



# The 2012 Annual Report of the Citizens' Utility Board of Oregon and the CUB Policy Center.

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Dear CUB members and supporters,

2012 was a memorable year for me. It started with CUB celebrating my 20<sup>th</sup> anniversary as a consumer advocate working on behalf of Oregon ratepayers. It ended with a big victory in the NW Natural general rate case. In between, CUB hired new staff, had input into the Governor's 10-year Energy Plan, demanded that Pacific Power consider alternatives to its planned investments in coal plants, hosted a conference on the future of energy efficiency and did our best to represent the interests of Oregon utility customers.

CUB took on utilities in a number of rate cases this year and received decisions which will save customers more than \$157 million over the next three years. Depending on the cases that have not been decided yet, that number could double. NW Natural gas customers are receiving a rate reduction, rather than the rate hike the company wanted. This is important. The economy is still struggling, and so are many Oregon families. Keeping utility bills affordable is critical.

As a small non-profit, CUB's year was challenging, but very successful. Our staff had to work a lot of evenings and weekends, but they made a real difference and I can't congratulate them enough. We worked hard to grow our membership in spite of the economy. We managed our budget well enough that we added two new staff positions and increased our financial reserves modestly. And finally, we had our second successful policy conference which looked at the future of energy efficiency.

Of course, at CUB, it is not in our nature to rest on our laurels. Our battle to get Pacific Power to consider alternatives to investing billions of dollars in aging coal plants is not finished. Oregon's largest utility, PGE, is expected to seek higher rates next year. The process to decide what resources should be used to replace the Boardman coal plant is beginning. The legislature will consider aspects of the Governor's energy plan, along with other key proposals affecting residential ratepayers and the entire state.

And, of course, there is the fundamental need for the energy industry to take climate change seriously and begin preparing for a time when carbon emissions are regulated or taxed.

So, while there is still a lot to do, I want to thank the members of CUB, our incredible Board of Directors, and our hardworking and talented staff. Together we made 2012 memorable and successful.

Bob Jenks

A handwritten signature in black ink, appearing to read "Bob Jenks".

P.S. We also worked to get ahead of the emerging issue of electric vehicles. Electric vehicles have the potential to provide significant environmental benefits. CUB believes we can maximize those benefits by ensuring that electric vehicles are charged with renewable power. Through the work of our AmeriCorps member, Emmaline Pohnl, CUB participated in 17 public events related to electric vehicles and successfully advocated a number of important policy principles into the state's plan for deployment of electric vehicles. Emmaline has moved on to working for Drive Oregon, and we now have Stephanie Levine to carry on her great work.

# Protecting Ratepayers: A Big Win In The NW Natural Rate Case

Technically, the NW Natural rate case started in December 2011, when it filed its general rate case. But we spent more than three quarters of 2012 working on this case and, not to spoil the ending, winning real results for customers.

NW Natural's filing was its first general rate case since 2002. It had some pretty lofty demands: \$43.7 million in new revenue and an increase to 10.3% in its allowed profits. CUB set to work: 9 months of analysis, 5 rounds of testimony, 3 legal briefs, a hearing, and oral argument.

Long story short: We successfully argued that the Public Utility Commission (PUC) shouldn't allow several investments worth \$21.6 million because NW Natural had not run those investments by the PUC before beginning construction to see if it was a good idea. We didn't think customers should have to pay for them, and we won. We also successfully argued that \$4.5 million of deferred taxes should not be charged to customers.

The longer, more detailed description of our fight is this: NW Natural's original request was for an increase to base rates of \$43.7 million, which would be partially offset by reducing the company's decoupling adjustment, which allows the company to recover fixed costs even when demand is falling. Instead, the Commission approved an increase to base rates of \$8.7 million, which, when combined with the decoupling offset, reduces the utility's revenues by \$6 million. Thus, instead of an overall increase, the company's customers are getting an overall decrease. Because natural gas prices are also falling, residential customer will see a whopping 5% decrease.

CUB had serious problems with NW Natural's request to raise rates. NW Natural has been earning above its authorized profit margin - officially 'return on equity' - in recent years. We thought that its rates were already too high. In spite of the difficult economy affecting customers' ability to pay their bills, NW Natural asked for an increase in its allowable profits.

The company also asked for retroactive recovery of more than \$100 million in costs that it had incurred over the last several years, even though the utility was over-earning during that period and could have paid those costs out of the overearnings rather than seeking additional revenue. NW Natural was asking to recover costs associated with pipeline investments that had not been properly analyzed in its Integrated Resource Plan (IRP). It was asking customers to pay 100% of its share of the Portland Harbor cleanup, even though the contamination was caused by the manufacturing of gas from coal and oil at the company's facilities decades ago, not by today's natural gas operations. While CUB did not get everything we wanted, we won on most of the disputed issues.

Finally, NW Natural was asking to increase its monthly customer charge from \$6 to \$29 over the next three years, arguing that the way its rates were structured created too great of an incentive for customers to invest in energy efficiency. They lost on that one, too. The customer charge will rise to only \$8, which reflects the costs of meter reading and billing.

Overall, CUB is very happy with the results of this case. NW Natural's initial application was a significant over-reach on NW Natural's part including requests for changes in decades of policy and precedent. NW Natural was trying to charge customers for every dollar it could think of, even though NW Natural and its shareholders have been doing very well despite the worst recession since the Great Depression. We had to work very hard to make sure the Commission understood that NW Natural's proposal was unreasonable, even untenable, and the final decision reflects Commission's understanding of this fact. And, in the end, CUB will take a rate decrease for customers over a rate increase every day!

