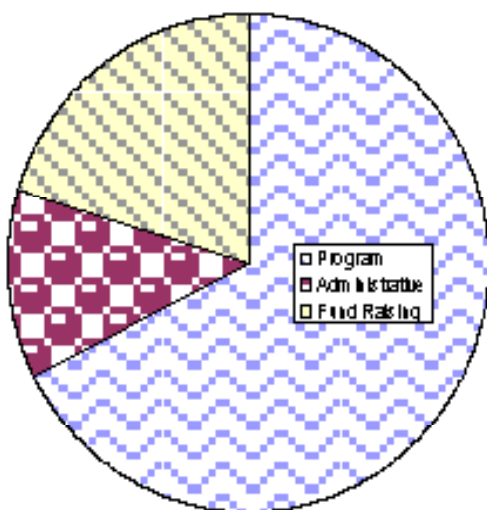
We got PGE to cut its rates related to power costs in 2006 by \$3.5 million.

We helped negotiate an agreement between the six states served by Pacific Power that will reduce the amount of costs that are allocated to Oregon customers. This will save Oregon customers millions of dollars.

CUB's Finances and Organizational Strengths

This pie chart shows how CUB spends money. It is based on our most recent audit, completed in May of 2005. It shows that the bulk of CUB's money goes to our program of advocacy and education on behalf of utility customers.

Our income comes primarily from three sources: Oregon citizens, the Public Utility Commission's Intervenor Funding Program (which allows us to recover the cost of our intervention in some of the major cases before the Public Utility Commission), and charitable foundations including a \$40,000 grant from the Bullitt Foundation.



The total budget for CUB based on this audit was \$398,000. More than two thirds of our budget was spent directly on programs and 12% was spent on administration.

In 1998, *Willamette Week* referred to CUB as “a watchdog group that fights its battles on an annual beans-and-rice budget.” We’ve come a good distance from where we were 7 years ago, but we remain a relatively lean organization. We have not changed the rate that we reimburse staff for travel in more than a decade. Our copier was donated last year (and weren’t

we excited to be able to make double-sided copies at last!). We did not have individual computers for each staff member and office DSL until September of 2003. Our website, www.oreguncub.org, became active only this year, and we unveiled an electronic newsletter, CUB Online, in March of this year (just in time to share the news of the PUC's denial of the Texas Pacific bid for PGE). Technologically speaking, we've made great strides in the past few years, and financially, it was helpful in stabilizing our regulatory work when the Oregon intervenor funding program was established. But our salaries are still below similar organization in other states, and we still work hard to minimize costs.

CUB is spending our members' money. It is given to us by generous consumers who trust us to spend it wisely and to maximize its impact. If you compare our total budget versus the rate reductions we won in 2005, we saved customers about \$500 for every dollar in our budget. But, of course, we do much more than just work to lower rates. We also work for clean energy and fair access to utility service for Oregonians. We feel good about the work we do and our effectiveness in carrying it out. We hope you do, too.