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August 22, 2023

Via Electronic Filing

Public Utility Commission of Oregon
Attn: Filing Center
201 High St. SE, Suite 100
Salem OR 97301

Re: In the Matter of PORTLAND GENERAL ELECTRIC CO.
Request for a General Rate Revision.
Docket No. UE 416

Dear Filing Center:

Please find enclosed the redacted version of the General Rate Case ("GRC") Rebuttal Testimony of Bradley G. Mullins (AWEC/600) and Lance D. Kaufman (AWEC/700-701) on behalf of the Alliance of Western Energy Consumers ("AWEC") in the above-referenced docket.

Please note that AWEC's GRC Rebuttal Testimony contains Protected Information Subject to Modified General Protective Order No. 23-039. The confidential portions of AWEC's filing have been encrypted with 7-zip software and are being transmitted electronically to the Commission and qualified persons.

Thank you for your assistance. If you have any questions, please do not hesitate to call.

Sincerely,

<u>/s/ Jesse O. Gorsuch</u>
Jesse O. Gorsuch

Enclosures

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that I have this day served the **Confidential GRC Rebuttal Testimony of the Alliance of Western Energy Consumers** upon the parties shown below via electronic mail.

Dated at Portland, Oregon, this 22nd day of August, 2023.

Sincerely,

/s/ Jesse O. Gorsuch
Jesse O. Gorsuch

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BEFORE THE

PUBLIC UTILITY COMMISSION OF OREGON

UE 416

In the Matter of	)
	)
Portland General Electric Company,	)
	)
Request For a General Rate Revision.	)
	)

REBUTTAL GENERAL RATE CASE TESTIMONY

OF

BRADLEY G. MULLINS

ON BEHALF OF

THE ALLIANCE OF WESTERN ENERGY CONSUMERS

(REDACTED)

August 22, 2023

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I. INTRODUCTION AND SUMMARY

Q. ARE YOU THE SAME WITNESS THAT FILED DIRECT TESTIMONY IN THIS MATTER?

A. Yes. I previously filed Opening Net Variable Power Cost ("NVPC") testimony in Exhibit AWEC/100, as well as Opening General Rate Case ("GRC") testimony in Exhibit AWEC/200 and Rebuttal NVPC Testimony in Exhibit AWEC/400, all of which were submitted on behalf of the Alliance of Western Energy Consumers ("AWEC").

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. I respond to the GRC Reply Testimony of Portland General Electric Company ("PGE") witnesses Bekkedahl-Putnam regarding distribution forestry expenses; Loos-Cristea regarding generation operations and maintenance ("O&M") expenses; Batzler-Agnesse regarding insurance expenses; Baltzer – Ferchland regarding state income taxes and working capital; and Sims-Outama regarding proposed changes to the Power Cost Adjustment Mechanism ("PCAM").

Q. HAVE THE PARTIES REACHED A SETTLEMENT ON ANY OF THE ISSUES YOU RAISED IN OPENING GRC TESTIMONY?

A. Yes. Since filing Opening GRC Testimony, parties have convened several settlement conferences. In those settlement conferences, an agreement in principle has been reached on several issues, including a number of issues I raised in my Opening GRC Testimony. Accordingly, I have not discussed those issues in this Rebuttal GRC Testimony

Q. PLEASE SUMMARIZE YOUR REBUTTAL GRC TESTIMONY.

A. My recommendations on outstanding revenue requirement issues are detailed below.

1. *Average Rate Base:* I support Staff's recommendation to calculate revenue requirement using an average rate base because it results in a more consistent revenue

requirement calculation than the method PGE used. Notwithstanding, to fully be consistent, I recommend that year-end 2023 depreciation expenses be used, which in addition to Staff's rate base adjustment, reduces operating expenses by $11,632,259.

2. *Distribution Forestry Expenses:* I recommend the Commission reject PGE's budgeted 90% increase to distribution forestry expenses, and at a maximum, limit PGE's budget to two times the annual rate of inflation, an approach that otherwise results in a $20,636,497 reduction to PGE's budgeted operating expenses.

3. *Generation Outside Service:* I continue recommending an adjustment for generation outside services, limiting the increase, at a maximum, to annual inflation rates, which produces a $2,255,670 reduction to PGE's budgeted operating expenses.

4. *Property Insurance Expense:* I recommend property insurance expenses be set at the effective premiums for the period July 2023 through June 2024. This change results in a $1,788,313 reduction to PGE's budgeted operating expenses. Given the nature of these expenses, which cover acts of negligence, it is reasonable to subject them to modest regulatory lag.

