25 YEARS

The Bear Facts

Citizens' Utility Board of Oregon

Spring/Summer 2009

Utilities Respond to Recession by Seeking Millions in Higher Profits

Currently Oregon is in the worst recession in more than 2 generations, with unemployment climbing to over 12% and long-time institutions like Joe's Sporting Goods(formerly GI Joe's) closing. Showing an incredible amount of indifference to the suffering of many Oregon families, utilities are asking customers to pay millions to increase their profits.

NW Natural is asking the PUC to change a mechanism that was approved last fall which requires them to share excess profits with customers. NW Natural wants to avoid sharing millions generated by falling natural gas prices with customers. (see page 5.)

Pacific Power has requested that the PUC increase their projected profit margin by nearly 20 million dollars. (see page 3.)

PGE is asking the PUC to retain a mechanism that will pay tens of millions in lost profits. PGE, like most business, saw their profits go down during the current recession. But due to a "decoupling mechanism" that was designed to ensure that the company did not lose profits when customers invested in energy efficiency, PGE intends to have customer pay back its lost profits by placing a 2% surcharge on our bills next year. That surcharge will last until PGE recovers the profits it lost this year and next year. (see the next column.)

Here at CUB, we're used to utilities seeking higher rates, but we're disturbed by this recent activity. There is a real disconnect between the reality of people's lives and the world that the utilities seem to live in. In reading the utility filings seeking millions in profits, we are surprised by the sense of entitlement that the utilities seem to feel toward our pocketbooks.

CUB is, of course, leading the charge against these overreaching proposals. Utilities could have chosen a different path and helped customers deal with the bad economy. They could be expanding programs that help small business reduce their operating costs through energy efficiency programs. They could be re-examining their shut-off policies to give unemployed families some flexibility with their bills. They could be working to reduce their costs, so utility rates are not a barrier to our economy expanding. As far as we know, they're not.

Instead, they are trying to increase their profits and in doing so are making life more difficult for struggling families and businesses. Stay tuned in the coming weeks and months. CUB members will get the chance to weigh in at the PUC on these utility requests.

Customers to Bail Out PGE!

Like nearly all businesses in the country, PGE is seeing its "sales" fall during the current recession. Unlike nearly all other businesses, however, PGE gets to make up its lost profits during this recession by tacking them onto our future electric bills. But that's not all: because of the design of this bailout, PGE will actually recover more than its lost profits.

This means that when a small business lays off an employee, PGE sees its profits increase. A house that is vacant and on the market for months can also increase PGE's profits.

These are the results of a little noticed PUC decision in January that granted PGE a decoupling mechanism. The idea of the mechanism is to "decouple" the link between utility profits and the volume of electricity it sells. By eliminating this link, utilities should be more interested in investing in energy efficiency. Because energy efficiency reduces electric bills and is a cheaper resource than investing in new power plants, decoupling should lead to lower costs for customers.

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From The Executive Director

Dear Members,

Hello, and welcome to what has already been a busy year here at CUB. We've been working for ratepayers in Oregon, and in this newsletter we hope to bring you up to date on the work we've been doing. We have also had some changes here at the CUB offices, and I would like to welcome three new staff members to the Citizens' Utility Board.

Catriona McCracken is our new Staff Attorney. Previously, she worked for the Oregon Department of Justice for 9 years. In addition to her work at CUB, Catriona serves on the board of the Northwest Coalition for Alternatives to Pesticides. She is smart, with significant experience and a thorough knowledge of our state government. Catriona began work in Fall 2008, and immediately took on the writing of a critical brief in the PGE rate case. Her work helped us knock millions of dollars off PGE's rates.

Gordon Feighner is our new Utility Analyst. Before CUB, Gordon worked for the Portland Bureau of Environmental Services, and before that, the Environmental Protection Agency. Gordon began full-time work with CUB in January and has led both our review of liquefied natural gas (LNG) and our review of utility filings regarding their power costs.

SA Anders is our new Business Director. She has a wealth of experience in bookkeeping, editing and other skills that are essential to keeping the organizational side of CUB working. SA stepped in at a critical time when our former Business Director was on sick leave, and jumped into the job to make sure all the important things we need are in place to keep the lights on and the rent paid.

