



CUB Policy Center & CUB Annual Report for 2010

Another year has come and gone for CUB. In many ways, 2010 was a year like any other – advocating for good energy policy and saving ratepayers money. But in other ways, CUB took on new challenges and looked for new adventures.

We started CUB Connects, a new project designed to help consumers navigate the ever more complex world of telecommunications services. We were forced to defend our basic right to intervene in any proceeding affecting utility ratepayers for the first time in more than a decade. We worked to help responsibly close a coal plant. And, like everyone, we tried to keep up with the most challenging economic times since the Great Depression.

It's that last point – the current economic situation – that gets us thinking lately. We have so many challenges: reducing our dependence on fossil fuels, investing in energy efficiency and clean energy generation, expand and renew an aging transmission system, build a “smart grid” infrastructure. We have so much to do, in fact, that we cannot afford to do it all – and certainly not all at once.

As much as we wish it weren't so, rates are going up in the future. So, a main focus of our work is making sure that ratepayers' dollars are spent wisely, on the right things, and in the right order. We need to make sure that while the right investments are being made, consumers can still afford their utility bills.

We do believe that we can both protect ratepayers' wallets and also make the needed investments to preserve our environment. CUB not only represents consumers' financial interest, we also work to represent their values. The work you'll read about in this annual report is based on that simple approach.

Thank you for your ongoing support. Please stay involved as we work to set the right priorities for ratepayer money that represents the best value and values.

Utility Rates in 2010

The core of CUB's work has always been about keeping utility bills affordable. Considering the number of Oregon households that were struggling this year, CUB put a great deal of effort into fighting attempts by utilities to raise rates. In 2010, CUB represented customers in 17 PUC rate case proceedings. Some were large general rate cases which looked at all of a utility's costs and revenues and some were small cases that looked at specific discrete costs, but all 17 were filed by the utility in order to raise your rates. Some highlights from the big general rate cases:

Idaho Power. Idaho Power provides electric service in Eastern Oregon; customers there had to deal with an average 15.4% increase this year in its first general rate case in 5 years. However, Idaho Power and the Staff of the Oregon PUC were concerned that this increase would not be enough to penalize citizens who use air conditioning in the summer. They proposed a rate during the hottest months of the year targeted at homes with air conditioners who would see a 35% increase applied to their bills. With summers that are warmer than in Western Oregon, and incomes that are well below the Oregon average, CUB fought this huge summer rate and was successful when the

This report prepared for:

PUC rejected it.

PGE. PGE requested a rate increase of \$157.8 million. CUB was successful in challenging several aspects of the case which reduced the increase by \$57.6 million. In addition, CUB worked to ensure that price decreases in fuel and wholesale power were passed through to the customers, reducing rates by an additional \$49.9 million.

Pacific Power. Pacific Power sought a general rate case increase of \$130 million, about 13% for most customers, including a large increase in the company's allowable profits. CUB challenged this increase in profits and was successful in reducing it by nearly \$50 million.

Gas Utilities. CUB worked with all three gas utilities to ensure that lower gas prices were passed onto customers.

New Project Will Help Telecom Consumers Connect

The world of telecommunications is wild and woolly. Consumers trying to figure out what phone to purchase, what services to use, and what the cost all comes down to are pretty much on their own to sort through and comprehend competing offers, confusing and complex price plans, and a bunch of technical gibberish that means little to the average person.



Now, compare that to a trip to the supermarket. There, things like unit pricing and ingredient labels can help us make apples-to-apples comparisons among products, which we

can use to make informed choices about what we purchase. So, CUB asked what would it take to bring some of that clarity to the telecommunications market?

A new project that was launched in 2010, CUB Connects, has been working on just that issue. CUB Connects was created in order to assist Oregon consumers in sifting through the variety of plans available for local, long distance, and wireless phone service, as well as internet service.

Back in 2008, Qwest applied to the Oregon Public Utility Commission to implement what we called "a radical plan" to deregulate a broad range of telecommunications services. This came right after CUB and other consumer groups had beaten back a similar proposal in the 2007 Oregon legislature! Our analysis of Qwest's proposal showed that basic residential service would increase by more than 15%, and other services would go up even more. Needless to say, we weren't happy. CUB took the bull by the horns and sat down at the table with Qwest and the PUC staff to negotiate. Finally, after a series of workshops and negotiations, we reached a settlement. CUB had gone into those talks with three goals: 1) protect basic local service with no price increase; 2) protect unlisted numbers and a handful of other features which may be essential for safety reasons or financial hardship; and 3) help customers navigate the maze of telecom pricing.