5. *Wind Outside Services:* I accept PGE's explanation related to wind outside services.

6. *State Income Tax Flow-Through Method:* I believe that using the flow-through method for state taxes is consistent with good regulatory policy, and continue to recommend an adjustment to transition to that method.

7. *Working Capital:* I accept PGE's explanation with respect to working capital, though I continue to have concerns with the way that the working cash factor is calculated.

8. *PCAM Changes:* I continue to recommend that the existing design elements of the PCAM be retained. The PCAM has been the subject of over a decade of litigation, in which it has been repeatedly reaffirmed by the Commission, and PGE offers no valid reason to depart from past precedent.

II. AVERAGE RATE BASE

Q. WHAT DID STAFF RECOMMEND WITH RESPECT TO AVERAGE RATE BASE?

A. In Exhibit Staff/800, Staff witnesses Stevens and Young "recommend the Commission reject the pre-test period snapshot (PTPSS) method used by PGE to calculate rate base for purposes of establishing the return component of PGE's revenue requirement." Instead, Staff recommended the Commission adopt an average rate base value, which considered incremental accumulated depreciation in the year ending December 31, 2024 (the "Test Period").

Q. DOES AWEC SUPPORT STAFF'S RECOMMENDATION?

A. Yes. Use of an average rate base values better aligns with expenses and revenues, which occur ratably over the course of the Test Period.

Q. HOW DID PGE RESPOND?

A. PGE states that its calculation of rate base using the PTPSS method is reasonable because it is consistent with past practice.[1]

Q. DO YOU AGREE?

A. No. Just because a method is consistent with past practice does not mean that its continued use is reasonable.

Q. DOES THE PTPSS METHOD RESULT IN INCONSISTENCIES IN REVENUE REQUIREMENT?

A. Yes. For example, PGE's revenue requirement uses expenses that are escalated at high rates into the 2024 Test Period. Notwithstanding, the corresponding benefit of incremental accumulated depreciation that will accrue over the same time period is not being considered in PGE's revenue requirement. The accumulated depreciation would otherwise offset the impact of these escalating expense levels. Therefore, PGE's approach results in an inconsistent revenue requirement because it is capturing escalated expenses but not the corresponding accumulated depreciation in the Test Period.

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[1] PGE/1700, Batzler – Ferchland /13:1-16:16.

Q. ARE DEPRECIATION EXPENSES IN PGE'S REVENUE REQUIREMENT CONSISTENT WITH RATE BASE?

A. No. Under PGE's PTPSS method, depreciation expenses are effectively calculated on a forward-looking basis over calendar year 2024. Notwithstanding, the incremental accumulated depreciation reserves associated with those depreciation expenses over the same period are not being considered in revenue requirement. Under PGE's approach, ratepayers would be paying for depreciation expenses in calendar year 2024, but not getting the associated benefit of those depreciation expenses through an increase in accumulated depreciation. This approach is both inconsistent and unfair to ratepayers.

Q. HOW DOES PGE CALCULATE TEST PERIOD DEPRECIATION EXPENSES?

A. The workpapers that calculated depreciation expenses were provided in response to AWEC Data Request 39. In the response, PGE labeled the depreciation expenses as 2023 values. Notwithstanding, PGE added in the plant additions through the end of 2023 assuming they were in service on January 1, 2023, even though the plant was placed in service at various times throughout 2023. This was done with the apparent objective of calculating a forward looking, 2024 depreciation expense.

Q. IS PGE'S APPROACH REASONABLE?

A. No. PGE's approach is a mismatch of 2024 and 2023 depreciation expenses, which, due to the unique way PGE calculates depreciation expenses, results in an unreasonable level of depreciation expenses relative to the plant balances included in rate base. PGE calculates depreciation expense in a manner different from other utilities, based on net plant balances, in contrast to gross plant balances. By adding in the 2023 plant additions at the beginning of 2023, however, PGE introduced a gross inconsistency between the depreciation expense calculations and the plant balances used for rate base. Because net plant balances decline as depreciation accrues, PGE's depreciation expenses calculated based on those net plant balances also decline over the measurement period. PGE, however, did not consider that reduction in depreciation expense in its revenue requirement calculation.

Q. HOW SIGNIFICANT ARE THE DECLINING DEPRECIATION EXPENSES?

A. The December 2023 depreciation and amortization expense that PGE calculated in its depreciation model was $38,091,645.[2] This value contrasts average depreciation expenses of $39,061,000 per month over the 12-month period ending December 2023. Thus, PGE's rate base, which establishes plant based on end of period 2023 levels, is inconsistent because it does not consider the impact of declining net plant balances on deprecation expenses that will otherwise decline over 2023. Based on the difference between the monthly average, and the December 2023 depreciation expense level, PGE effectively overstated year-end depreciation expense by $969,355 per month, or $11,632,259 over the 2024 Test Period.

