The Bear Facts

Citizens' Utility Board of Oregon

CUB Calls for PUC to Reject Frontier Purchase of Verizon

CUB recently filed testimony asking the PUC to reject Frontier Communications' bid to purchase Verizon's telephone, internet and FiOS television services in Oregon. This purchase involves a lot of services and can easily get very confusing. First, Frontier is a relatively small telephone company that specializes in providing phone and internet service in rural communities. Second, Frontier is attempting to purchase Verizon's service territory in Oregon and thirteen other states. Third, Verizon's wireless service is not part of the proposed transaction.

Over the past several years Verizon has been actively selling off its rural telephone business in an effort to concentrate on its wireless and FiOS services. The company sold its landlines in Hawaii to Hawaiian Telecom in 2006. Customers there experienced billing errors and long waits for customer service agents almost immediately after the merger was completed, and canceled their accounts. Hawaiian Telecom began to rapidly lose money, and filed for bankruptcy in December 2008. A similar story occurred in New England when FairPoint purchased Verizon's landlines there. Customers canceled their accounts after service went downhill. FairPoint filed for bankruptcy this past summer. CUB is very concerned that Oregon could face a similar situation if this merger is allowed to proceed.

CUB cited three primary reasons for the PUC to reject the deal: Frontier will be a financially weak company after the transaction is complete; Frontier has no experience offering FiOS video services; and Frontier, prior to the filing of testimony, was unwilling to agree to conditions that would protect customers and ensure good service at reasonable rates.

The portion of Verizon's territory that Frontier is purchasing for $8.6 billion is larger than the entirety of Frontier's existing service territory. Frontier currently serves only 12,000 telephone lines in Oregon and 2.8 million nationwide. This transaction will add Verizon's 310,000 Oregon lines and 4.8 million lines nationally to Frontier's portfolio. Small companies can often have trouble absorbing larger ones. In this case, the problem is made more difficult because Frontier has a credit rating that is below investment grade. This means that Wall Street considers Frontier to be a risky investment, and that the interest rate Frontier will be charged on the debt associated with this deal is significantly higher than Oregon utilities would normally pay to service their debt. CUB believes Frontier could have a difficult time servicing this debt without raising rates or reducing service quality.

Frontier does not offer cable television services anywhere in its current territory, but it is purchasing Verizon's FiOS network, one of the most advanced video networks in the country. Frontier does not have in place agreements with the cable television networks necessary to continue offering the same programming. Without such agreements, Frontier will not be able to maintain the current level of service that customers expect.

CUB is concerned that if the deal is approved, Oregon customers might be asked to pay higher rates for a lower quality of service. In previous utility mergers, we have been able to negotiate conditions to protect customers from higher rates, declining service quality, and financial problems at the parent company. However, Verizon and Frontier have yet to agree to a set of conditions that would guarantee current rates and services and protect customers from potential financial problems at the parent company. Without such conditions, CUB believes that this proposal is not in the best interests of Verizon customers in Oregon, and we are asking the PUC to reject the transaction.

From The ~~Executive Director~~ Utility Analyst

Usually this letter is from our Executive Director Bob Jenks, but this year we have two new staff members who are celebrating their first year working for CUB, so we're bringing you something a little bit different. ***Gordon Feighner*** *writes:* Time has surely flown since I joined CUB as a utility analyst last November. While sometimes the workload and the case backgrounds can still be intimidating, I like learning something new every day -- including becoming more familiar with CUB's positions on our issues. That being said, my two most important job functions continue to be listening carefully to what Bob has to say in meetings and making sure he doesn't get run over by a truck.

Coming from a work background of contracting for federal and local governments, I very much appreciate the variety of cases I'm able to work on here at CUB. Everyone in our office is versatile and handles a number of duties, which is a welcome change from working in a large bureaucracy. We shift gears constantly between energy and telecom cases, and my research assignments have included everything from steam turbine engineering specs to cable television pricing to creative financing schemes for solar energy installations.

I've gotten great guidance on how to approach the cases we work on from Bob and Catriona, CUB's staff attorney, which has made it much easier for me to sort through the volume of data and reports we get with each docket. It can sometimes be difficult to directly link the documents I'm reading to an impact on customer rates, but the ability of CUB to build a solid case often rests on the analysis of relatively obscure aspects of the utility business. I've found it very rewarding to dive into a technical document and discover something that eventually will save money for customers. CUB has felt like a great fit for me since day one, and I look forward to continuing to learn the ins and outs of utility regulation.