We welcome all of them. It has been five years since CUB has hired anyone new, and we prided ourselves on the consistency of our staff. But the quality and experience of our new staff show that CUB is an exciting place to work, and the talented pool of applicants was quite impressive.

Finally, I wish to note the sad death of our former Business Director Shannon Floyd. Shannon passed away in February after a battle with cancer. She was a trained opera singer, a committed activist, a smart, talented woman, a great mother, and a tremendous friend to all of us. We will miss her dearly.

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).

Pacific Power Seeks Rate Increase

In April, Pacific Power filed a request with the Public Utility Commission to raise rates by an average of 9.1% (6.3% for residential customers), and asked the Commission to increase the company's profit margin from 10.1% to 11%.

Pacific Power claims that most of the rate increase is caused by new investment in its system, including two new natural gas-fired power plants and three new wind facilities. Pacific Power maintains that it "recognizes that the current economic climate has placed significant financial pressure on its customers" and has made efforts to minimize the projected rate increase.

CUB is in the process of reviewing this filing to determine whether or not all of the rate increase is indeed caused by "new investment in its system." CUB notes the uneasy contrast between a utility claiming that it is working to minimize its rate increase while at the same time asking to raise its rates in order to provide $20 million dollars in additional profits to its shareholders.

But there is no doubt that the current economic climate is terrible and any unnecessary rate hikes will harm customers, especially rate hikes that are designed to increase profits. CUB will vigorously oppose any attempt by Pacific Power to seek higher profits. CUB will scrutinize the case to ensure that any rate hike is limited to what is necessary to maintain reliable electric service.

Customers To Bail Out PGE continued from page 1:

In theory it sounds good: the amount of lost profits due to energy efficiency is relatively small. But because decoupling looks at the lost profits due to reduction in load, it has a much bigger impact during a recession. As economic activity falls, demand for electricity falls at a rate that is greater than can be caused by even the most aggressive energy efficiency programs. In the last recession, PGE's actual load was 8% less than the company forecast.

The PUC established this new PGE mechanism for residential and commercial customers on a two-year trial period. They ruled that any surcharge to make up for lost profits should be no more than 2% per year. But if the lost profits exceed this cap, that excess amount will simply roll over and be charged to customers in the following year. PGE calls this a circuit breaker; we call it an installment loan.

This recession is proving much worse than the last recession. Unemployment in Oregon reached 12.1% in March, more than double where it was a few months ago. That is comparatively far worse than the 8.8% peak unemployment during the last recession. Even if we have reached the bottom of the recession, it's a long way back up.

With the roll-over provision, PGE customers are going to be paying for this mechanism for several years. Based on the strength of this recession, the surcharge could last 5 or more years, even after the economy has recovered.

Decoupling is not a terrible idea, but this was a poorly designed proposal implemented at the worst possible time. CUB has asked the PUC to reconsider its decision to allow decoupling during recessions. We have requested that the PUC suspend this decoupling mechanism until the recession is over; or, if the PUC is unwilling to do so, it should place a cap on the decoupling surcharges, so customers do not end up paying for this for several years.

Cleanest, Greenest and Cheapest

There's a renewable power source with the lowest emissions across the board, which can be acquired at a third of the cost of the next lowest resource.

Sounds like a late-night infomercial product that's too good to be true, doesn't it? But there's no magic or science fiction involved. We're simply talking about energy efficiency.

Energy efficiency, or reducing energy usage and thus reducing the need for more expensive generation sources, tends not to get the same attention as other forms of renewable energy. Showcasing homes and businesses getting insulation, or even installing more efficient lighting, just isn't as "sexy" as a shiny solar array or an elegant wind turbine. But as many energy experts like to proclaim, "you have to eat your efficiency vegetables before you can have your solar (or wind) cookies." This means that we must make serious efforts to use the energy we are currently generating

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more efficiently before starting to generate more, even if that generation is accomplished with renewable resources.

