The Bear Facts

Citizens' Utility Board of Oregon

Spring 2008

Qwest Proposes to Deregulate and Raise Phone Rates

Oregon's largest phone company, Qwest, has proposed a radical plan to immediately raise rates and deregulate phone services over the next three years. Once rates are fully deregulated the phone company would be able to add additional rate hikes. Of course, the company pretends that their proposal does not deregulate rates, but that is nonsense. Under Qwest's plan, the Public Utility Commission of Oregon would no longer have the power to establish rates that are "just and reasonable," which has been the basis for establishing regulated utility rates for decades.

Service	Increase
Residential Telephone Line	**15.63%**
Residential Measured Telephone Line	**11.17%**
Call Forwarding Variable	**22.45%**
Call Waiting	**100.00%**
Call Waiting ID	**20.00%**
Caller ID - Name and Number	**26.05%**
Caller ID - Number	**36.36%**
Last Call Return	**33.90%**
Selective Call Waiting	**20.00%**
Three-Way Calling	**18.64%**
Message Toll - Residential	**25.00%**

CUB's estimate of likely Qwest rate increases based on events in Washington state following deregulation.

Under Qwest's proposal, rates for basic local phone service would be allowed to increase immediately by $2/month or 15.6%. Rates for Extended Area Service would remain where they are and all other retail services would be deregulated, allowing unlimited rate increases.

While Qwest does not specify what it would do with these prices after deregulation, we know that they intend to raise rates. In Washington, Qwest got a similar plan passed and immediately raised rates significantly. (See the chart on this page for what we expect the increases to be, based on what we saw in Washington from Qwest.)

Qwest claims that this is not deregulation and that the PUC would have the ability to reregulate rates in the future. But such a claim is deceptive. Their plan would give the PUC the ability to investigate Qwest's rates, but the Commission would be limited in its ability to require rate reductions, as long as Qwest could find a single provider with rates for a similar service that was within 10% of its price.

This means that Qwest could raise your phone bill to $70/month as long as it could identify some other provider that was offering a similar set of services for $63/month. If they could identify someone selling phone service for $100/month, they could charge you $110/month.

So, CUB projects that Qwest's plan would raise residential phone bills by more than $20 million per year initially and a much greater amount over time. In exchange for these increases, they are promising to invest an extra $2 million into expansion of DSL service. This does not even come close to being a proposal that is reasonable.

WHAT'S INSIDE:

From The Executive Director

Dear member,

Often people see our core mission as fighting utility rate hikes, but the truth is a little more nuanced. The purpose of regulated utilities is to invest in the massive infrastructure necessary to provide us with electricity, telecommunications and natural gas. Electric generating plants, a network of wires and poles for telecommunications and electricity, telecommunication switches, and natural gas pipelines are the stuff that utility rate cases are normally about. When utilities make such investments, customer rates often go up as the new investment goes into ratepayers' bills.

CUB has supported a variety of utility investments, even knowing that they would raise rates. Energy efficiency is a good example. CUB has pushed hard to get utilities to invest in efficiency programs, knowing that such investments would raise rates in the short term, but recognizing that in the long term these investments will actually reduce costs and reduce our utility bills.

Today, we are facing massive rate hikes by Oregon's two largest utilities, PGE and Qwest. But these rate cases contain almost no new investment in the infrastructure that provides utilities service. PGE simply wants to increase its staff and its profits. Qwest simply wants to increase profits but says very little about where the additional money will go.

I have been involved in nearly every significant Oregon utility rate case over the last 15 years, and these two cases are highly unusual. Utilities normally come in and ask for higher rates when they need to add a new investment. And to have not one, but the two largest utilities in the state, both seeking rate hikes that have no basis in traditional utility regulation is quite surprising.

