



Fall 2006

The Bear Facts

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

AMBITIOUS BUT ACHIEVABLE

"Ambitious but achievable." That's what we called Governor Ted Kulongoski's proposal to establish a Renewable Energy Standard (RES) of 25 percent by 2025. What that means is that, if adopted, Oregon's policy would require that at least 25 percent of the state's electric energy usage come from renewable resources by 2025.

Since the Governor announced that goal in January, CUB has been involved in the Renewable Energy Working Group, an effort coordinated by the Oregon Department of Energy, working out the details of an RES. Even after eight months of long discussions about all aspects of the energy industries, load growth, renewable energy capacity and other wonky topics, we stand by our original assessment: developing a "25 by 25" Renewable Energy Standard is indeed ambitious, but is very achievable.

A few key questions that CUB members might have about an Oregon RES: Why would it be good for Oregon? How does it fit with all the other energy work we've been doing over the last several years? And how are consumers protected? All great questions.

Why is a Renewable Energy Standard a good idea for Oregon? First, utilities are, by nature, cautious entities, slow to adopt new ways of doing things. Their generation systems are heavily dependent on fossil-fuel-based plants (coal and natural gas), and to move them to clean generation resources, state policy has to push them in that direction. Second, other states are implementing their own standards and so there will be a lot of demand for renewable energy generation. Oregon has many sites that are good for renewable energy facilities and, unless Oregon has its own policy, a lot of the best sites for renewable facilities will be developed by utilities and other power marketers to meet the standards in other states.

How would an RES fit with the other progressive energy policy that CUB has helped develop over the last several years? This is one of the most critical aspects of creating an RES. We are working to make sure that an RES would not undermine the public purpose charge or the Energy Trust of Oregon, for example. One way to do that is to change the focus of the public purpose funds that are spent on developing renewable resources. Rather than spending on both large and small renewable projects, we could have the Energy Trust focus on small-scale projects and leave large scale wind projects to the utilities to develop, since they would now be required to develop those resources by state law. No matter what direction we take, we want to ensure that a new RES works in conjunction with all the other good energy policy we've been working on over the years.

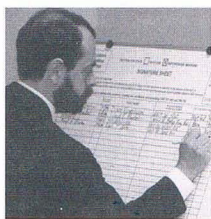
Lastly, how would consumers be protected? Does an RES mean that we'll spend whatever it takes to reach the "25 by 25" goal? The short answer is "No." The longer answer is that CUB is supporting a cost cap for the RES, which means that there will be a ceiling above which

no one will be required to spend to meet the goal. With renewable resource development costs, especially for large-scale wind farms, coming down all the time, the hope is that we can meet the goals of the RES without ever

hitting the cost cap. But we'll have the cap in place as a safety valve just in case.

Although there has been quite a bit of agreement achieved, we have much more discussion yet to go to reach any kind of consensus. But it's important to be working on the details now in order to be ready with a proposal when the legislature gets underway in January. If Oregon does adopt an RES, along with the rest of the Clean Energy Agenda, CUB and its allies will be promoting (see Bear Facts, Summer 2006), we can maintain the leadership role our state has developed nationally in renewable energy.

For information on how you can get active on supporting an RES right now, take a look at the Take Action section on page 4.



From The Executive Director

Anita Russel, the most generous volunteer that I have ever met, passed away recently. CUB will miss her. I will miss her tremendously.

When I came to CUB in 1992, it was a much smaller organization with less than 2 full-time staff (we're up to 6 today). But we had Anita, a retired school teacher who came into our office and volunteered nearly everyday. She stuffed envelopes with renewal mailings. She helped update our database. She did whatever we needed. I don't know how CUB could have survived what were some difficult years without her.

Within a couple of years, Anita became our volunteer bookkeeper, working every day. She taught herself how to create a double-ledger bookkeeping system in Excel and made sure that CUB could account for every dollar that came into the organization. In an organization that relies on thousands of individual donations, accurate recordkeeping is critically important. When we had an outside audit completed in 2003 of the two previous years, our accountant was impressed and amazed with Anita's clear records, which she managed to create without actual accounting software.

She was also generous with her contributions to CUB. Over the years, her small regular donations have added up to making her one of CUB's largest overall donors. If you count her donated volunteer time, there is little doubt that she donated more to CUB than anyone else in our history.

Anita was a rare individual who made a real difference. She was the ultimate volunteer and CUB member. We appreciate her gifts to CUB more than we can say.

We should honor her. Over the next couple of weeks, we will be considering ideas to honor her legacy and her great work. If you have a suggestion about how CUB should honor this wonderful woman, please email me at bob@oregoncub.org.

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

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.

Phone Companies Push Deregulation to Raise Rates

Oregon's largest telephone companies are beginning a push for legislation that would deregulate most, or all telephone services, allowing them to raise rates to most Oregon households and businesses. Phone companies have already been successful pushing similar plans in Idaho and, more recently, California. Consumers in Oregon need to be ready for the effort here.

