



The Bear Facts

Citizens' Utility Board of Oregon

PGE AGREES TO PHASE OUT THE BOARDMAN COAL PLANT

In January, PGE announced that it would phase out the Boardman coal plant by 2020. This decision didn't come out of nowhere. Just last fall, CUB had written PGE and asked the Company to study the option of closing the plant by 2020. CUB believed such a phase out could save customers money and reduce Oregon's carbon emissions. PGE said its analysis found that closing Boardman was the lowest cost option for meeting its customers' energy needs in its announcement.

This decision represents a real change for PGE. Just last year, PGE announced plans to invest more than \$500 million in its Boardman coal power plant and keep it running until 2040. Oregon's Department of Environmental Quality required the investment which would reduce pollution from the plant's operation. DEQ offered PGE a chance to avoid making the investment if PGE agreed to shut the plant early. Last September, CUB called on PGE to investigate the cost of the plant's early retirement, arguing that the cost of the clean air investment when combined with the expected cost of carbon regulation would make the plant too costly to operate.

Boardman is Oregon's largest source of greenhouse gas emissions. It is also a reliable baseload facility, meaning that it churns out electricity 24 hours per day, seven days a week. Because of the variability of hydro and wind resources, the closure of a baseload coal plant is a challenging step for PGE.

However, it is a necessary step. Climate scientists, such as Dr. James Hansen, say that the U.S. has to phase out coal power over the next 20 years. Carbon regulation will make the plant much more expensive to operate, or it might eventually require that the plant be shut down. In addition, because Boardman's coal supply must be shipped by rail from the Rocky Mountains, Boardman has higher fuel costs than most coal plants. High fuel costs, expected carbon regulation and the required clean air investment are simply too many costs for the plant to overcome.

PGE will soon be submitting its Boardman phase out plan to the PUC and to the DEQ. CUB and other parties will take a close look at the analysis. Has PGE proposed the right date for closure? Is PGE making the right recommendations for replacement resources? Should there be changes to Boardman's operations before it is shut down to reduce air pollution?

There is a great deal of work to be done before a final plan to close Boardman is adopted. CUB will work hard to ensure that the costs to customers and the environmental benefits of closure are being balanced. We want to ensure that we are moving PGE towards a sustainable and affordable future.

PGE and CUB will likely have disagreements over the best plan for shutting down the plant. But for now, it is time to congratulate PGE. We asked PGE to look at the cost of phasing out Boardman by 2020 instead of investing \$500 million in it and running the plant until 2040. They did the analysis we asked them to do, and agreed that it was a better approach.

INSIDE: Director's Letter, page 2. Update on Legislature's Special session and new PUC Commissioners, page 5. How a rate case becomes utility rates and what CUB does to keep your rates down, page 4. New rates proposed by Idaho Power, PGE and Pacific Corp, page 3.

From The Executive Director

The Oregon economy is hurting, yet utilities are proposing some of the largest rate increases that we've seen in years. Idaho Power wants to raise the cost of summer air conditioning by 35%. PGE wants to raise rates and corporate profits and to shift large amounts of risk onto customers. And Pacific Power is about to ask for a big increase from its customers. What is going on? Don't these utilities understand that their customers are hurting?

Utilities do understand the state of the economy and do pay lip service to the difficulties facing its customers, but from their vantage points recessions are a good time to raise rates. A large part of their costs (everything from the cost of building power plants to paying their CEO) are fixed and do not vary with the amount of power they sell each year. When a recession hits, demand for electricity declines, particularly for industrial customers. If a utility can reallocate all of its fixed costs onto the smaller base of demand, then it will be in great shape when the recession is over and demand recovers. Its earnings will increase above its allowable profit margin. So while we see a recession, utilities see an opportunity.

CUB will not quietly ignore the recession and pretend that customers can afford higher rates. We will vigorously contest the utilities' attempts to raise rates, increase profits and shift risk to customers.

We will make sure that the PUC understands the context for these cases and understands how the significant increases requested will affect real Oregon households who are having difficulty paying bills. We will demand that utilities prioritize new investments and only make ones that can't be avoided, just as most households are having to do themselves. We will oppose utilities shifting risk onto customers, who have no way to manage such risks and who, in fact, pay utility executives specifically to manage these risks for us.