I expect utilities to be greedy. I expect them to ask for larger rate hikes than are necessary. But I am shocked to see utilities asking for hundreds of millions of dollars in new rates, with no real investment – no real benefit – associated with them. Quite literally, they are seeking *money for nothing*. And if they are successful, the other utilities in Oregon will all ask for the same thing.

In the coming months, you will see us vigorously fighting these proposed rate hikes. Customers should demand value for our money and there is no value associated with these rate increases. Stay tuned. This is going to be a real fight.

Bob Jenks
Executive Director & CUB Charter Member

The Bear Facts is the periodic newsletter of CUB and the CUB Policy Center.

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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).

Responding to Global Warming: Let's Take a Look at Cap-and-Trade

The environmental community may have its differences, but one thing gaining universal agreement is that we need to reduce our carbon emissions to address the rising threats of global warming. How do we do this? Three commonly discussed mechanisms include a cap-and-trade regime, a straight carbon tax, or direct carbon regulation (without the ability to trade emissions credits). The one being discussed by the Western Climate Initiative (a group of Western states' governors that also includes two Canadian provinces) — and the one which has gained the most political traction — is the cap-and-trade option.

Next question: what is it?

The purpose of cap-and-trade is to reduce greenhouse gas pollution. The most common pollutant is carbon dioxide and while carbon emissions do occur in nature, human emissions of carbon dioxide have increased astronomically in the past 150 years, due to fossil fuel use in our vehicles, our businesses, and our homes. A cap-and-trade would put a cap on greenhouse gas emissions that result from the burning of fossil fuels at some agreed-upon level, and then gradually reduce that cap until we reach a sustainable level of carbon emissions. Oregon has set a goal for itself of reducing carbon emissions to 80% of 1990 levels by the year 2050. As of yet, this goal has no teeth but that's going to change.

Two big issues arise when discussing a cap-and-trade regime:

1) **In what sectors of the economy do we apply it?** CUB believes strongly that any effective carbon reduction plan will have to be applied to all affected sectors: the transportation sector; the big industrial sector; and the utility sector. Here are the numbers: 40% of our nation's carbon dioxide emissions comes from the electric utilities; another 33% comes from transportation; 17% is produced by industrial processes; and an additional 10% from residential and commercial sources. CUB thinks cap-and-trade or complementary regulations must encompass all major sectors, because of the potential for bleeding into one another. For example, if only electricity generation were carbon-regulated, people could just choose to install natural gas for heating rather than electricity; this avoids carbon-regulation cost for the individual, but also avoids carbon reduction in the larger economy. Similarly, everyone driving plug-in hybrid vehicles is moving emissions from one sector (transportation) to another (utility).

2) **Where do the credits start out?** Credits, or allowances, can be auctioned off by the government to companies in the various sectors, and then the government can use that money to fund clean energy research and development, and building large renewable projects. State or federal regulatory agencies (depending upon who passed the carbon regulation laws) would provide oversight and assess stiff penalties for not meeting carbon reduction goals or keeping emissions within the allowances purchased. A potential problem in this scenario is that the government could conceivably spend the money on tax cuts, military spending, health care, education, or some other priority, and then we wouldn' t be closer to a real energy solution. But ideally (from a global warming perspective) government would turn around and invest the money from carbon allowances in energy efficiency, conservation, and renewables, which will directly address the problem.

CUB recommends giving credits to regulated utilities rather than auctioning them off, because it seems to better meet CUB's two major criteria for a carbon regulation scheme, which are: 1) effectiveness; and 2) affordability. One benefit of giving emissions credits to utility companies is that *that* is where the investment in clean energy has traditionally happened and needs to continue to happen, at an increasingly fast rate. It seems to be the most effective route. Equally important, giving emissions credits to regulated utilities would make the greening of the system more affordable for customers. If the utility has to buy credits to begin with, it will make it harder for customers, on whose shoulders the cost of regulation will be falling, to pay for the new investment in cleaner energy sources. Electricity is a necessary service in today's world and people of all income levels must pay for its use; we want to make sure that lower-income people are not "priced out" of being able to use the heat and appliances they rely on in daily life.

