The Bear Facts

Citizens' Utility Board of Oregon

Winter 2007-2008

You've Got To Be Kidding!

You'd think they'd take the hint. Qwest proposed deregulating its pricing to a governor-appointed task force in 2006, and again to the Oregon legislature in 2007, and both times were told "NO." But like a child who just won't take no for an answer, Qwest has now filed a deregulation request at the Public Utility Commission.

They're not calling it deregulation. Here's how they describe their proposal in the filing:

> *Qwest's proposed* ***price plan*** *is designed to preserve for residential and small business customers the availability of affordable telephone service, while* ***providing Qwest the flexibility*** *to respond to market forces in a very competitive environment.* [Emphasis added.]

What their "price plan" does is raise the rate of basic local phone service and erase the price caps on many other additional phone services. And what *that* means is that they will have the "flexibility" to make more profits, since telecommunications is a declining cost industry.

Qwest's filing would allow them to opt out of their current system of price cap regulation. The current system is the one they chose out of a range of possible options in 1999, when Senate Bill 622 created the model of price cap regulation for Oregon. There was an assumption by those involved in the passage of SB 622 that only another legislative change would allow a change in that status. Whether Qwest can opt out of their current price cap regulation is a primary issue for CUB.

Qwest files for deregulation, wants to raise your rates, and no one is surprised.

Qwest is seeking price deregulation under a statute that allows the Commission to set prices without examining a utility's profit. A fundamental question, however, is whether this is allowed. The Commission uses its regulatory power to set prices; can it use the same power to deregulate and *not* set prices? We are skeptical.

At stake is a great deal of customer money, and while the burden of increased rates would fall on every one of Qwest's customers, those hardest hit would be those with the least income who have only a single basic phone line. Those customers would see at least a \$2/month increase for basic service, and then potentially unlimited increases after that. All other phone services would be immediately eligible for unspecified (and uncapped) levels of price increase, including directory assistance, caller id, call waiting, unlisted numbers, and other optional phone services. (Voice mail service has been deregulated for some time and DSL service has never yet been regulated.) So, just for starters, Qwest could earn an extra \$2 million per month on basic phone service, with greater increases from these additional phone services, *and* any increases they add to basic after the 4-year period is up.

Now, lest you think that Qwest is cold-hearted, they have offered a \$1 million investment in network infrastructure in places that they claim might not have been cost-effective to build. And they are also promising ***up to*** an additional \$1 million for high speed connections for Oregon K-12 schools, but no base level of investment is guaranteed.

"Wait a second," you say to yourself, "didn't I just read in the paragraph above that Qwest could earn an additional \$2 million *a month* with potential rate increases under their plan? And they are offering up maybe \$2 million *total* in return?" We had to read that a couple of times ourselves to believe it.

We're not impressed with the \$2 million offer, or the arguments put forth in Qwest's filing. But Qwest has successfully pursued this kind of rate deregulation in other states, and so CUB will fight hard on this filing. And, as always, we'll need our members' help to keep Qwest's hand out of the proverbial cookie jar. Stay tuned.

From The Executive Director

Dear Members,

As we close out 2007, it will go down as a year of success, but at the same time one in which we recognized that the challenge ahead is enormous.

We passed the Renewable Energy Standards legislation, which requires that Oregon's major electric utilities generate 25% of their energy from renewable sources by 2025, and allows for increased investment in energy efficiency programs. It is an important step forward for Oregon in addressing climate change.

As we continue working to address global warming, we need to build on this work, and we hope for activists all over the world to join us. We should have no illusions that this will be easy. The work that lies ahead is enormous. Our families — and families all over the world — are going to continue to consume energy, but we must do so in new ways that do not contribute to climate change. This requires a drastic change in energy production and consumption.

My daughter is six and I worry about what the world, and what Oregon in particular, will look like when she is my age.

As we end 2007, we need to be worried about the future, but we should also stop and celebrate what we accomplished this year. We took a big step forward in dealing with Oregon's contribution to global warming.

It is not the top item on my daughter's Christmas list, but it is the one that I am proudest to give her.

Bob Jenks

Bob Jenks
Executive Director & CUB Charter Member

The Bear Facts is the periodic newsletter of CUB and the CUB Educational Fund.

CUB

610 SW Broadway, Suite 308
Portland, OR 97205
(503) 227-1984 (phone)
(503) 274-2956 (fax)
cub@oregoncub.org
www.oregoncub.org

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

Avista Seeks Rate Hike

Avista Utilities, which provides natural gas to 94,000 Oregon customers in Southern and Eastern Oregon, has filed for a general rate hike of $3 million, or 2.6%. CUB has just begun analyzing the company's request. But it is already clear that they are asking for too much. For example, they are asking that their return on equity (profit margin) be increased to 11%, when other utilities in Oregon have profit margins of around 10%.

There are several issues that CUB expects to address in the rate case. Avista is implementing a smart (or electronic) metering program. Also, the company is attempting to improve its financial standing as the company is still recovering from the risks that it took in unregulated businesses a few years ago.

CUB will spend a significant amount of time pouring over this case for the next several months to ensure that if Avista rates increase, that increase is limited to only what is necessary.