Q. ARE YOU RECOMMENDING A DEPRECIATION EXPENSE ADJUSTMENT IN CONJUNCTION WITH STAFF'S AVERAGE RATE BASE ADJUSTMENT?

A. Yes. If the Commission accepts Staff's adjustment to accumulated depreciation, it is also necessary to consider the unique way that PGE calculates depreciation expenses and adjust for the annualized, Test Period depreciation expenses, rather than the 2023 average. As noted, this results in a further $11,632,259 reduction to PGE operating expenses.

Q. DOES STAFF'S APPROACH VIOLATE NORMALIZATION REQUIREMENTS?

A. No. To be clear, if the Commission accepts Staff's recommendation, it will be necessary to update accumulated deferred income taxes to be based on the same period as accumulated

[2] *See* PGE's response to AWEC Data Request 39, Attachment A Tab "Depr Query - GRC Depr."

depreciation. This is a calculation PGE would otherwise have to perform with its tax software, which the Commission would need to require of PGE as a condition in its final order. Parties have no way to perform this calculation in an accurate manner absent having access to PGE's tax software. Notwithstanding, assuming the Commission were to condition its acceptance of Staff's recommendation on PGE recalculating the 2024 accumulated deferred income taxes associated with the 2024 depreciation expense, there would be no risk of a consistency violation under the IRS normalization rules. This step could also occur in a bench request. If this were done, the net plant balances, depreciation expenses, and accumulated deferred income taxes would all be based on the same average of averages value for 2024. On the contrary, PGE's method, which uses December 31, 2023 accumulated depreciation and depreciation expenses which are a mishmash of 2023 and 2024 levels, would likely be viewed as less consistent by the IRS.

Q. WHAT DO YOU RECOMMEND?

A. I recommend the Commission adopt Staff's recommendation, subject to PGE recalculating accumulated deferred income taxes based on the accumulated depreciation reflected in the final revenue requirement. In conjunction with Staff's recommendation, I also recommend a further $11,632,259 reduction to PGE's depreciation expenses to reflect Test Period levels.

III. OPERATING EXPENSES

a. <u>Distribution Forestry Expense</u>

Q. WHAT DID YOU RECOMMEND WITH RESPECT TO FORESTRY EXPENSES IN DIRECT TESTIMONY?

A. I noted that in FERC Account 593, PGE included budgeted outside services expenses of $53,096,279 in department "341: Forestry," which consists generally of routine vegetation management expenses.[3] This value compared to $27,886,411 of actual forestry expenses incurred in 2022.[4] Thus, PGE is requesting a $25,209,867, or 90%, increase to forestry expenses in this docket.[5] Lacking a compelling justification for the increase, I recommended in Opening Testimony setting revenue requirement based on the known and measurable distribution forestry expense from 2022 of $27,886,411.

Q. HOW DID PGE RESPOND?

A. PGE responds by stating that "[w]e wrote lengthy testimony on the cost drivers and support of the 2024 test year increase to the RVM budget in PGE Exhibit 700 and responded to numerous data requests, including providing the workpaper used to develop the 2024 RVM budget."[6]

Q. DID THIS INFORMATION JUSTIFY A 90% INCREASE TO 2022 ACTUAL SPENDING?

A. No. In Direct Testimony, PGE stated that the large increase was "driven primarily by increased cost of outside services (e.g., tree trimming services)."[7] PGE stated, for example, that [redacted][8] While these statements may be sufficient to justify some budgetary increase relative to 2022 levels, if appropriately quantified, they are not sufficient to justify nearly doubling distribution forestry expense.

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3 AWEC/200, Mullins/13:11-13.
4 *Id.* at 13:14-17
5 Ibid.
6 PGE/2200, Bekkedahl-Putnam/21:18-22:2.
7 PGE/700, Bekkedahl-Jenkins/11:1-3.
8 PGE/700, Bekkedahl-Jenkins/13:2-4.

