Winter/Spring 2007

The Bear Facts

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

CUB Pursues Clean Energy Legislative Agenda

CUB is leading the charge to build on Oregon's recent successes in developing progressive energy policy. The November election brought new leadership to the Oregon House and to committees in both the House and the Senate when the session opened in January.

Before the election, CUB put together an ambitious, proactive agenda to take into the session. At the top of the list is extending the popular and effective funding for energy efficiency and renewable resources that happens through many Oregon customers' electric utility bills. CUB is calling for those funds to be collected until at least 2022. Currently, the collection of these funds is scheduled to end in 2012.

There will be a lot happening in the 2007 Legislative Session if CUB has anything to say about it!

Another key agenda item is the establishment of a Renewable Energy Standard (RES). The standard calls for 25 percent of Oregon's electric energy needs to be met by renewable resources by 2025. This is something we can absolutely accomplish and a higher standard than the 20 other states who have passed some version of RES have set as their goals.

CUB is also on the lookout for attempts by the utilities to water down the bill from the 2005 session that ended the practice of collecting taxes in rates that are never paid to government. The Public Utility Commission adopted rules that were supported by CUB and while minor adjustments to the law might be appropriate, CUB doesn't want to give the utilities any opportunity to undermine the central idea of the law itself, which is that customers should not be paying phantom taxes.

Lastly, CUB is part of an effort to raise the issue of global warming in the legislature. The effects of global warming will have a significant impact on the utility rates of consumers, and the more we can do to minimize those impacts in the short term, the better off we'll be in the long term. CUB will help offer a package of global warming and carbon reduction proposals in the current legislative session. Stay tuned on those important proposals.

CUB has been very successful in past sessions, mostly because of our active members who are always willing to make phone calls, write letters or send e-mails at key points in the legislative process. It will be just as important in 2007 to have that base of support. In fact, go to page 4 for this session's first opportunity to Take Action on one of CUB's top-priority bills.

From The Executive Director

Here at CUB we like bears. We have used a bear cub as our logo since the 1984 initiative campaign that created us to represent the interests of Oregon's utility customers. But we never believed that there was a real connection between bears and utilities.

But things are connected. Today, we find that the federal government is proposing to list polar bears as threatened under the Endangered Species Act due to global warming. And of course one of the primary sources of global warming pollution is the power plants that generate the electricity we consume.

The artic ice on which polar bears depend is melting and breaking up, leaving bears stranded. A significant portion of the electricity we use in Oregon comes from coal power plants that are a major source of carbon pollution that is melting the artic ice and causing temperatures to rise across the globe.

Consumers of electricity have to stand up and put a stop to this. Last month, we stopped Oregon regulators from approving a request by Pacific Power to invest in new coal plants, but the company seems to be moving ahead without the support of Oregon. We need to stop them. (*See page 6.*)

Earlier this month, the *Oregonian* attacked PGE's voluntary renewables program by claiming that its marketing costs were higher than other similar programs around the country. The *Oregonian* was wrong. The marketing costs in Oregon are less than most other states, and the programs allow customers to buy renewable power for one-third the cost of similar programs. (*See page 5.*)

Finally, in the legislature, our clean energy agenda, which would greatly increase the development of renewable energy, is running into opposition from some businesses who seem to care little about the future of bears or people. (*See page 4 for news about the legislature and action you can take to make a difference.*)

It is time for us as consumers to put our collective foot down. We must demand that utilities and government regulators provide us with clean, affordable power. An awful lot is riding on our success.

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).

CUB Rolls Back PGE's Rate Hike and Plans for Future Rate Hikes

In January, the Oregon PUC released its decision in PGE's General Rate Case, a case that's been a priority for CUB's staff over the last 9 months. PGE was seeking a rate increase of 8.9% in three stages, and they were seeking the ability to adjust rates so that customers would reimburse the utility whenever the utility's forecast of costs was wrong. They didn't get what they wanted.

By the terms of this decision, residential customers will see their bill increase by about 3.1% during the course of three timed phases. The first phase was decided last fall, with an increase in rates for residential customers of 2.6%. The January decision affects the next two phases and those two combine for an increase of about 0.5% for residential customers. First we had a rate decrease in January 2007 of about 1.4%; later, when PGE's new power plant comes into service, customers will see an increase of about 2%.

PGE wanted a rate increase in part because PGE wanted to increase their profit margin. PGE asked for an increased Return on Equity (ROE) from its current 10.5% to 10.75%. CUB's analysis, using the models that the PUC has adopted in previous cases, called for an ROE of 9.9%. The Commission cited CUB's testimony and reduced PGE's ROE to 10.1%. This is slightly higher than CUB recommended but we felt that the PUC granted too high a profit margin in the last case, so it was an important victory that the PUC cut PGE's profit margin this time.