Oregon has always been a leader in energy efficiency innovation. Fortunately for us, the Oregon legislature is getting serious about increasing energy efficiency efforts. There are several bills that, if adopted, will ensure that we invest more in energy efficiency measures which will help to insulate consumers (pardon the pun) against volatile energy prices. Here's an overview of some of those important bills:

HB 2626: This bill, which has a very broad base of support, would provide financing to support low-cost loans to homeowners and business owners who want to undertake efficiency measures, but may not have the needed upfront capital. The bill focuses on a series of pilot programs that can be scaled up quickly as their effectiveness is demonstrated. It also underscores "on-bill financing" as a way to pay for energy efficiency. This means that a loan taken out through the Energy Efficiency and Sustainable Technology (EEAST) program, created by HB 2626, can be paid by a charge on a consumer's utility bill.

HB 3199: This bill will allow the Oregon Department of Energy to increase its bonding authority to support a major efficiency effort in public buildings throughout the state. This would result in job creation in addition to the reduction of energy usage and reduction of energy costs, thus saving taxpayers money as well.

SB 79: SB 79 puts new building codes into place, as well as outlining future building codes that will be implemented in three years' time. The increased standards defined in this bill urge developers and homebuilders to integrate better efficiency practices both immediately and in the future. The bill, with its stepped standards, also provides a better sense of the building code standards that will be adopted in the next several years.

SB 80: This bill is a key piece of the overall climate package moving through the legislature. The main purpose is to authorize state agencies to generate plans that meet the statutory greenhouse gas reduction goals adopted in 2007, as well as starting to implement those plans. While this is an important issue on its own, another key aspect of the bill is the requirement to pursue conservation first. When conservation is cheaper than building a new resource, the money will go to conservation. This is a central part of any greenhouse gas emissions reduction plan.

So what can you do about energy efficiency? First, contact your legislators and urge them to vote YES on the above measures. To find your representative, you can go to www.leg.state.or.us/findlegsltr . To find out more about how you can do more in your home or business to increase energy efficiency, contact the Energy Trust of Oregon (www.energytrust.org) if you are a customer of Portland General Electric, Pacific Power, Northwest Natural, or Cascade Natural Gas. If you are a customer of a consumer-owned utility, contact your local company for information on how to implement energy efficiency. To find out more about the energy efficiency industry and the important work those companies are doing, visit the NW Energy Efficiency Council's website at www.neec.net.

And remember, as CUB members have heard many times before: the cheapest, cleanest kilowatt is the kilowatt we don't have to produce in the first place.

Senate Bill 80: Energy Planning In the Context of Global Warming.

CUB is leading efforts to pass Senate Bill 80, which directs state agencies, including the Public Utility Commission, to plan for the reduction of greenhouse gas emissions. CUB testified before the Senate Energy Committee that this was a critical bill for protecting customers from the financial risk of carbon regulation.

Oregon utilities have long been required to develop resource plans which look at the next 20 years and match future resources and future load in a manner which reduces costs and risk to customers. This process is currently broken, however, because the results of the planning are almost entirely dependent on what the utility assumes for future regulation of greenhouse gases.

For example, two years ago, Pacific Power's planning process led them to believe that they should build new coal plants. They are now changing their mind. This year, PGE's planning process is leading many to the conclusion that the company should phase out its Boardman coal plant. PGE is not so sure. The difference between the two utility companies' plans is an assumption about what the cost of future carbon regulation will be.

For consumers this is troubling. These plans guide billion of dollars in utility investments that are expected

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to be added to our rates. If a utility were to make the wrong choice, the cost to customers will be significant. We might be asked to pay for the cost of the plant, the cost of carbon regulation of the plant, the cost of shutting down the plant due to carbon regulation and the cost of replacement power once the plant is shut down.

SB 80 will change this by requiring that utilities begin planning to reduce their geenhouse gas emissions. Utilities will first have to look at meeting Oregon's greenhouse gas emission goal, of reducing emissions to 10% below 1990 levels by 2020. If these reductions are not technologically feasible or economically feasible, then the PUC would reset the goal. But in the end the utility planning process would know what to plan around: a future with less greenhouse gas emissions.

PGE is leading the opposition to SB80. They argue that reducing carbon emission will cause them to raise their rates. Of course, the best way to make sure that rate hikes happen is to avoid planning to reduce carbon emissions, and then reducing emissions only because of carbon regulation. The utilities seem to want to gamble with our money. Their attitude seems to be, "Let's not plan for the future, since customers will pay our costs."