The last goal, "helping consumers navigate the maze of telecom pricing," is at the heart of CUB Connects. As part of the settlement, Qwest agreed to provide funding for an independent organization to provide comparative pricing information on a broad range of telecommunications services. Everyone involved in the negotiations, including CUB, assumed that a university or some other public or nonprofit entity would be recruited to create and manage such a service. By the summer of 2009, despite several attempts to recruit such an entity, no organization had stepped up to the plate. It was suggested that if it was truly important to CUB that the center be started, CUB should look at whether it could manage the project itself. Not wanting to let such a valuable opportunity to protect consumers disappear, CUB did just that. We developed a draft proposal and began extended discussions with both the PUC staff and Qwest. This led to an agreement by all to have CUB take on the project, and the PUC Commissioners agreed to that arrangement at their regular public meeting in June 2010.

We are currently compiling data and rates from all the telecom service providers in Oregon. This information will be made available on a new website (keep checking at www.cubconnects.org for launch news), in the form of an interactive search tool. This first-of-its-kind telecom search tool will provide consumers with the ability to make

apples-to-apples comparisons between companies and service plans that are available in their area.

As the CUB Connects project develops, we will offer a hotline for consumers to call for assistance with the website or with help understanding the various services and plans. This will be available to consumers throughout Oregon, to help citizens choose the right telecommunications service for them. We also hope to hold workshops around the state to reach out and further educate consumers about their telecom service options.

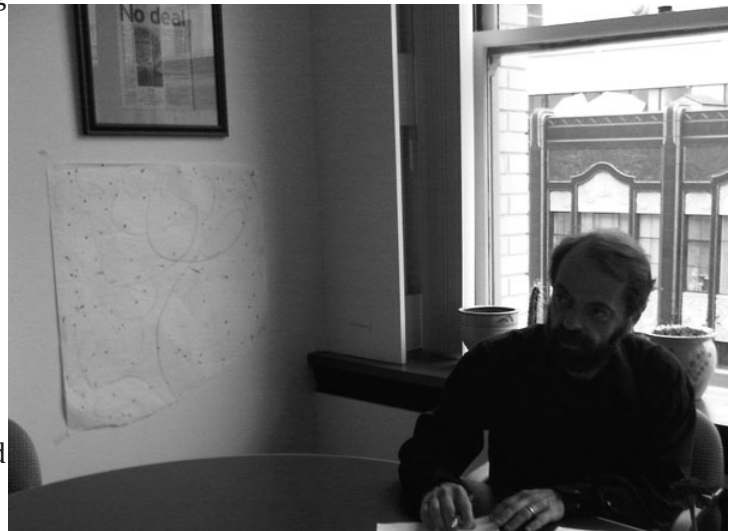
And, remember, come by www.cubconnects.org for launch updates and visit often for ongoing updates on telecommunication consumer information.

Boardman Coal Plant Closing

In January, PGE announced that it would phase out the Boardman coal plant by 2020. The decision didn't come out of nowhere. Just last fall, CUB had written to PGE and asked the company to study the option of closing the plant by 2020. CUB wrote that such a phase out could save customers money and reduce climate change pollution. In announcing its plans, PGE said their analysis found that closing Boardman was the lowest cost option for meeting its customers' energy needs.

This decision represents a real change for PGE. In 2009, 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 if PGE wanted to keep operating it. DEQ did offer 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 early retirement, arguing that the cost of the clean air investment, when combined with the expected cost of carbon regulation, would make the plant uneconomic.

Because Boardman is the largest single source of greenhouse gas emissions in Oregon, early action to close it just by itself will significantly reduce Oregon's carbon pollution. But reducing carbon pollution isn't just an Oregon issue. On a national level, closing a relatively new and relatively efficient coal plant is a very big deal. One environmental consultant predicted at the time that the willingness to close Boardman would send shock waves through the utility industry. Some utilities have proposed shutting down some really old coal plants, but those plants don't operate all that often anyway. Closing down a coal plant like Boardman, a baseload workhorse of a plant that produces electricity reliably around the clock, is new. It could be game-changing.



In 2010 CUB moved into our new offices and Executive Director Bob Jenks got a new view. And new art from his daughter for the walls.

However, PGE's announcement was just the start of a new discussion. Lots of details then needed to be worked out. By stating that keeping Boardman operating until 2040 is not the least cost/least risk resource option (which is what a utility is required to look for under PUC rules), PGE fundamentally changed the terms of the conversation. Here are some of the questions that stakeholders had to look at: What are the costs and risks associated with a 2020 closure versus an even earlier date? What is the cost of closure before 2020? How long will it take to get replacement resources on line? What closure plan is acceptable to the Oregon Department of Environmental Quality (DEQ), PGE's environmental regulator? What closure date is acceptable to the Oregon Public Utility Commission (PUC), PGE's rate regulators?

