



# 2006 REPORT

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

---

CUB began our year holding the line for customers when Warren Buffet came looking to purchase Pacific Power through his utility holding company, MidAmerican Energy Holdings Company (MEHC). We expressed concern that MEHC was a Midwestern utility which burns a lot of coal, and was buying an Oregon-based utility that also burns a lot of coal. We questioned whether MEHC understood that Northwest residents want Pacific Power to invest in renewables and energy efficiency, not more coal. CUB agreed to the sale only after MEHC agreed to a long list of conditions, aimed at protecting Pacific Power's integrity as a local company, its customers' pocketbooks, and the environment.

Unfortunately, our worst fears seem to be coming true. Since buying Pacific Power, MEHC has announced plans to invest in at least two new large coal plants. In addition, the Company opposed a clean energy initiative in Washington State. (It passed despite MEHC's opposition.) Finally, at a forum sponsored by Pacific Power to discuss climate change, the utility openly questioned the basic scientific consensus that has developed concerning global warming (*i.e.*, that larger concentrations of CO<sub>2</sub> causes the Earth's climate to warm.)

Pacific Power's new owners seemed surprised at CUB's response. We told them "no," and they're not used to hearing that. Oregonians do not want to fund the development of new coal plants that will contribute to the global warming problem for the next 50 years. To MEHC, we are a consumer group, not an environmental group, and we should only care about prices -- not the planet.

We have long believed that environmental costs will end up in energy rates sooner or later. We can consider the costs now or pay dearly later.

***Approximately 40% of US CO<sub>2</sub> emissions come from the electric industry.*** That's why this is so important. While CUB is heavily involved in fighting for customers in rate cases and other Public Utility Commission forums, we are also increasingly involved in the effort to get electric utilities to address their contributions to global warming, and begin the critical transition to clean energy. We have also become convinced that the sooner we begin the effort, the cheaper it will be for customers, and keeping rates affordable is vital to us.

As you follow our activities through 2007, it is important to keep this in mind. Judge our work, not just on how much we reduce utility rates, but also on the progress we make on confronting the causes of global warming.

***Finally, please consider making a tax-deductible contribution of \$50 or \$100 to the CUB Educational Fund's Clean Energy Agenda.***

This Agenda, which we will work hard to turn into viable policy for next year's legislative session, is both the culmination of a great deal of work and the beginning of a massive shift toward safe and affordable renewable energy that will build our economy even as it lights and warms our homes.

Your small but hardworking CUB staff:

# Global Warming

Global Warming is the single, most important issue facing the electric industry. CUB first wrote about global warming in our newsletter more than fifteen years ago, long before it had become a commonly accepted part of the energy discussion. In 2006, we fought global warming over and over again:

- We worked with the Governor on his proposal to require utilities to produce 25% of their power from renewables by 2025. CUB staff serve on the Governor's Renewable Energy Working Group that is helping to design legislation to require utilities to invest in renewables.
- CUB staff also serve on the Governor's Carbon Allocation Task Force which is developing methodology to regulate carbon emissions in Oregon.
- CUB has led the effort to stop Pacific Power from building new coal plants which will increase the amount of global warming pollutants emitted from Oregon electricity consumption.
- We worked to expand the Energy Trust of Oregon's energy efficiency programs for natural gas into central and eastern Oregon.
- We got MEHC to agree to acquire 400 MW of renewables in the negotiations for their purchase of Pacific Power.
- We have kept the pressure on PGE to invest in new renewables, such as the Biglow Canyon project in Eastern Oregon.



*Our staff, last year -- and this year, too*

# Utility Consolidation

Last year, Congress repealed the Public Utility Holding Company Act (PUHCA) of 1935, that had 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, as regulators will ensure that ratepayers fund those investments. In fact, the repeal of PUHCA will more likely increase the amount of money invested in *buying* utilities, not the money invested in utility infrastructure.

In 2006, the PUC approved the transfer of ownership of Pacific Power from ScottishPower to MidAmerican Energy Holdings Co. (MEHC). As part of that deal, CUB won important protections that gave us access to information from the holding company and its parent, Berkshire Hathaway. We won agreement that Warren Buffett and other large shareholders of Berkshire will not try to influence Pacific Power. We won \$40 million in rate credits. We won agreements to invest in renewable energy and energy efficiency.

As for PGE, 2006 was a year where PGE's ownership was not up in the air for a change. However, a little known hedge fund called Harbinger has purchased more than 7% of PGE's common stock. This is worrisome, as Harbinger purchased stock in a Montana utility, and then demanded that the utility be sold. CUB has been working for the last several months to urge the PUC to investigate Harbinger and require that Harbinger file for Commission approval (subject to conditions) of their ownership of PGE.

Cascade Natural Gas is the latest Oregon utility being purchased. Montana-Dakota Utilities Company is seeking to acquire Cascade's natural gas customers in eastern and central Oregon. This case is just beginning so CUB is currently investigating and will have more information about the proposed acquisition in 2007.