CUB believes that what the utilities are asking for is way over the top and not reasonable in today's economy and we will do everything we can to stop these increases from happening.



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

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CUB's board meets 8 times per year.

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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).



Electric Companies Seek Higher Rates

Three of the investor-owned utilities in Oregon – Idaho Power, PGE and Pacific Power — are all seeking or are expected to file for significant rate hikes this year. Idaho Power is finishing up a rate case that is expected to increase residential rates in Eastern Oregon by more than 26%. PGE has filed for an 8.8% increase, and PacifiCorp is getting ready to file its rate case in the next couple of weeks.

Driving these increases is a combination of new investments by the utilities and depressed demand due to economic conditions. In recent years, nearly every utility in the region has proposed new investments in energy generation (wind turbines and natural gas combustion turbines), distribution (smart meters) and transmission. As the utilities put these investments into rates, customers' bills increase. Additionally, the current economic recession has greatly reduced demand for electricity, so utilities want to take their fixed costs and recover those from a smaller base of demand, which raises rates.

The Oregon customers who will be hit first are the customers of Idaho Power in Eastern Oregon. Those customers are facing a rate increase that averages 26% for residential customers. However, Idaho Power and staff believe that a 26% increase is not enough of a price signal to customers and want to see increases of roughly 35% for residential customers with summer air conditioning. CUB opposes this proposal, arguing that a 26% rate increase will do more than enough damage to citizens in this depressed part of the state.

PGE just filed a request to raise rates by 8.8%. While this seems moderate compared to Idaho Power's rate request, looks can be deceiving. PGE is also asking for a series of adjustment mechanisms that would allow it to add millions to customers' rates each year without having a general rate case to review the company's profits. The purpose of this proposal is to reduce the risk to shareholders of changes in costs between rate cases. Finally, after asking to reduce shareholder risk, PGE is also asking to increase the profit margin for shareholders. The profit margin is supposed to compensate shareholders for the risk that they are taking.

What is missing from the Idaho Power and PGE filings is recognition that the recession is creating a great deal of hardship for customers. Many customers have lost jobs, had their hours or pay reduced, or their homes foreclosed. Many people are struggling just to pay their basic bills. This is a terrible time to propose a 35% increase in air conditioning bills, or request increases in corporate profit margins.

CUB will fight these increases. With the Idaho Power case, we are alone in fighting this requested increase and are taking on both the company and the PUC staff. We are prepared to do the same thing in the PGE case and in the Pacific Power case if necessary.

PUC Judges PGE Imprudent!

In an order signed on February 11, 2010, the Public Utility Commission found that PGE was imprudent in its operation of the Boardman coal plant, and that PGE's imprudence contributed to, but was not the sole cause of, the 2005 outage at the plant. The PUC ordered PGE to absorb \$13 million associated with replacement power costs. Because the PUC found that PGE's imprudence was not the sole cause of the outage, it did require that customers pay \$13 million of the costs.

At issue in the case was a total of \$26 million in replacement power costs that were incurred when Boardman was closed in 2005 due to a cracked rotor. During the outage, PGE's power cost increased by \$45.7 million because the company had to replace the energy output of Boardman. In an earlier case, PGE had asked the PUC to allow it to defer the \$45.7 million so it could charge those costs to customers. CUB strongly opposed that deferral, saying that the replacement power costs were part of the normal business risk associated with running a large coal power plant. CUB argued that customers should not be charged more than \$1 million of the costs associated with the outage, and the PUC ruled that PGE had to absorb some of the \$45.7 million as part of the normal business risk. The PUC, however, allowed PGE to defer \$26 million in replacement power costs for a later prudency review.

The order just issued stemmed from that prudency review, which set about determining the cause of the outage, and whether PGE was at fault. Customers can only be charged for prudently-incurred costs, and if PGE was fully at fault then there would be no basis

to charge customers for any of the replacement power costs.

Determining the cause of the outage was a difficult process. PGE filed its case in the fall of 2007 seeking to charge customers the full \$26 million that the PUC had allowed them to defer. PGE, and its contractors Siemens and Alstom, each conducted their own root cause analysis. CUB, representing residential customers, and ICNU, representing industrial customers, spent a great deal of time reviewing these three analyses of the outage. Both organizations concluded that the outage was caused by "high cycle fatigue," and that the fatigue was caused by misalignment. CUB argued that PGE, who oversaw the installation of new rotors in 2000, should be found to be imprudent, and that the Commission should find that customers were not liable for any part of the expense of the outage.