One key dynamic to work with was the coordination between economic and environmental regulation. On the environmental side of the regulatory coin, the DEQ and its Environmental Quality Commission (EQC) has been pushing for the investment in air quality controls if the plant is to continue operating. But even those investments would not

lower carbon emissions, and if PGE made those investments DEQ might allow Boardman to operate indefinitely. On the economic side, the PUC is charged with ensuring that any utility action on any plant is in the economic interest of ratepayers. This means the PUC won't let PGE shut it down in a manner that is too costly to customers. The goal has been to figure out how to coordinate both economic and environmental goals.

CUB's main point has been that PGE should avoid the \$500 million additional investment, since investing hundreds of millions in coal plants today makes little sense. Sometime in the future we will likely see coal plants being shut down due to their carbon pollution. We also want to see the Clean Air Act maintained and obeyed. Our focus is threefold: protect ratepayers by avoiding new investments in coal technology; protect the environment and reduce greenhouse gas emissions by shuttering a coal plant early and developing a clean energy solution for replacement power; and perhaps provide a path for other, more heavily coal-dependent utilities to follow in shutting down their coal plants early.

Since CUB got early closure of Boardman on the table at the PUC and DEQ, there has been a great deal of discussion with various groups proposing a variety of closure scenarios. But closing a coal plant is not easy. Neither the DEQ nor the PUC has any authority to require a reduction in carbon emissions. CUB has been advocating to both DEQ and the PUC the following key points.

1. A closure plan must be least cost. Because DEQ has already said PGE can meet the clean air requirements by investing \$500 million and running the plant until 2040, the PUC will have to find that an early closure plan is less costly than this.
2. A closure plan must set a deadline for closure no later than 2020. This does not mean that the plant will close in 2020, it may close before then. A variety of factors from environmental regulations of coal and carbon, to maintenance and repair costs will influence the actual closure date. But let's agree now that the plant will close early and take the option of investing \$500 million and running the plant indefinitely off the table.
3. A closure plan must allow for development of clean replacement power resources. Replacing Boardman with a natural gas fired power plant will not reduce carbon emissions enough to allow Oregon to meet its carbon reduction goals. We need to do better. Early closure needs to be linked to a process to develop a clean replacement power strategy.

TracFone Tries To Shut CUB Down Or At Least Out

Summertime is usually a season when things slow down and folks can enjoy the beautiful weather and scenery that Oregon has to offer. But Summer 2010 was pretty busy for CUB because in August, CUB was the subject of a motion to remove us from a PUC docket - something that hasn't happened since Qwest (then US West) tried it in 1999.

But last August, TracFone filed a motion asking the Public Utility Commission (PUC) to deny CUB's right to intervene. TracFone is a wireless telecommunications company that had asked the PUC to certify them to provide Lifeline services (service targeted to low-income individuals). While CUB strongly supports increasing the telecommunications service options available for low-income customers, CUB had serious doubts about TracFone's ability to deliver a good product at fair prices.

In testimony filed at the PUC, CUB staff wrote, "TracFone is offering a product that appears to provide less value to the customer than the already available, non-subsidized services." We said "appears to provide" because TracFone has been uncooperative in giving substantive answers to our data requests. They refused to respond to many questions asked by both CUB and the PUC staff. CUB was so frustrated that we took the unusual course of filing a Motion to Compel, asking the PUC to make TracFone respond fully and completely to data requests.

Let's back up for a moment and talk about Universal Service. In 1996, federal law provided the framework for the federal Universal Service Fund (USF) program with subsidies for both high-cost areas and low-income customers. The universal service principle was traditionally applied to landline phones. However, landline phones require stable housing situations. A significant number of Oregon families have economic situations that can lead to more

transient living arrangements and the expansion of wireless communications has led to a near elimination of pay phones, leaving phoneless families with little access to telecommunications services.

Directing the "explicit subsidy" of Lifeline/USF support to wireless services has the potential to allow low-income households experiencing housing insecurity to have improved access to telecommunications, permitting more effective job searches and ensuring contact with the outside world. Allowing Lifeline support toward wireless services would allow low-income customers to choose the kind of phone service that makes the most sense for them. CUB supports the creation of subsidized wireless service in Oregon, but was not supportive of TracFone's proposal.

As far as CUB could understand, TracFone's intent was to recruit low-income customers who qualify for discounted phone service to apply for its SafeLink wireless service, which is an eligible provider of Lifeline service. TracFone would send these customers a preactivated phone with 68 minutes of use each month.

TracFone would cover the cost of the 68 minutes assigned to a phone by applying to USF for \$9.90 worth of support for that phone. In order for the customer to be credited with the minutes in subsequent months, the phone needs



CUB Connects's staff of two, Ghassan Anmar and Andrea Crosby, hard at work on building the data for the new search tool.

to be charged and turned on for a few days at the start of the month. If that doesn't happen, the customer needs to contact TracFone to request their minutes. If a customer goes two full months without usage of the phone, TracFone will deactivate that phone and no longer receive USF support. The result of this business model is that TracFone is guaranteed \$29.70 ($\9.90×3 months) in USF for every new customer it signs up, no matter how the phone gets used or even if it gets used at all.