PGE also lost its battle to achieve an adjustment mechanism, called a Power Cost Adjustment or PCA, that would charge customers each year for the difference between actual power costs and the costs that were forecast in rates. PGE's proposed PCA would have required customers to pay 90% of all costs as soon as those costs went even a dollar above the forecast level. CUB said no.

Instead, CUB suggested a PCA that required the utility to absorb the first $24 million of additional costs. After the utility absorbed the first $24 million it would be able to pass on a share of additional costs, but only if it could prove that the costs were having a significant adverse effect on the company's earnings. The Commission adopted most of CUB's proposal, so that PGE will only be allowed to make rate adjustments when power costs are significantly different than forecast and are therefore having a truly significant impact on the utility.

In addition, the Commission adopted CUB's recommendation for a new review of costs if PGE's new power plant is delayed. Under the Commission Order, if that plant is delayed more than 60 days, there will be a review of PGE's costs to determine whether the rate increase associated with that plant is still reasonable. CUB argued for such a provision because we have seen more than a few utility investments delayed well beyond the period that they are supposed to have come into service. Shortly after the Commission decision, PGE announced that the power plant will come on line in April rather than on March 1st. Now, if the plant is delayed beyond April 30, then there will be a new review of PGE's costs.

There was some discussion in the media and the PUC regarding PGE's influence on a Standard & Poor's credit report, cited by PGE in their rate case testimony. S&P had allowed PGE to substantially alter the report and then PGE used the report to support their argument for a PCA that shifted nearly all risk to customers. The PUC rejected PGE's proposal.

The combination of the lower profit margin for PGE, the PCA based on CUB's model, and revisiting the costs of PGE's new power plant in the case of a long delay, will save customers a good deal of money over the next several years (the last general rate case before this one was in 2000-01). We're glad this one is over after all the time we've spent and even happier that it was decided favorably for customers.

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,
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or call (503) 227-1984.
Your gifts ensure that CUB will always be around to fight for what you believe in.

CUB ACTION NETWORK

TAKE ACTION!: Support Renewable Energy

Every CUB newsletter features an issue, some background and how you can Take Action to help out. Generally, it involves making a phone call or sending an e-mail. Usually, it doesn't take more than a few minutes. But it will make a huge difference. This time, you can Take Action on one of the hottest issues in the legislature.

ISSUE: Passing Senate Bill 373: a Renewable Energy Standard for Oregon

Background: SB 373 would establish a Renewable Energy Standard (RES), requiring that 25 percent of Oregon's electric energy must come from renewable resources by 2025. A Renewable Energy Standard is good for consumers because it protects against rate volatility; it's good for the environment because we get a better, cleaner diversity of generating resources; it's good for rural areas because it spurs economic development; it's good for Oregon's economy because it encourages new industries based on the clean energy economy. If an RES is adopted in Oregon, it will be one of the key ways the state starts to mitigate the effects of global warming.

TAKE ACTION: Contact **both** your state representative and state senator and urge them to **vote YES on SB 373**. It is important for legislators to hear about grassroots support for renewable energy.

If you don't know who your state representative or state senator is, you can go to the Oregon State Legislature's website and find out. Go to: http://www.leg.state.or.us/findlegsltr/ and type in your address, and the information will pop right up. Or you can call the State Capitol directly at 800-332-2313 and ask the operator to connect you with your legislator's office.

When you do make the phone call or send your letter or e-mail, let CUB's Organizing Director Jeff Bissonnette know, at jeff@oregoncub.org .

HB 2621: Phone Companies' Bill of Dreams

CUB is strongly opposing HB 2621, which would fully deregulate rates charged by phone companies in Oregon over the next three years. Phone companies would be allowed to charge customers whatever they want for telephone service and you can bet it won't be less than they charge now.

The traditional wireline phone companies are rate regulated. For decades we had a deal with them: if they built and maintained a telephone network, the state would establish rates that would allow them to recover their investment and make a reasonable profit. The phone companies that provide home telephone service in Oregon (Qwest, Verizon and CenturyTel) are no longer satisfied with this arrangement and are lobbying to prohibit the PUC from establishing rates.

They argue that regulation isn't needed because of competition from wireless phones, but basic wireless phones cost around $30/month to $35/month as a base rate, while the base rate for residential phone service is around $13.50. This gives them a lot of room to raise rates.

The argument of the phone companies is similar to what we heard from the cable industry a decade ago when the U.S. Congress was considering deregulating the rates of cable television companies. Since Congress deregulated the cable industry in 1996, rates have increased at a rate well above inflation, typically more than 10% per year.