Q. DID YOU FURTHER REVIEW THE WORKPAPERS PGE PROVIDED TO STAFF?

A. Yes. The values in workpapers PGE did provide match the actual distribution forestry expense included in revenue requirement and were based on a number of unsupported assumptions. PGE, for example, calculated a 2023 routine vegetation management expense of $[redacted], even though its budgeted expenditures for 2023 were $[redacted] PGE calculated this value by adding approximately $[redacted] to the 2023 budget for "specialized crews", including a note stating "[redacted]" [9] To the extent this was true, the specialized crews would have already been considered in the budget for 2023, and were therefore unnecessary to add to the total in the manner calculated by PGE. Further, PGE's formula was mathematically incorrect because it applied the stated percentage to the total expense, rather than as a component part of the total expense. After recalculating the heightened 2023 value, PGE then further escalated its calculation by [redacted]% to arrive at an expense level of $[redacted] for the test period. No mathematical support was provided for this assumed escalation rate. Following that calculation PGE added on an additional $[redacted] for "[redacted]."[10] From this PGE calculated a total budget of $[redacted], which still does not add up to the $53,096,279 that PGE included in its filing. These significant layering on of incremental costs do not have basis in the actual costs that PGE incurred in 2022 or 2023, and therefore, are not a reasonable estimate of 2024 expenses.

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9 *See* PGE's Response to Staff Data Request 496, Attachment A.
10 *Id.*

Q. DOES PGE HAVE AN INCENTIVE TO OVERSTATE ITS ROUTINE VEGETATION MANAGEMENT EXPENSES?

A. Yes. PGE has a balancing account for its wildfire mitigation expenses. PGE has no incentive to over-estimate costs for wildfire mitigation. In contrast, there is no balancing account for routine vegetation management expenses. Accordingly, PGE has an incentive to over-estimate baseline vegetation management costs, and even to push some wildfire management costs into the routine vegetation management budget, because it will not have to return this money to ratepayers if it underspends.

Q. WHAT DO YOU RECOMMEND?

A. I continue to have concerns with the magnitude of the increase being proposed for distribution forestry expenses. To the extent that unusual inflationary factors are driving up the cost of this expense, I recommend that PGE be provided an inflationary allowance of no more than 2 times the annual inflation rate. The Core CPE for June 2023 was 4.1 %.[11] Therefore, this approach would limit the increase to distribution forestry expense to 8.2% per year, or 16.4% over two years. Such an approach would yield an inflationary allowance of $4,573,371 or a total distribution forestry expense of $32,459,782.

Q. HOW DOES THAT AMOUNT COMPARE TO THE AMOUNT PGE PROPOSES?

A. Relative to the $53,096,279 of distribution forestry expenses that PGE included in its filing, escalation of double the inflation rate would still produce a $20,636,497 reduction to operating expenses. Even inflationary allowance rates as high as four or five times the average would still result in distribution forestry levels that are materially below what PGE proposed.

11 *See* https://www.bea.gov/data/personal-consumption-expenditures-price-index-excluding-food-and-energy

Therefore, I continue to support a downward adjustment to PGE's distribution forestry expense.

b. <u>Generation Outside Services</u>

Q. WHAT WAS YOUR RECOMMENDATION RELATED TO GENERATION OUTSIDE SERVICES?

A. I recommended using 2022 actuals as the basis for generation outside services expenses included in revenue requirement. This resulted in an approximate $2,674,806 reduction to operating expenses. I noted that, in 2022, PGE spent $5,111,417 in 2022 on generation outside services.[12] In contrast, PGE was requesting $7,786,223 in generation outside services in the Test Period.[13] This represented a 52% increase in generation outside services, which was not justified based on the explanations PGE offered in Direct Testimony or discovery.

Q. HOW DID PGE RESPOND?

A. PGE disagreed with my recommendation, stating, "it is not reasonable to simply assume that the budget for 2022 will suffice for 2024."[14] PGE also states that its gas plants are running more, and therefore need more maintenance.

Q. DO YOU CONTINUE TO RECOMMEND A REDUCTION TO REVENUE REQUIREMENT FOR GENERATION OUTSIDE SERVICES EXPENSES?

A. Yes. Gas plants were operating at high capacity factors in 2022; therefore, PGE's expectations that the plants will run more is not a valid reason for the increase. Maintenance expenses associated with the operating frequency of a gas plant are also typically covered under the long-term service agreements, and are not necessarily a driver of the routine maintenance

12 AWEC/200, Mullins/18, Table 5.
13 Ibid.
14 PGE/2000, Loos-Cristea/11:4-5.

expenses identified in my Opening Testimony. Further, it is common ratemaking practice to rely on actual cost data for the purposes of setting revenue requirement since the actual cost is known, whereas a budget is not. While PGE states that it is unreasonable to assume that it will incur similar costs in 2024 that it incurred in 2022, this is effectively shifting the burden to demonstrate the reasonableness of these costs to AWEC since PGE's only evidence supporting its requested increase is its budget, which is supported by nothing other than an escalation of previous budgets. In the absence of actual evidence demonstrating an increase in Generation Outside Services costs, using the 2022 actual expense as the Test Period expense level is a reasonable and acceptable approach.