Regulated utilities are a unique entity, combining a system of existing regulatory oversight with ever-changing resource portfolios offering many opportunities for direct emissions reduction. Regulated utilities have numerous ways to reduce emissions, such as energy efficiency, distributed generation, or replacing dirty generation with clean energy. Each year, the idea goes, the cap would reduce emissions even more and the system would become greener.

Ownership of the credits will be a sticky problem to solve under some scenarios. CUB feels strongly that customers have invested in the system that exists now, and customers should receive the benefits when the dirty power sources in use currently are retired and credits sold. As a general principle, we feel that carbon credits should go to whomever is going to be building a new clean system, and customers will be footing the bill for their utilities' investments.

We chose to focus in this article on cap-and-trade, because of the political traction it has gained in recent months. While cap-and-trade has advanced significantly further politically than a carbon tax, there are many who would prefer to enact a carbon tax. We agree that it is appropriate and necessary to compare these two carbon reduction options, but we hope that these discussions can happen in a way that is not damaging to either option. We need to enact one or the other within a relatively short time frame, to start turning the temperature down.

PGE Wants to Raise Rates by 9.5% - CUB Calls it Unnecessary

On February 27th, PGE asked the PUC to raise residential rates by 9.5%. With no significant new investments, the increase is being driven by PGE's desire to hire more than 130 new employees, and increase its allowable profits by $19 million.

"With the economy in Oregon heading into a recession and citizens and businesses being forced to cut back, it is outrageous that PGE refuses to control its costs," said Bob Jenks, CUB Executive Director. "This is not the time to significantly increase staff or profits."

Normally, utilities file rate cases after they make large investments such as building new power plants. This is what PGE did last year when its new Port Westward power plant started producing power. It is highly unusual for a utility company to file a rate case that has little new investment and instead is driven by controllable costs such as employee levels.

For PGE customers this proposed increase would push average monthly residential bills above $100/month for the first time ever. But it is just the start. PGE has ambitious investment plans in smart meters, new wind projects, hydro electric improvements and environmental controls on its coal plants. These new investments, which add up to approximately $2 billion, will cause significant rate hikes in the next few years.

CUB is concerned that PGE management is failing to control and prioritize costs. If the Company really is expecting customers to pay for billions in new investments, it should be doing everything it can to control its costs so that those investments are affordable to customers. But it is doing very little to control costs.

PGE's filing does list steps that it is taking to control costs. These activities save less than $1 million in the proposed rate case. With PGE expecting customers to pay $1.7 billion in revenue, these cost controls amount to approximately 6/100ths of 1% (0.06%) of total revenue.

PGE could save more money by cutting back just 10% of the new staff positions it is proposing. The average cost of salary and benefits for each employee is $106,000. So an increase of 130 staff positions is increasing rates by $13.8 million. However, PGE also admits that it has been having trouble filling open staff positions in recent years. So the fact that all these new positions are in their budget does not mean that PGE will actually fill the jobs, and pay those salaries and benefits. However, customers would still pay PGE for them.

In addition, PGE states that reducing overtime is one of the four factors that are causing the increase in employee levels. However, PGE is projecting that overtime will decrease by just $136,000. If this is driving the $13.8 million in increased employees, it would certainly be better to pay the overtime.

Finally, we note that PGE is proposing a 50% increase in the cost of "Corporate Communications and Public Affairs." They probably believe that after this ridiculous rate hike request, they are going to need to spend significantly more on their public image.

On this they may be right.

Shaich Internship Report by Jessica Aiona

As I wrap up my five-month internship it is nice to take a moment to reflect on everything I have experienced and learned here at CUB. My internship began in October 2007 when a family friend, Harry Shaich, suggested I apply for the internship he had set up in memory of his son, Eric. Having recently graduated from Bowdoin College, with a degree in economics and environmental studies, I was excited to work with a utility consumer advocacy group.