The phone companies support their call for deregulation by pointing out the growing market for wireless phones which are not rate regulated, as well as the fact that some customers can now get phone service through their cable television provider.

But the local phone system is different than wireless or cable. For years, local phone service was a government protected monopoly. It had no competition and was allowed to charge customers for the cost of its equipment and for a profit. It includes many customers who do not have a wireless phone and are not considering getting such a phone. It includes elderly citizens who need a phone but live on a fixed income. It is a fundamental part of most peoples' homes.

If it is deregulated, prices will go up, and not only for local phones. In fact, cheap, regulated phone service helps keep down the price of wireless and cable phones. Knowing that people can keep a local land line phone at a low cost ensures that other types of phone companies are limited in their ability to overcharge customers.

In 1999, Qwest got the Oregon legislature to pass SB 622 which deregulated all of their new services but subjected their traditional rate regulated services to price caps. This means that Qwest can cut prices but not increase them. At that time, Qwest argued that, due to competition and because the phone industry is a declining cost industry, they needed to be able to respond to competition by lowering rates, but would not need to raise rates. Of course, the company never lowered its prices in response to competition. And now they seem to be preparing to come back and ask to remove the price caps, allowing them to raise rates.

All of this discussion is happening as part of the SB 17 Task Force, a committee set up by the legislature to examine Oregon's telecommunications law and determine what changes are necessary. Four legislators sit on the committee, as well as CUB Executive Director, Bob Jenks, who was appointed by the Governor. The

remainder of those on the committee represent different entities within the industry: local phone companies, cable companies, independent competitive phone companies, and wireless companies.

"It's been clear from the beginning what the agenda of each representative is," said Bob Jenks. "The regulated local phone companies want to get rid of regulation so they can raise prices. The wireless and cable companies want to stop any PUC regulation from being placed on their industries. CUB's agenda remains protecting access to reliable, affordable basic phone service. Everyone should be able to have a phone."

CUB's Alternative to Phone Company Deregulation

1. **Cap Prices at Current Levels.** The phone companies have failed to make a good case for deregulating prices in a manner which will allow them to raise rates. At the same time, as the telecommunications system has become a platform to offer services such as video and high speed internet service, it may be difficult to sort out the costs associated with a particular service. The solution is to retain price caps for Qwest and implement them for other local phone companies. Phone companies would keep the right to reduce prices due to competition, but not to raise rates. In a declining cost industry, where the cost components are going down, this should provide the telecommunications companies with ample profit.

2. **Increase Consumer Protection.** Complaints about phone companies top the list of consumer problems. If the complaint concerns a regulated service of the local phone company, then the PUC has a very good Consumer Complaint Division that can help. If the complaint is with a wireless company that has signed onto a settlement with the Oregon Attorney General's Office, the PUC can also help. But if it is with a cable company or another wireless company, consumers do not have a good option in Oregon for getting help. Many of these complaints reflect billing issues, where customers are not getting the deal that they were led to believe. The solution is to give the PUC the authority to handle consumer complaints over telephone bills regardless of whether the provider is a traditional local phone company or wireless or cable. (While federal law prohibits states from subjecting wireless companies to rate regulation, it has the authority to regulate terms and conditions of wireless services.) Consumers need someone to address complaints; expanding PUC authority in this area makes sense.

CUB ACTION NETWORK

TAKE ACTION!

This is a regular feature in The Bear Facts. While we're always asking our members to "Take Action" in one way or another, our more activist members (and there are a bunch of you) appreciate a corner of the newsletter dedicated to an immediate action item. Every newsletter features a current issue, and what you can do to Take Action. Here's how you can Take Action now:

ISSUE: HELP DEVELOP RENEWABLE ENERGY IN THE NORTHWEST

Background: As a region, the Pacific Northwest has been a leader in developing renewable energy resources. More and more, as a region, we need to develop progressive energy policies to maintain that leadership. More renewable resources mean a cleaner environment, increased jobs, and new industries to power our overall economy. What happens in one Northwestern state helps advance a progressive agenda in the other states in our region.

The Issue: The state of Washington currently has an initiative measure on the November 2006 ballot to establish a Renewable Energy Standard, called a Renewable Portfolio Standard (or RPS) in Washington State. (See cover story on page 1 for an overview of the effort to develop an RES for Oregon). Energy advocates in Washington have tried for five years to establish an RPS through the legislature but to no avail. Finally, the energy and environmental community came together and decided that it was time to place the issue on the ballot. They collected 337,000 signatures to qualify Initiative 937 (I-937) for the ballot, setting a requirement that 15 percent of the state's energy needs be met by energy efficiency and renewable resources by 2020. There is an active and energetic campaign to pass the measure. The measure faces its strongest opposition from industrial companies.

The issue is important because if Washington adopts an RPS, it will make it much more likely that Oregon also adopts a similar policy – although probably with a more aggressive goal.

Solution: Pass I-937, the Washington Clean Energy Initiative. It helps the region overall and sets the stage for future action here in Oregon.