HB 2621 has been assigned to the House Consumer Protection Committee and CUB will be at the committee to oppose it.

The *Oregonian* Is Wrong About PGE Renewable Program

We don't hold back criticism of Portland General Electric. But we disagree strongly with *the Oregonian*'s criticism of PGE's voluntary renewable power program in a recent editorial. The *Oregonian* cites the percentage of each dollar that goes into marketing, but fails to point out that the reason the percentage appears high is because the cost of the green power itself is so low. Oregon's green power programs are well-designed, and allow customer to purchase 100% of their power from new renewable sources of energy for a cost that is lower than other utilities in the country.

First, we must point out that the *Oregonian*'s main criticism is simply wrong. The *Oregonian* article says that Oregon's is one of the most expensive nationally when it comes to marketing. The *Oregonian* has it exactly backwards. The administration and marketing costs of PGE's program are significantly less than those of similar programs around the country. An average participating PGE customer pays an additional $8 per month to ensure that 100% of his or her power comes from new renewable resources. Around the country, other utilities charge an average of $24 per month for similar programs. PGE's administration and marketing costs are 56% of the additional monthly payment, or about $4.50 per customer. The federal Department of Energy cites a figure of 29% marketing for other utility programs. 29% of $24 per month works out to about $7 per month. By our math, $4.50 is less than $7.

The real question the *Oregonian* ought to have investigated is why Oregon is able to supply 100% of a customer's power with green energy so much more cheaply ($8/month) than other states ($24/month). The answer is that Oregon's program is well-designed, carefully regulated, uses competitive bidding, and does not allow for utility profit.

In the late 1990s Enron, big power marketers, industrial customers, and free-market ideologues were pushing electric deregulation. Not only was CUB instrumental in stopping Enron-style deregulation in Oregon, but we devised a way (via SB 1149) to bring renewable power options to Oregonians, while continuing to protect customers in a regulated electric system. The renewable power choices that are now offered to customers through PGE have the highest voluntary participation rates in the country.

Currently, a committee overseen by the Public Utility Commission (PUC) designs the criteria for the renewable power products to be offered to customers. In addition to criteria for the power itself, the committee includes requirements ensuring that the renewable products are adequately marketed. The PUC oversees the entire process to ensure that customers who pay for renewable power are getting high-quality, reasonably-priced renewable power, and that the utility does not profit from the program. Oregon has proven that, through wholesale bidding, we can offer Oregonians renewable power at a low price.

At the time we started the renewable power programs, developers of renewable projects in the Pacific Northwest were struggling to survive. It is not a leap of faith to claim that Oregon's voluntary enrollment renewable power programs helped to jump-start the renewable power industry in the Northwest.

The programs not only helped to change the marketplace, by proving that customers support investments in renewables, they have also had a significant environmental impact. In 2005, through these programs, Oregonians purchased enough renewable power to serve 44,000 homes. This reduces CO_2 emissions by approximately 350,000 tons — the equivalent of taking 60,000 cars off the road.

Today, utilities across the region are investing in renewable resources. Seven large wind farms have been developed in the Northwest since October 2005. Washington and California have passed laws requiring utilities to purchase renewable power for all their customers. Oregon's legislature will soon be considering such a law for our state.

Oregonians should be proud of their extremely successful and inexpensive renewable power programs. These programs are the envy of utilities around the country, their environmental impact is real and measurable, and their contribution to the development of the renewable power industry in the Northwest is admirable. We encourage everyone to sign up.

PUC Rejects Pacific Power's New Coal Plants – Company Not Giving Up

In January, CUB achieved a major victory when the PUC rejected Pacific Power's request to approve a plan to build two new coal plants.

CUB argued that the plants would significantly increase the amount of greenhouse gas pollution from Pacific Power's system, and placed enormous financial risk on ratepayers. The utility will expect customers to pay the costs of any future greenhouse gas regulation with regard to the plant, and there is no doubt that regulation is coming.

Pacific Power already is heavily coal-dependent. Approximately 70% of its load is met through coal generation. This is well above the U.S. utility average of 45%. Greenhouse gas regulation will likely put pressure on Pacific Power's rates to increase in the coming decade, even without adding any new coal plants to their system.

Unfortunately, Pacific Power seems to be intent on going ahead with the plants, despite the thumbs-down from the State of Oregon regulators. Pacific Power serves customers in 6 states and is under pressure from interest groups in Utah to build new coal plants. The Utah PUC has urged Pacific Power to beef up its power sources to meet the electricity needs of a growing population and summer peak loads caused primarily by a high use of air conditioning. Since the plants would be in Utah, they are viewed as a form of economic development for the state.

CUB will continue to oppose these plants. When you are in a hole, the first thing you do is stop digging.

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