CUB also argued that one cause of the misalignment was an improperly secured bearing pedestal which PGE failed to find when it inspected the plant in 2000 and during all subsequent inspections prior to the outage. The new turbines PGE put into the plant in 2000 were larger and heavier than the rotors they replaced. When installing the new rotors, PGE failed to realize that the support structure for one of the new rotors had some missing fasteners; others were loose. While PGE tried to dismiss this as insignificant, the Commission found that the "preponderance of evidence shows that the missing and loose fasteners contributed to the initiation of the crack" in the turbine rotor. This was the basis for the Commission dividing the \$26 million of replacement power costs between customers and the company.

Also, we note that there was an additional procedural issue in this docket related to information production and sharing. This issue is of great importance. Within the PUC process, PGE is required to answer our requests for information as long as those requests are within the scope of the docket. During this docket, We were incredibly frustrated in our dealings with PGE. CUB found it difficult to get the data we rightfully and properly requested from the company. This led CUB to take an unusual step and ask the PUC to admonish PGE for its conduct with regards to the provision of documents. The PUC did choose to admonish PGE:

"We agree with CUB that PGE has not been as forthcoming with documents and information in this docket as it should have been."

While CUB had asked the PUC to deny PGE any recovery associated with the 2005 Boardman outage, nonetheless, we are happy with the result. Asking the Commission to find a utility's action to be imprudent is always difficult. In this case, PGE incurred a total of \$45.7 million in replacement power costs, but is permitted by the PUC to only charge customers for \$13 million of those costs. PGE is clearly being told that it acted imprudently. This creates a very clear incentive for the company to improve its plant operations.

How A Rate Case Becomes A Rate

With Idaho Power's general rate case fresh in our minds, CUB is preparing to intervene in general rate cases for both PGE and PacifiCorp. Rate cases are large and complex, and are often the most important and time-consuming dockets that CUB works on during the course of a year. They are also some of the most difficult dockets to explain to our members, as they encompass almost every aspect of utility ratemaking business. We'll try to walk through the process here.

Every few years each utility files a general rate case with the PUC. In these dockets the utility outlines its overall financial outlook. Much of the filing is devoted to outlining expected expenses, including capital investments, employee compensation, fuel costs, transmission expenses, and operations and maintenance. Also included in this filing is a request for an allowed rate of return (ROR) and an allowed return on equity (ROE), the numbers that determine the utility's reasonably allowed profit. And, most importantly for ratepayers, there is the rate spread and rate design component, which determines the amount each customer class will pay for electricity.

Other issues affecting customers can also be proposed by the utility in a general rate case. Decoupling, seasonal rate structures, and renewable energy development have all been included in recent rate cases. These are often proposals for fundamental changes in how customers are charged for energy, and are thoroughly investigated by CUB to determine their impact on residential customers.

After the initial filing, CUB, the Commission Staff, and other intervening parties research the documents provided by the utility and conduct discovery. Requests for additional information are sent to the company and workshops are conducted to help all of the parties better

understand the issues at hand. Settlement conferences are held where the parties attempt to resolve their differences, and then each party submits its testimony in reply to the utility's initial filing.

CUB, of course, is most concerned about residential issues in these cases. The pricing structure of residential rates is key, as is the amount residential customers are paying relative to other customer classes. For example, a recent rate case proposed to have irrigators only pay 75 percent of the cost of the electricity they consume, but almost every other customer class would have to pay more than their actual costs to help subsidize the irrigators. CUB protests this and similar disparities in rate design in the testimony it submits to the Commission.

Other issues may also arise in rate cases that affect all groups of customers. In past cases CUB has found that utilities have tried to pass off expenses to customers that have nothing to do with the cost of providing electricity. Several years ago we caught a line item for the donation of piglets to a local 4-H club. While a nice gesture on the part of the utility, this expenditure was also clearly not a cost that should be passed along to customers. Of course, this was a minor issue, but we have also argued against the usefulness to customers of expenditures on helicopters, transmission lines, office remodeling, and other items that carry much greater financial weight.