TAKE ACTION: You have two ways to take action this month:

1) Come with CUB staff and other members to Vancouver, WA to help campaign for the Washington Clean Energy Initiative. Learn how to talk to voters about clean energy issues and then bring that knowledge back to Oregon to help do the same thing here! There are two dates that we are organizing to go to Vancouver:

Saturday, October 21, 2006; 11 am – 3 pm

Saturday, November 4, 2006; 11 am – 3 pm (this is the Saturday before the election)

Come to one or come to both! Either way, it'll be lots of fun helping to pass Washington's initiative and helping set the stage for more progress here in Oregon!

2) Contact family and friends in Washington State and encourage them to Vote YES on I-937. For more information, they can go to www.yeson937.org.

To volunteer to go to Vancouver or to let us know you've contacted someone in Washington to encourage a YES vote, contact CUB Organizing Director Jeff Bissonnette at jeff@oregoncub.org.

PUC Issues Rules on Utility Taxes Designed to Stop The Practice of Overcharging Customers

The PUC recently issued its rules for implementing SB 408, the Utility Tax Bill passed by the legislature last year. The PUC rules will ensure that the bill works as we and others had intended, by stopping the practice of allowing utilities to charge customers more in taxes than they paid to the government.

SB 408 passed after much public scrutiny of how taxes are established in utility rates. Rates are set to allow a utility to recover its costs (as long as they were prudently incurred), including the income taxes that the utility pays to the state and federal government. Historically, utilities have proposed that their tax liability be calculated as if they were a single stand-alone company, even though many utilities are now part of much larger conglomerates. This practice led to Portland General Electric charging customers more than \$100 million per year for taxes, while its parent company, Enron, was offsetting these taxes with losses and not paying any income taxes to government.

For the last several months, CUB has been involved in the process at the PUC to develop the rules to implement the law. The hardest part of the rulemaking was defining what is the utility's fair share of the tax liability of its parent company. The utilities, supported by the PUC staff, proposed yet again that their share of their parent's tax liability be defined as their stand-alone tax liability. This would mean that utilities would continue to charge customers for taxes in the same manner that they did before the legislature passed SB 408, a clear violation of the intent of that law.

The PUC did not adopt this proposal, however. Instead the PUC adopted a proposal to apportion to the utility a share of the taxes paid by its parent company, to be determined by the size of the utilities in comparison to that of the consolidated company. This is similar to the approach that is used to determine the utility's share of other corporate overhead (such as shareholder services, CEO salary, etc.).

CUB appreciates the thoughtfulness of the Commission's rules and its willingness to uphold the intent of the utility tax reform law despite strong opposition.

PGE Accuses CUB of Inappropriate Language in our Testimony

PGE is seeking an 8.9% rate hike and seeking a "power cost adjustment" (PCA) mechanism intended to make customers responsible for most of the risk of changes in costs between rate cases. In their rebuttal testimony they accused CUB of using inappropriate language in our testimony:

"CUB's testimony ridicules PGE and our proposed NVPC regulatory framework [PCA], using terms such as 'brazen', 'twisted in its knickers', 'misguided', 'unrealistic', 'intentional ignorance.' We believe such terms have no place in regulatory proceedings."

PGE is right. We used strong, somewhat colorful language to describe their effort to reject all recent PUC precedent and propose that if the cost of fuel or purchase power is a dollar more than projected, customers have to pay the utility 90 cents. PGE should know that such a proposal would be unacceptable to us, and also to the PUC staff and other parties in the rate case. Similar proposals have been rejected by the PUC in recent years.

PGE seems intent on making proposals that shift much of the risk of operating a utility from shareholders and management to customers. When their Boardman plant closed they filed for a deferred account to track the replacement power costs and are now asking that customers pay every single dime of such costs. Last year the PUC rejected PGE's PCA proposal which would have shifted too much risk to customers and told them to propose one that was less generous to the utility. Instead, they ignored this order and submitted a request that is even more generous to the utility. Given the circumstances, we do believe that the company is acting in a brazen, misguided, and unrealistic manner.

But we take back "twisted in its knickers."

(Note: If you wish to read the testimony that PGE's objects to, it can be viewed at www.oregoncub.org)

Pacific Power Rate Hike Slashed

CUB recently completed negotiations with Pacific Power over their proposal to raise rates by more than 13% in 2007. The result was an agreement to slash their increase by more than 60% with most customers seeing an increase of approximately 5%. However, we expect that the application of SB 408, the Utility Tax Law, will result in some of this money being refunded to customers, reducing this increase further.

Pacific Power filed this rate case early this year. The biggest factor driving the increase was a request for a significant increase in the utility's allowable profits. CUB argued against this increase, and the agreement keeps their profit margin at approximately today's level without an increase. The 5% cost increase that did go through included fuel cost increases, pension increases, and expanding power supply.

Because the utility tax law requires the utility to refund any taxes it collects above the utility's fair share of the consolidated taxes and the Commission is expected to adopt strong rules to implement SB 408 (see Taxes article on page 5) we expect that customers will see a refund on taxes collected in 2007, which will further reduce these rates.

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