REDUCING THE HEAT

Activism to Halt Global Warming

If you'll excuse the pun, global warming is a hot topic. In May 2005, the CUB Board of Governors adopted a policy on global warming that underscored that our board was "increasingly convinced by the science underlying global climate change and (was) increasingly concerned about the potential financial, environmental and social impacts of global climate change." The board concluded its policy statement by saying, "CUB supports policies and changes to policies that will reduce Oregon's emissions of greenhouse gases." Of course, this wasn't the first time that CUB had spoken on global warming. The issue made its first appearance in a newsletter back in the 1980s.

But even in May 2005, CUB hadn't yet been joined by many others taking a strong position to address global warming. But two and a half years later, the issue has become preeminent. A global warming documentary won an Oscar, and former Vice-President Al Gore and the Intergovernmental Panel on Climate Change shared the Nobel Peace Prize for their efforts to educate the public and promote policies to reduce greenhouse gas emissions. And the issue is covered in one way or another by scores of newspapers and magazines on a daily basis.

That level of public discourse comes about for one reason: ordinary, everyday people are becoming more and more concerned about global warming and are demanding action to effectively reduce the impact of climate change.

Here in Oregon and the Northwest, that trend is clear. In the past year, Oregon Governor Ted Kulongoski had two policy groups – the Carbon Allocation Task Force, of which CUB attorney Jason Eisdorfer was a member, and the Climate Change Integration Group – studying how to implement a state global warming plan adopted back in 2004. The 2007 legislature adopted a global warming bill (HB 3543) setting carbon reduction goals for Oregon, creating a Global Warming Commission to coordinate the State's response to climate change, and funding a Climate Change Research Institute in the higher-education system to study the specific impacts of climate change here in Oregon.

But Oregon acting alone is not enough. Regionally, Governor Kulongoski took a leadership role by creating a regional agreement with 5 other western states (AZ, CA, WA, NM, UT) to form the Western Climate Initiative (WCI), jointly working on a regional approach to global warming. The first task being tackled by the WCI is the development of a "cap-and-trade" system, designed to set hard limits on the amount of allowable carbon emissions, and to then cause those limits to decline over time. While it would be preferable to have a cap-and-trade system established at the federal level, these governors feel that immediate action is necessary. So the next best thing is to develop an effective system at the regional level, both to start the regional emissions decline and to demonstrate how it's done.

In addition, the Washington-based group, NARUC, just last month passed the following Resolution: "That the National Association of Regulatory Utility Commissioners, ... supports the enactment of federal legislation intended to reduce GHG emissions ... " and also "That the Task Force on Climate Policy should consider and develop, as appropriate, proposed resolutions for NARUC's consideration addressing additional market mechanisms including, but not limited to, a carbon tax and a load-side cap... " Things are definitely moving on the carbon regulation front.

Right now, the big question is: What can the Oregon legislature do in its supplemental session in February 2008 to help things along? If the legislature can act in February, it can provide support to the Oregon negotiators in the WCI process by underscoring what we expect to see come back from that process. And that can help lay the foundation for effective, broad-based work in the 2009 session.

CUB is actively working with other environmental groups, faith organizations, business groups and, yes, even utilities to try to find an agenda that a wide range of interests can support. It's not easy and there's a long way to go. But the conversation continues because public support for action is so strong.

Over the coming months, CUB members will be seeing a lot of information about global warming in our newsletter and on our website. You will have many opportunities for action, helping to push policy makers and other leaders to act to reduce global warming. We hope that you will continue to be as responsive as you always are. Because this time, the issue just doesn't affect our pocketbooks. It affects our planet.

CUB Monitors Energy Efficiency Plans

When a utility plans for its power supply, it needs to plan years ahead. That process goes through an approval process at the Public Utility Commission called the IRP, or integrated resource planning process. Increasingly, the "least cost" and "least risk" investments that utilities are required to make for approval of their IRP involve cost-effective energy efficiency. Today, saving energy is often very cost-effective, helps address the issue of global warming, and should come before generating new energy.

That's why when CUB was helping to write the Renewable Energy Standards in the 2007 Legislative Session, we included the ability for utilities to increase their energy efficiency investments. We are big fans of saving customers money and cleaning up the system, both of which energy efficiency programs can accomplish. A few weeks ago, we are happy to report, both PGE and PacifiCorp filed documents with the PUC signaling their intentions to invest more in energy efficiency. Overall, this is a good thing.

One issue we have with PGE's filing is PGE claiming that they are subject to lost revenues from energy savings; after all, the point of energy efficiency is to cut back on the product that they are in the business of selling. PGE claims that they could be losing up to 4 cents out of 8 cents per kilowatt hour (kWh) on electricity sold, in fixed costs (i.e., poles and wires). They are asking for a "lost revenue recovery mechanism" to reimburse them for any such lost revenue.

CUB is skeptical on two aspects of this argument. Even if PGE does lose money on their fixed costs, we believe it would be no more than about 2 cents/kWh. But we actually believe that because of load growth, or more customers in the PGE territory, that there should be sufficient customer revenue to cover those fixed costs.

If PGE is indeed losing money because of energy savings, they may need to file a rate case to address the issue. That would at least give CUB a way to analyze the numbers. In this filing, PGE has given no numbers to support their lost revenue claims. CUB won't support any expenditure of customer money without evidence for the need. There are always opportunities for utility companies to hedge their bets and line their pockets. That's why CUB is involved every step of the way.

More energy efficiency is only one of many aspects of the Renewable Energy Standards that will save customers money and clean up our electricity system.

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Citizens' Utility Board of Oregon
PO Box 6345
Portland, OR 97228

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