I was put to work immediately, diving into the Qwest deregulation filing. This began with researching Qwest's original price cap regulation scheme, established in 1999. I researched the legislative intent regarding the permanence of the price cap system, spending many hours looking through newspaper articles and taking my first trip to the legislative archives in Salem. I also looked into Qwest's recent filing in Washington. I filtered out and summarized arguments made in Washington by other consumer advocacy groups that would be relevant to our case, as well as making a few suggestions of my own. CUB was able to use this information when they filed their counterarguments in UM 1354.

My next project was writing "signature stories" for the Oregon Apollo Alliance, a coalition of business, labor, environmental, and community leaders, including CUB, working for clean energy and good jobs. The "signature stories" highlight the pathway from sound environmental policy to private investment to family-wage jobs here in Oregon. They also show how important cooperative efforts are between business owners, government officials and labor unions when working on renewable projects. A few of the topics for the six stories are the Elkhorn Valley Wind Farm in Union County, a biomass boiler for the Enterprise School District, and the Pacific Ethanol Plant in Boardman.

Being an intern at CUB has been a great experience. I have learned so much about renewable energy issues and the regulation of utilities. I am very thankful to Harry Shaich and CUB for this opportunity, and am excited to begin a career with my newly gained skills and knowledge supporting me.

Ed. Note: In the weeks since this was written, Jessica has accepted a position with Quantec, an energy consulting firm. We here at CUB thank Jessica for her hard work and we're glad she's going to continue working in the energy field.

Special Legislative Session Report

The Oregon legislature just completed its supplemental session to test drive going to annual sessions. It was scheduled to go from Feb. 4 through Feb. 29 but legislators managed to end a week early on Feb. 22.

The number of bills that were allowed to be introduced was limited so CUB had a very narrow agenda. There was opportunity to work on a global warming bill, an energy efficiency bill and we monitored the bill to give OMSI money and a bill to upgrade the business energy tax credit. Here's what passed and what went by the wayside:

1) HB 3610 - The global warming bill. Although the bill was not onerous on Oregon industry, requiring little more than carbon emissions reporting from industries that were by and large already reporting (or expecting to), the bill generated a tremendous amount of controversy. Big polluters' lobbyists used the bill to "take a stand" on their right to emit whatever whenever. The bill died in the Ways and Means Committee. We will be addressing the issue of carbon emissions again, frequently and global warming will be a key issue in the 2009 legislative session.

2) HB 3612 - Energy efficiency in state buildings. The bill requires that state agencies reduce their energy usage by 20% by 2015. We attempted to get this bill through in 2007 but didn't quite make it. This time, there was more negotiation and did get the bill through, within a very tight timeframe.

3) OMSI – This Portland landmark received $1.6 million in state assistance, as expected, from non-public purpose funds. This was an important issue for CUB to follow after the Legislature attempted to divert energy efficiency funds to OMSI during the 2007 session. While CUB is certainly supportive of OMSI, we did not believe that ratepayer funds were appropriate to help them pay down a debt. CUB has been part of a coalition to ensure that OMSI got the money needed to help them with the debt.

4) BETC – The Business Energy Tax Credit was expanded to allow greater amounts to go to renewable energy manufacturers, without undercutting other BETC users like energy efficiency projects.

Special Legislative Session report continued from page 5:

So, here's a big question: did the legislature show that annual sessions could work? Well, the question is still open. Nothing bad happened but nothing extraordinary either (unless you count them finishing up ahead of schedule!).

We are very pleased to have made a large step forward for energy efficiency in state buildings, and we feel that the expansion of the BETC will be significant in the long run. Much work remains to be done in the field of global warming, and we are busy talking with allies about what tack to take on addressing global warming issues with the Legislature when they return in January 2009. Thanks as always for supporting our work in Salem with your donations and your grassroots action.

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