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).

Below, from left to right, Sakae Sakai (CUB's current law clerk), Gordon, and Benjamin Chambers (CUB's first Development Director) at our 25th anniversary dinner. See more about the dinner on page 3. Photo by Stuart MacDougall.

CUB celebrated 25 years of accomplishments with a dinner to mark our first quarter century of service. A great time was had by all, with thanks to the wonderful work of SA Anders, Sarah Cloud, and other staff. CUB presented Citizen Leadership Awards to our former colleague Jason Eisdorfer and the Oregon Conservation Network. PUC Chairman Lee Beyer spoke, and Steve Novick was a masterful master of ceremonies. *Top row - Rachel Shimshak and Dave Barenberg, Katy Daily representing OCN, Bob Jenks, Jason Eisdorfer. 2nd row - Bob Jenks, Catriona McCracken (photo by Karen Jaffe), Steve Novick, Dave Robertson of PGE presenting Jason with his award. 3rd row - Lee Beyer, Jeff Bissonnette, SA Anders, CUB Board Member Linda Tomassi, Bill Harris, CUB Board Member Janice Thompson, Varner Sleaman. 4th row - former CUB Utility Analyst Lowrey Brown, CUB Board President Doug Crow, Damir Kalinkin, Jonathan Hilt. (All photos by Stuart MacDougall except where noted.)*

Buildings Operating Under Their Own Power

"LEED certified building" is a common phrase these days and has quickly become a part of Oregon's vernacular. However, less common is the phrase "net zero energy building," likely because building a structure with net zero energy consumption and zero carbon emissions is even more difficult than building a LEED certified structure.

"Net-zero energy building" or "zero energy building (ZEB)" is a general term applied to a building which has zero net energy consumption and zero net carbon emissions annually (excluding energy and emissions generated from the construction of the building). This means that every year, net-zero energy buildings produce as much energy as they use - they are the poster-child of energy efficiency.

Net-zero energy buildings are also carbon neutral because they don't use fossil fuels in their operation or create direct greenhouse gases. This gives them a much lower overall ecological impact than other "green" buildings, because many green buildings still require a significant amount of fossil fuel production to power and heat the building. Green building certifications do not require a building to have net zero energy and emissions productions; some certifications only require the building to reduce energy use to a few percentage points below the average. Most green certification programs, including LEED, simply look at building energy output and do not address building design.

Much of a net-zero energy building's efficiency comes from its initial design. Net-zero energy buildings are designed to take advantage of sunlight and solar heat through the use of skylights and solar tubes for lighting and warming purposes. They are also built to take advantage of prevailing breezes and shade for natural ventilation and cooling. Net-zero energy buildings often have vegetation on their rooftops for heat insulation in the winter and cooling in the summer.

Net-zero energy buildings also reduce heating and cooling loads by using high-efficiency equipment and windows, using sheltered-building principles and shade sensitive landscaping, adding insulation, and taking advantage of natural ventilation. Furthermore, many net-zero energy buildings use water conservation fixtures, heat recovery units on waste water, and solar water heating.

They are also designed to reclaim energy from other sources that would normally get wasted including: refrigerator exhaust, energy from computer servers and office equipment, and even human body warmth. Night time lighting is typically done through fluorescent and LED lighting, which use one-third less power than incandescent bulbs, while also not producing unwanted excess heat.

Most net-zero energy buildings are still connected to the general energy grid due to traditionally significant fluctuations in their energy supply. While many net-zero energy buildings produce energy on site, it is usually not enough to continually power the entire building. Therefore, most net-zero energy buildings employ a mixed strategy of energy conservation and production to achieve net zero status.

From 2008 to 2012, the U.S. Department of Energy plans to award $40 million to a variety of Building America teams, academic and building industry leaders to develop net zero energy homes that consume 50%-70% less energy than conventional homes. States and municipalities have also begun to adopt policies which provide incentives for or require green building practices.

