The Bear Facts

The Summer 2012 newsletter of the Citizens' Utility Board of Oregon and the CUB Policy Center

CUB Opposes NW Natural Plan to Raise Rates and Cut Energy Efficiency

In our spring newsletter we wrote about NW Natural's 2012 general rate case, which proposes higher rates for customers and a major change in the structure of customers' bills. In short, the utility is proposing to increase residential rates by 8% and increase the monthly customer charge (base charge) from $6 to more than $29. CUB submitted testimony to the Oregon Public Utility Commission (PUC) in response to NW Natural's proposal on May 3. In examining the company's request, we concluded that the purpose of NW Natural's proposal seems to be to encourage customers to spend less on conservation. By increasing the fixed charge portion of customers' bills that remains unaffected by actual gas usage, NW Natural is reducing the incentive to conserve natural gas.

The policy of the Oregon PUC for more than a decade has been to limit the monthly charge to the cost of the meter, meter reading, and billing. Other costs, such as the costs of the pipes that deliver the gas and the cost of the gas itself, are recovered in volumetric charges (a ratio of dollars per therm).

According to NW Natural, this policy needs to change because it is causing customers to spend too much on energy efficiency:

> *Unfortunately, volumetric rates produce the opposite result of conservation. Volumetric rates encourage the wasteful use of resources to reduce gas use and discourage efficient uses of natural gas. Full cost-based Customer Charges promote efficient use of all resources related to gas consumption and, thus, result in optimal conservation.*

Read this statement carefully. What NW Natural is saying is that that we are wasting resources by spending money on efficiency and that we are achieving conservation above the optimal level. For NW Natural, the optimal level of conservation is linked to the short-term marginal cost of natural gas, which is at an historic low. The company is currently paying very low prices for the product it sells to customers, and if customers conserve their natural gas usage, NW Natural sees less profit from its investment.

Of course, gas won't be at these low prices forever. Historically, natural gas prices have followed a boom and bust cycle. Back in the 1980s and 1990s the Oregon PUC allowed energy efficiency investments follow the same boom and bust cycle as short-term energy markets. When prices charged to customers were high, utilities increased them even more to support energy efficiency programs. When prices charged to customers were low, utilities lowered them even more by cutting energy efficiency programs. When the Western energy crisis hit in 2001, Oregon regretted all the cuts that had been made to conservation programs due to short-term prices. The efficiency programs that had been cut would have saved Oregon households tens of millions of dollars.

Since that time, the PUC and utilities have recognized that energy efficiency investments should be tied to the long-term cost of energy. Weatherizing a house is a long-term measure. It will not just save energy at today's prices, it will also save energy in a decade at whatever prices exist at that time. Energy efficiency has proven to be our cheapest and cleanest source of energy. It is not something we do in the short term to respond to today's market, but it is something we invest in over the long term to keep our bills down.

Oregon Governor John Kitzhaber gave the keynote address at the Future of Energy Conference earlier this year in Portland. The governor supports conservation, and recognizes that Oregon has been ahead of the curve on this issue:

> *We know what other regions have yet to learn:*
>
> *That the cleanest form of energy is the energy we don't use and that there is tremendous economic potential in significantly scaling up invest-*

More on page 2.

Letter from the Executive Director

The Federal Clean Air Act requires utilities to invest billions of dollars in retrofits on their coal plants to reduce toxic air pollution. Many folks, of course, challenge the wisdom of investing in coal plants when it's clear that climate change will require a move away from coal generation.

At this point I think there is an even more fundamental question: should utilities be investing billions in coal plants when it is cheaper to invest in alternative sources of supply?

PGE's Boardman plant was the first major example of this type of analysis. CUB was able to demonstrate that customers would save about $200 million by phasing the plant out rather than investing hundreds of millions in pollution control technology and continuing to run the plant for decades. Now the plant is scheduled to close before 2020.

While which policies should be used to reduce carbon emissions may still be a matter for debatewe should all agree that where closing a coal plant saves money, it should be done. Early plant may not be possible for all coal plants, it certainly is possible for some. Those are the plants CUB is working to identify – the cases where customers and utilities both save money by closing the plant and investing in renewables, energy efficiency, and natural gas generation instead of coal.

But not all utilities agree with CUB. This month CUB submitted testimony charging that two of Oregon's utilities, Pacific Power and Idaho Power, failed to adequately consider whether it is cheaper to close coal plants and instead moved ahead to invest huge sums of money without consideration of alternatives. By refusing to even consider phase-outs as alternatives to investing in coal, these utilities failed to identify the cases where customers would save money. The end result will be higher rates, dirtier air, and increased carbon emissions. (See page 3 for more information.)

CUB is asking the Public Utility Commission to hold these utilities accountable for their failure to act prudently. We are asking that millions of dollars of costs associated with uneconomic investment in coal plants not be put into rates. We've gotten the attention of the utilities. They are spending significant resources fighting us and trying to protect their coal plants. But we are up for the fight. Customers should not have to pay for bad, unreasonable and uneconomic investments.