# Energy Efficiency: A Strong Foundation To Build A Strong Future

One of CUB's central policy goals over the years has been increasing investments in energy efficiency. Our policy stance has long been "the cheapest power is the power you don't have to produce in the first place." Energy efficiency helps to reduce energy usage overall and can remove the need to build or buy more expensive power from other generation sources.

2012 marks the 10<sup>th</sup> anniversary of one of CUB's proudest achievements: the creation of the Energy Trust of Oregon (ETO). In 2002, ETO began operating as the administrator of ratepayer funds dedicated to energy efficiency investments, taking the utilities out of that role.

In the 1990s, utilities were not running very effective efficiency programs because they have an inherent conflict of interest: how can a company help its customers use less of the product that it produces and sells? Creating ETO removed that conflict of interest and has resulted in over a billion dollars in savings for ratepayers on their utility bills.

Through a combination of innovative programs, solid evaluation, and ongoing effective communications with all ratepayers (residential, commercial and industrial), ETO has saved enough electricity to power almost 320,000 Oregon homes and saved enough natural gas to heat about 46,000 homes. These results have exceeded CUB's wildest expectations when we started advocating for an independent entity to take over the utilities' energy efficiency programs more than a decade ago.

Energy efficiency is as central to our policy today as it was a decade ago. Nationally, household electric usage continues to grow, but in Oregon it is declining. Oregon households save about \$500 per year because of investments we've made in energy efficiency. But there is a great deal of additional cost effective energy efficiency still available. CUB strongly advocated that the Governor's 10 year energy plan focus on additional energy efficiency. As the year comes to close, the final plan is being completed, but energy efficiency will play a prominent role.

How do we do more? This was the question that we asked at CUB's second annual policy conference in October titled: "Energy Efficiency: The Next Generation." ETO will continue doing great work and will be a key part of determining the next generation of energy efficiency. Programs like Clean Energy Works Oregon, which allows homeowners the ability to make deep efficiency investments are expanding and new programs will be developed. New appliances, new lighting, and a new smarter electrical grid all provide opportunities for new efficiency gains. Because of our track record of collaborations and ingenuity, our chances of success are high.

In moderating one of the panels at our conference, CUB's own Senior Utility Analyst, Gordon Feighner, captured the spirit of energy efficiency's future most succinctly in one of his now-famous haikus: 'What's efficiency?/ More than just insulation/ Now it's gone high-tech.' It's true; new advances in energy efficient appliances and innovative in-home energy monitors will enable homeowners to further reduce their energy consumption in the coming years.

Helping to make homes and business more energy efficient over the next several years will be vitally important to rates, the environment, and the overall economy. CUB expects to continue its advocacy of effective energy efficiency investments in 2013 in both regulatory and legislative arenas.

# Should We Or Shouldn't We: Investing In Coal

Because of Sierra Club's *Beyond Coal Campaign* and CUB's *Transition from Coal* program, we've gotten members who have asked "why is coal bad?" and "why don't we shut down all coal plants immediately?" We set up CUB's *Transition from Coal* program to help work on the issue of what PGE should do next, now that Boardman is closing. CUB's program has so far been limited to PGE, but we need to also think about this issue more broadly.

Coal-fired power plants have been a key part of most utilities' generation portfolios for decades. They are relatively cheap and provide baseload power - meaning they can run consistently, making electricity pretty much on an "as-needed" basis.

The trouble is, coal is dirty. It's a major source of haze and a major contributor of greenhouse gas emissions, adding to a growing climate change problem. Modern clean air rules aimed at reducing haze and smog are requiring major upgrades to many coal plants across the country, costing billions of dollars. On top of that, while greenhouse gas regulations are further off than many thought even as recently as a few years ago, they are still likely within the next decade or two, well within the operating lives of many coal plants being considered for clean air upgrades. Greenhouse gas regulation will make coal power increasingly expensive.

Given all of the above, the question is whether it's worth making the full slate of clean air investments in each coal plant or whether making some investments and then closing certain coal plants early might make the most sense, both for ratepayers' wallets and the environment. Closing coal plants early has a significant environmental benefit and, in a few recent cases (like PGE's Boardman coal plant), has been demonstrated to be the best financial option, saving ratepayers hundreds of millions of dollars. Before we invest billions in clean air upgrades, we should be looking at a full range of options to determine the best economic and environmental path for all of the coal plants that need clean air upgrades.

No case in 2012 has put this question more front and center for CUB than the Pacific Power rate case. The utility's request for an increase in rates is based in large part on its investments in clean air upgrades for its sprawling fleet of coal plants. This issue is so important that CUB brought on Nadine Hanhan as a utility analyst just to look at coal investments in utility filings. We believe that before ratepayers are asked to make these huge investments, that a full analysis should be done to see if they make economic sense in the long term.

CUB's evidence in the rate case shows that Pacific Power did not do the necessary analysis for the plants at issue and that it doesn't want to do this kind of detailed analysis for other units, either. CUB has hit this issue hard and presented some preliminary analysis that shows that while it might make sense to make some clean air upgrades at some plants, it might make more sense at other plants to find cleaner, cheaper ways to find replacement power and then close that coal plant early. In the case of Boardman, the analysis clearly showed this sort of "phased" approach benefitted ratepayers to the tune of \$200 million. We're asking Pacific Power to do the same kind of analysis on their proposed coal investments.

As this Annual Report goes to print, the PUC is poised to make a decision in the Pacific Power rate case. CUB has asked for a disallowance of some major investments, which would lead to a reduction in Pacific Power's requested increase. Read CUB's website to find out what happens next and how CUB will continue to address this important issue.