At the state level, the Oregon legislature passed SB 79 this past session, which mandates that the state building code be amended to match building energy efficiency at the national model codes' level. It also creates a "Reach Code" of optional construction standards that achieve greater energy efficiency than what is required by the state building code. The changes in the state code are estimated to make nonresidential buildings 15 - 25% more energy efficient and residential buildings 10 - 15% more efficient, compared to building energy efficiency under the current code.

This story was originally posted in a longer form on our blog at www.oregoncub.org. If you're interested in receiving our blog updates by email, sign up for our email list by emailing karen@oregoncub.org and letting us know, or returning the envelope with this newsletter with your email address inside.

Legislature to Reconvene in 2010

It seems like we were just reporting on the results of the 2009 legislative session. As Oregon moves toward the possibility of adopting annual sessions, the legislature will hold its second supplemental even-year session in February 2010. The first such session was in February 2008 and was a scaled-down version of the full sessions we are used to seeing in odd-number years. We expect the February 2010 session to be equally controlled.

There is some leftover business from the 2009 session, namely proposals to add existing biomass to the Renewable Energy Standard and how to responsibly handle the Business Energy Tax Credit. Governor Kulongoski vetoed bills related to both issues but there is still legislative interest in them. Efforts are underway to negotiate reasonable settlements among the parties involved in both areas of interest. We remain hopeful that settlements can indeed be reached. We'll have a full report on the February session in our next newsletter and you can track the issues on our website at www.oregoncub.org.

Natural Gas Prices Drop This Winter

On October 27, 2009, the Oregon Public Utility Commission announced price drops for all of Oregon's natural gas utilities. NW Natural customers will see an 18.1 percent reduction, Avista customers will experience a 20.7 percent drop and Cascade Natural Gas customers will see a decrease of 13.2 percent. That should make staying warm this winter a little easier as all Oregonians work to manage their way through these troubling economic times.

The reductions came as part of the annual review the PUC does for each natural gas company's rates. Unlike electric utilities, natural gas utilities do not actually make the product they sell. Instead, they purchase gas on a wholesale market and distribute it to their customers. The reviews serve to update gas rates based on the wholesale prices that the utilities are paying for the natural gas they purchase. The rate reductions reflect drops in wholesale prices.

In addition to announcing the rate reductions, the PUC also outlined a number of other strategies that consumers can use to keep their bills in check. CUB heartily endorses these strategies:

1) Turning your thermostat down can save up to 3% for each degree. A programmable thermostat that automatically reduces heat at night or while the house is unoccupied can lower heating bills by 5 to 10%.

2) Asking for an energy audit by the utility that provides your heating. Customers of NW Natural and Cascade should arrange for a home energy review through the Energy Trust of Oregon (www.energytrust.org). Avista Utilities conducts traditional energy audits.

3) Updating low-efficiency furnaces and water heaters with higher-efficiency models. Rebates are available from the Energy Trust of Oregon for NW Natural and Cascade customers and from Avista for its customers.

4) Premium-efficiency furnaces can also qualify for a state tax credit from the Oregon Department of Energy. Check for qualifying furnaces at http://www.oregon.gov/ENERGY/CONS/RES/tax/HVAC-Furnaces.shtml and for qualifying water heaters at http://www.oregon.gov/ENERGY/CONS/RES/tax/waterheaters.shtml.

5) Fully insulating your residence generally results in up to 30% savings on a heating bill.

6) Clean or change the furnace filter once a month during the heating season.

7) And lastly, contact your gas utility about bill payment assistance (more info on this can be found in the article on the next page).

Weatherization Helps Low-Income Oregonians Manage Utility Bills

It's important for every utility customer to consider weatherizing their home. However, weatherization is particularly important for Oregonians living on less. Weatherization helps keep energy costs lower so it helps stretch dollars for other necessities and simply makes a home more comfortable.

Most consumers have to pay some costs of weatherization out of their pockets, even with incentive and tax credit programs. However, Oregonians under a certain income may qualify for weatherization services delivered by a local community action agency at no cost to the household. If you think you might qualify, or know someone who does, it's worth making a phone call to check it out.

To get connected to the community action agency in your area, you can either go to the Community Action Partnership of Oregon's website (www.caporegon.org) or you can call the Oregon Department of Housing and Community Services (503-986-2000) to be directed to your local agency. Community action agencies can also help household determine if they qualify for energy assistance for help in paying their utility bills and a range of other services as well. Let's make sure that no Oregonian has to make the choice between heating and eating.

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