SB 80 is an important bill. Call your State legislators and urge them to vote yes on this.

NW Natural Wants to Keep Excess Profits

This is a quote from a recent filing CUB made to stop Northwest Natural from a profit grab:

> Now, more than at any time in our State's, and even our country's recent history customers are facing huge economic challenges. Unemployment figures in Oregon rocketed to 12.1% yesterday… This is not the time for NW Natural to be seeking to increase its profits and increasing rewards to its shareholders. Now is the time for NW Natural to be assisting its customers in any way that it can. One way for NW Natural to provide assistance is to return to customers the amount that customers are entitled to under the current PGA (Purchase Gas Agreement) and Earning Sharing mechanisms. Customers have been overpaying as a result of the high gas price forecasts made for 2008 and 2009; forecasts which have, thankfully, been proven to be incorrect.

Why do we have to fight this? Because on March 27, NW Natural filed a request with the Public Utility Commission seeking permission to retain excess profits that are scheduled to be returned to customers based on a profit sharing mechanism the PUC adopted last year: the PGA and Earning Sharing mechanism mentioned above.

Under the current rules, if Northwest Natural's profits are more than 150 basis points (1.5%) above what the PUC has authorized, NW Natural must share 33% of those excess profits with customers. NW Natural is asking the Commission to allow it to keep the part of the excess profits that relates to gas commodity purchases. Because the cost of gas is less than what was anticipated, NW Natural's position will allow it to hold on to millions of dollars that it would otherwise have to come to customers as another credit on their bill.

Last year the PUC reviewed the treatment of natural gas costs by gas utilities. Under the mechanism adopted by the Commission, natural gas costs are forecasted each fall, and the difference between the forecast and actual cost is shared between the utility and its customers. Additionally, if the utility earns above its authorized rate of return, a portion of those "overearnings" would also be shared with customers.

In the above docket, CUB advocated that excess profits caused by falling gas prices should be included in the earning sharing mechanism. NW Natural took the opposite position. The Commission sided with CUB, and adopted CUB's proposal with some minor modifications. The Commission did not modify the section of our proposal that dealt with sharing of excess gas profits.

Now several months later, gas prices have fallen significantly and millions of dollars are at stake, so NW Natural is taking another run at getting the Commission to allow it to keep these excess profits. We are fighting to make sure that doesn't happen.

CUB Opposes LNG Terminals

LNG is natural gas that has been transformed into a liquid state so that it can be shipped between areas with no overland gas pipeline connection. LNG requires import/export terminals where it can be transferred from transport

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ships to land pipelines and changed from its liquid state to a gaseous state. There are three current proposals under consideration for building LNG import terminals in Oregon, two along the lower Columbia River and one at Coos Bay.

CUB is opposed to the development of these terminals for a number of reasons. At present, there is no market need to warrant the construction of these terminals. Natural gas bought here in the States over the past two years has traded at one-fourth to one-half the price of the LNG international market price. Oregon consumers would certainly not see any benefit from importing higher-priced gas than what's available here. Also, these terminals could be modified to export American natural gas to the global LNG market, forcing Oregon utilities and their consumers to pay rates competitive with more-expensive overseas markets. This international connection would not serve any local energy needs, as Oregon's natural gas supply already outstrips its demand, but terminals could significantly drive up Oregon's natural gas prices. In either direction, the flow of natural gas through Oregon to the international market is likely to significantly increase prices for consumers.

Economic analysis aside, LNG import terminals are an undesirable option for a much more basic reason; the health and safety of our community. LNG terminals have the potential to cause substantial environmental damage through gas leakages and increased CO_2 emissions from tankers and conversion processes.

LNG import terminals have no place in Oregon. According to a recent Oregon Department of Energy Review, our state already has access to plenty of low-cost domestic natural gas. Oregon could get more at a lower cost than imported LNG with a new pipeline from the Rocky mountains. Imported LNG only runs the risk of increasing energy costs and environmental damage. Let's help keep Oregon a place that promotes safe, low-cost, and environmentally conscious energy development, and say no to LNG.

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