# 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.

Beginning in 2005 and continuing in 2006, CUB has led the fight to eliminate phantom taxes. In 2005 the State Legislature passed SB 408 that directed the PUC to develop rules to eliminate that practice. Throughout the rulemaking process, which took most of 2006, the utilities attempted to redefine SB 408 in a manner that would do little to stop the practice of overcharging customers for taxes.

CUB spent a great deal of time in this rulemaking, attending workshops, submitting written comments, and working to ensure that the rules were effective in closing the loopholes that have allowed this practice. We were successful, and the Commission adopted rules that were supported by CUB and opposed by the utilities.

In addition, CUB fought Pacific Power over the tax adjustment that we won in their 2005 rate case. Pacific Power sought to get the Commission to overturn its decision, which approved CUB's \$26 million reduction in rates related to taxes. The Commission did agree to make a minor change in the decision, but kept intact the findings that rates need to be reduced to recognize that Pacific Power's holding company structure reduces the taxes that flow to the state and federal government.

## Rates

CUB was founded by voters 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 2006, CUB fought for the following rate reductions for customers:

**Pacific Power.** Pacific Power sought two different rate increases. First they sought to overturn the PUC decision to implement CUB's tax adjustment which reduced their rates by \$26 million. The PUC rejected Pacific Power's proposal, made slight revisions to the tax methodology, and continued this important adjustment. Secondly, Pacific Power sought an increase of \$110 million in rates which would have increased rates by 11% for residential customers and 20% for industrial customers. Much of the increase was due to a desire by Pacific Power to have the PUC increase their profit margin. CUB successfully challenged this aspect of the case and held the increase to under 5% for residential customers.

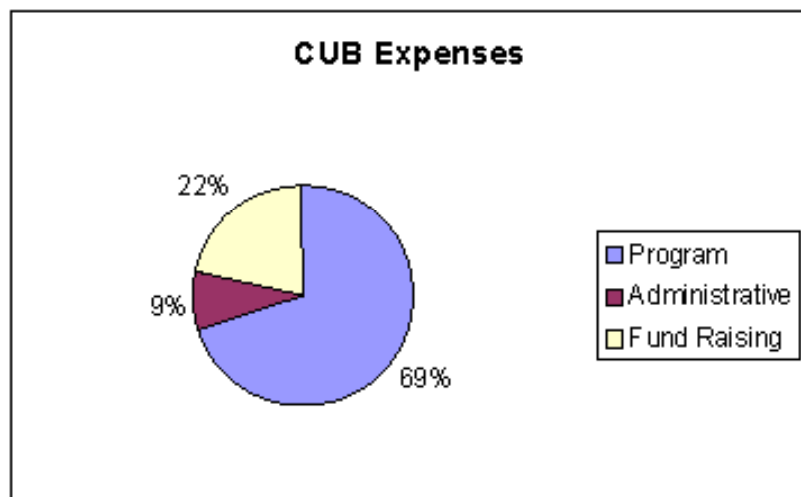
**PGE.** PGE also had two rate increase proposals this year. In the first, they asked the PUC to allow them to charge customers approximately \$50 million to compensate the company for the cost of replacing the power not generated by their Boardman coal-fired plant, because of its 5-month closure. CUB opposed this request and argued that, under the traditional approach to plant outages in Oregon, PGE should receive no more than \$1 million for the Boardman closure. In the second case, PGE sought an 8.9% increase, plus an additional increase to begin paying for their proposed \$180 million investment in smart meters. CUB opposed much of the increase, and was successful in getting the company to withdraw its request for the smart meter increase. The PGE rate cases are still before the Public Utility Commission with a decision expected early in 2007.

**Qwest.** Qwest has begun an effort to repeal the price caps that prevent them from increasing their telephone rates. They have proposed to an Oregon Task Force that their rates be fully deregulated. CUB opposes their efforts and has argued that deregulation of Qwest will only lead to higher rates for customers.

# CUB's Finances and Organizational Strengths

This pie chart shows how CUB spends money. It is based on our most recent audit, completed in July of 2006. 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 \$20,000 grant from the Bullitt Foundation.



The total budget for CUB based on this audit was \$415,832. More than two thirds of our budget was spent directly on programs and this year we were able to reduce our administrative costs down to 9%.

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 8 years ago, but we remain a relatively lean organization. Members donate money to us for us to use to

represent customers, and we have to be as efficient as possible, and stretch that money as far as we can. Our copier was donated. We did not have individual computers for each staff member or office DSL until September of 2003. Our salaries are still below similar organizations in other states, and we still work hard to minimize costs.

CUB members are making an investment when they give to CUB. If you compare our total budget versus the rate reductions we have already won in 2006, we saved customers more than \$300 for every dollar in our budget. This figure will grow as the PGE rate decisions are issued, and as customers begin seeing refunds of tax dollars that utilities overcollected in 2006. 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.

If you do, we would encourage you to make a tax-deductible contribution to the CUB Educational Fund