Another problem is that TracFone gave no indication that it was prepared for a significant increase in its business in Oregon. The company claimed that it made no plans or no projections for its new activity in the state. If that's the case, how does it know how to size its call center to respond to

customer concerns and problems? How does it know how many phones it will have to purchase in order to distribute? How can it know its expected revenue from the USF?

The federal Universal Service Fund is not free money. It is funded by telecommunications consumers for the express purpose of providing universal telephone service in the US by supporting low-income customers and helping companies provide service to high-cost areas.

Rather than supporting low-income customers, TracFone's business model seems to have an expectation that, after signing up for a phone, some folks simply won't use it. And, because the deactivation process takes two months, it seems clear that the company is receiving USF support for customers who are no longer receiving and using USF-subsidized service. Rather than a supportive service, it seems like self-support. TracFone would continue to collect USF monies for those customers in the process of deactivation, enhancing its own bottom line. CUB asked TracFone to provide the number of customers who do not receive their free minutes because their phone is not turned on and those customers who did not contact the company to retrieve their minutes. TracFone responded that this information is "not relevant." CUB disagreed.

In fact, because TracFone promised to pass through 100% of the minutes, it is highly relevant.

In a handful of states, Virgin Mobile wireless offers a similar Lifeline subsidized wireless service but offers customers 200 free minutes (compared to TracFone's 68) and allows customers to purchase more for 10 cents per minute (compared to TracFone's 20 cents). In addition, customers can purchase prepaid wireless minutes for 7 cents per minute at local retailers. A low income customer, who makes 104 minutes of call per month, would save money by avoiding TracFone's subsidized service and instead purchasing a 7 cents per minute prepaid service.

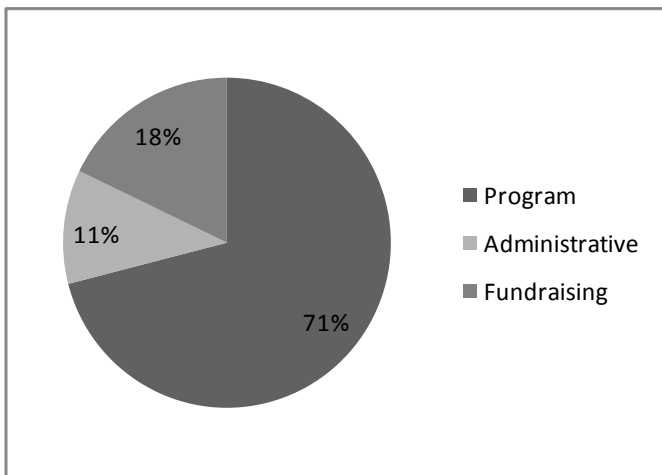
About a week after TracFone filed its motion to kick CUB out from the docket the administrative law judge overseeing this docket ruled on TracFone's motion. The decision, in short: No dice. But here's what the judge said in her own words: "In its motion, TracFone argues that CUB's statutory authority to represent utility consumers before this Commission does not extend to this proceeding because TracFone is not a 'utility' and its customers are not 'utility consumers'....TracFone's motion rests on the claim that no Oregon ratepayer interests are implicated by the company's application....in Oregon. This is incorrect."

Moreover: "CUB may intervene as a party in proceedings that may affect the interests of utility consumers....CUB did not exceed its mandate by intervening in this docket. TracFone's motion to deny intervention to CUB is denied."

TracFone suspended action on their case in the fall, but they've come back to Oregon with a new plan and you'll be hearing more about this from us in 2011.

Financial Efficiency Summary

CUB and the CUB Policy Center continue to use your money wisely and efficiently. Our latest audit shows 71 cents of every dollar we spend goes directly back to helping customers.



We need your help, as we do every year, to keep up all our good work. Solutions to real problems like creating CUB Connects, fighting TracFone, guiding the discussion on closing Boardman, all the things we do, we do because you give to us.

This winter we ask if you can give \$50, \$100 or even \$500 to the CUB Policy Center. Contributions to the CPC are tax-deductible, and as you can see, go to all the work we do.

You can send a check or fill out the form below to give by Mastercard, Visa or American Express and return it with the enclosed envelope.

Credit Card number: _____

Expiration date: ____/____

Amount to donate: _____

Your signature if you choose to donate by credit card: _____



All our staff in the office the week before Thanksgiving: (from left) Karen Jaffe, Bob Jenks, SA Anders, John Sturm, Jeff Bissonnette, Andrea Crosby, Gordon Feighner and Ghassan Anmar. Not pictured: Catriona McCracken and Ray Myers.