Bob Jenks, Executive Director

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CUB opposes NW Natural plan
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> *ment in energy efficiency and conservation;*
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> *That the real potential of our extraordinary natural assets lies not in their exploitation, but in their restoration; and*
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> *That the global market is hungry for technologies, products and services that get things done more efficiently and at a lower cost -- the keys to a clean economy.*

The utilities should take note.

CUB and Electric Vehicles on Parade!

CUB partnered with the Oregon Electric Vehicles Association (OEVA) to participate in the 50th Annual St. John's Parade. On May 12th, thousands of residents from the St. John's neighborhood and the rest of Portland got to see 9 OEVA members drive their electric vehicles in the parade. An all-electric Tesla Roadster led our group, decked out with CUB and OEVA banners. The Tesla was followed by two Nissan LEAFs, two classic convertible conversions, one plug-in hybrid electric truck, an electrified riding lawn mower, a hand-built all-electric off-road vehicle, and a bright blue three-wheeled electric vehicle.

We got questions about the technology of the cars along with many supportive shout-outs for gasoline-free vehicles. CUB looks forward to partnering with OEVA on future events to showcase electric vehicles in Portland and across the state!

Pictured top right: St. Johns Parade. Bottom right: Americorps Member and Community Outreach Specialist Emmaline Pohnl representing the CUB Policy Center.

CUB Demands Utilities Reconsider Coal Plants

Customers of Oregon's investor-owned utilities receive anywhere from 28% - 67% of their electricity from coal-fired power plants located outside the state. Changes in the Environmental Protection Agency's (EPA) regulations under the Clean Air Act have led to a crackdown on emissions from plants, which means that the owners of these coal-fired power plants have already spent billions of dollars keeping these plants in compliance with the regulations. This past March, the EPA proposed even more stringent emissions regulations that would require the investment of millions more dollars in these plants to keep emissions within more rigorous the proposed legal limits.

A couple of years ago PGE was planning to invest $500 million in its Boardman coal plant to ensure compliance with then-current EPA regulations. In light of the regulations in place at the time and the predicted regulations to come, CUB challenged PGE to analyze whether it was more cost-effective for ratepayers to simply phase out Boardman rather than make the hefty investment. PGE did the analysis and concluded that customers would save about $200 million if Boardman were to close early, and therefore agreed to close Boardman by 2020.

Since then, CUB has been working hard to get PacifiCorp and Idaho Power to conduct similar studies that evaluate whether it's cheaper to phase out certain coal-fired power plants or continue to make increasingly expensive incremental investments to comply with the full array of expected environmental regulations on coal facilities. To PacifiCorp's credit, the utility has made some moves towards conducting this type of analysis on some of the units in its fleet. It recently announced its intent to stop burning coal at its Naughton 3 coal plant after finding that it is actually cheaper to stop burning coal than to invest millions in new pollution control equipment. PacifiCorp has also stated that it anticipates retiring its Carbon plant in early 2015. Unforunately, Naughton 3 is the first of PacifiCorp's coal units to receive a comprehensive study of it clean air costs versus alternatives resources costs and the study

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Is your CUB membership current? Check it out inside, along with news about the Governor's 10 Year Energy Plan!

CUB Pushes Utilities to Reconsider Coal Plants

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comes after the company has already spent more than $1 billion on clean air investment without previously doing the necessary comprehensive studies for Naughton or its other plants.

PacifiCorp and Idaho Power are joint owners of another coal-fired power plant in the region called Jim Bridger Unit 3, located in Wyoming. CUB has been busy reviewing and analyzing the clean air investments made in Bridger 3 by both Idaho Power and PacifiCorp.

In April, CUB filed testimony in Idaho Power's General Rate case asking the PUC to find Idaho Power imprudent for not doing the type of analysis that PacifiCorp has now done on Naughton 3 (and that PGE did on Boardman). We also requested that the PUC disallow Idaho Power's request to charge its Oregon customers for the costs of the clean air investments that were not properly.

CUB will address PacifiCorp's own clean air investments in Bridger 3, as well as several other plants, later this month when it files its testimony in PacifiCorp's General Rate case. The critical question in both cases, and moving forward as we evaluate incremental investments to comply with expected environmental regulation on coal facilities, is whether it is cost-effective to invest in coal plants at all, or should the utility be considering retirement of its plant, as was done with Boardman, or repowering its plant with natural gas as is being suggested for Naughton 3.

As we face up to the challenge of climate change and the need to reduce carbon emissions, it should be a no-brainer to stop investing in coal plants when alternatives are both cheaper and cleaner. However, this requires utilities to look at the available alternatives before making investments. PGE did this, but Idaho Power and PacifiCorp have been resistant. CUB believes that the PUC must not allow these utilities to charge customers for investments in coal plants that are being made imprudently without considering alternatives.

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