After one or more rounds of testimony, the Commission issues a ruling on the utility's rate case. This ruling usually lands somewhere between the utility's initial request and the proposals of the intervenors in terms of the allowed ROE and overall rates, and may allow or disallow other proposals included in the individual case. At this point any party involved has the option to file a challenge to the ruling, as CUB did in PGE's 2008 case, but this is an option that is rarely exercised. More often, any issues that linger from a general rate case docket are explored in more depth in a more specialized docket, or wait to be addressed in the next rate case.

2010 Legislative "Short" Session Rockets Along

Most Oregonians know that their legislature meets every other year on odd number years. But in both 2008 and this year the legislature has called itself into a February "short" session to address budget

issues and to lay the groundwork to potentially ask voters to authorize annual session through a change to Oregon's Constitution.

Of course, CUB has been in the Capitol to watch out for ratepayer interests since the start of the session on February 1. Most of the issues CUB has been involved in have been "leftovers" from 2009 – issues that were discussed but ultimately left undecided. Here are our main concerns this session:

Protecting the Renewable Energy Standard: Back in 2007, CUB was at the forefront with many allies to help create Oregon's Renewable Energy Standard (RES), the requirement to have 25 percent of the state's energy come from renewable resources by 2025. However, in 2009, there was a huge debate over whether allowing the input from old biomass facilities was advisable or would dilute the new standard too much. CUB opposed the bill, which ultimately passed the legislature. But the Governor vetoed the bill at the request of CUB and a host of other groups.

The Governor's veto led to a series of negotiations last fall and the disagreements were worked out. HB 3674 is the bill that the Legislature is discussing in 2010. It allows the actual energy from "vintage" biomass facilities (built before 1995) to count toward the RES but only allows the "renewable energy certificates" that one of these facilities could sell to be used for compliance with the RES standard after 2025, when the standard is already met through other sources.

As of this writing, HB 3674 had passed the House unanimously and is expected to be heard in the Senate soon. CUB is very hopeful that the bill will be approved and signed by the Governor.

Responsibly Supporting Renewable Energy Investment: The Business Energy Tax Credit (BETC) program has been a long-standing way that Oregon has used to create incentives for new investment in both energy conservation and renewable energy projects. However, in the last several years the amount of money being paid out through the BETC has grown enormously as interest in clean energy has become widespread. BETC has been responsible for increasing clean energy projects in Oregon while also creating green jobs as well. CUB has supported BETC because it helps to spread clean energy investment across the state rather than relying solely on utility ratepayers to make those investments.

In 2009, as the Legislature grappled with a growing budget deficit, a bill was passed that CUB, along with other clean energy advocates, believed reduced the effectiveness of BETC in helping to spur clean energy investments. Again, the Governor agreed and vetoed the bill. Lots of discussion followed and a final agreement is contained in HB 3680. The bill caps the BETC at \$300 million for the 2009-2011 budget period and codifies many accountability and transparency measures that the Oregon Department of Energy has already adopted through administrative rules. It is a balanced bill that recognizes BETC's role in promoting a clean energy economy in the state but also notes the state's current budget condition.

As this newsletter goes to print, HB 3680 has passed the House unanimously and is awaiting action in the Senate.

Since it's only a month long, the Legislature's short session should be wrapped up, or nearly so, by the time you read this. For the full overview, go to CUB's website at www.oregoncub.org.

PUC Appointments: Late last year, Public Utility Commission (PUC) Chairman Lee Beyer announced he would step down from the Commission to run for his old seat in the state Senate, which was being vacated because of Sen. Bill Morrisette's (D-Springfield) retirement.

PUC members – including the chair – are appointed by the Governor and confirmed by the Senate. Last month, the Governor announced that he was going to appoint current PUC commissioner Ray Baum as the new chair and Susan Ackerman as a new Commissioner. Commissioner Baum joined the Commission in 2003 and CUB believes he will do a good job as chair. Susan Ackerman used to work as an attorney for NW Natural, but in the last 8 years has been in private practice representing independent power producers and publicly-owned utilities in proceedings at the Bonneville Power Administration. CUB believes that Commissioner Ackerman will have a balanced perspective and will be open to all sides in issues before the PUC.

CUB told both the Governor and legislators that we were supportive of the appointments. The Senate confirmed both nominations on February 5.

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