Q. IS A 52% INCREASE TO THESE EXPENSES REASONABLE?

A. No. Even considering high levels of expected inflation, such a major increase to Generation Outside Service expense is not reasonable. If two years of inflation were applied at the 4.1% core CPE rate identified above, for example, it would result in a budget of just $5,530,553. Therefore, if the Commission is to apply any escalation to the Generation Outside Services account, I recommend it be limited to that level, which would still produce a $2,255,670 reduction to operating expenses.

c. <u>Property Insurance</u>

Q. WHAT WAS YOUR RECOMMENDATION RELATED TO PROPERTY INSURANCE EXPENSES?

A. I recommended that property insurance expense be set at the known and measurable levels based on PGE's most recent insurance premiums.

Q. HOW DID PGE RESPOND?

A. PGE stated that I used the 2022 premiums, not the 2023 premiums, and that therefore my analysis was inaccurate.[15]

Q. DID YOU USE THE CURRENTLY EFFECTIVE PREMIUMS?

A. That was my understanding. In AWEC Data Request 131, PGE was requested to provide the "details of the currently effective premiums, the policy coverages, policy limits, policy deductibles, and any other relevant information necessary to demine the base period expense levels." In response, PGE referred to OPUC Data Request No. 69, which is what I had used to perform my analysis. To the extent the data I used was not the currently effective data, it was due to PGE's failure to respond accurately to the data request.

Q. GIVEN PGE'S RESPONSE, WHAT IS YOUR RECOMMENDATION?

A. Because of uncertainty with the policy premiums and the nature of these costs, I continue to recommend that the currently effective policy premiums be included in revenue requirement. Given PGE's response, however, it is reasonable to use the premiums for the 2023 insurance year instead of the premiums that were in effect for the 2022 insurance year.

Q. WHAT PERIOD DO THE INSURANCE POLICIES COVER?

A. Historically, PGE's insurance policies have not been based on a calendar year, but have corresponded to the [redacted][16] This results in a mismatch between the Test Period and the insurance year since the 2023 policies will cover the period [redacted]. Thus, using the known 2023 policies encompasses [redacted] of the 2024 test period. PGE's method, on the other hand, overstates the cost of property insurance since the

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15 PGE/1900, Batzler-Agnesse/4:1-7.

16 *See, e.g.,* PGE's Response to Staff Data Request 069_Attach H_CONF, 2022 "[redacted]."

2024 policy rate increases it has included in revenue requirement for the 2024 insurance year would only apply to part of the Test Period.

Q. IS IT REASONABLE TO USE THE 2023 INSURANCE YEAR POLICY PREMIUMS IN THIS CASE?

A. Yes. Foremost, property insurance is a complicated issue, particularly in the current environment. Much of the policy cost is being driven by increased wildfire risks, and in particular events of utility negligence which have resulted in large legal settlements. Since these insurance policies cover acts of utility negligence, it is appropriate for the utility to bear a modest amount of regulatory lag with respect to its future policies. The policies, and the increasing premiums that might occur in a renewal, benefit shareholders as much as they do ratepayers.

Q. WHAT IS THE IMPACT IF YOU USE THE 2023 PREMIUM LEVELS?

A. Based on my review of PGE's response to AWEC Data Request 132, Confidential Attachment A, I was able to calculate that reverting to the 2023 policy levels would result in an approximate [redacted]3 reduction to operating expenses.

d. <u>Wind Outside Services</u>

Q. WHAT WAS YOUR RECOMMENDATION RELATED TO WIND OUTSIDE SERVICES?

A. In Opening Testimony, I recommended an adjustment to Non-Labor wind O&M of $3,063,931.

Q. HOW DID PGE RESPOND TO YOUR RECOMMENDATION?

A. PGE noted that it recorded wind O&M expenses to multiple accounts in the historical period, and that when both accounts are considered, its forecast is more in line with historical actual expense levels.

Q. DO YOU ACCEPT THIS RESPONSE?

A. Yes. Since the expenses were recorded in multiple accounts and the forecast expense aligns generally with the actual expense, I accept PGE's explanation and am withdrawing this recommendation.

IV. STATE INCOME TAX FLOW-THROUGH

Q. WHAT DID YOU RECOMMEND FOR STATE INCOME TAXES IN OPENING TESTIMONY?

A. In my Opening Testimony, I demonstrated that the IRS normalization requirements do not apply to state taxes and that it would be beneficial to ratepayers to transition to a flow-through method of accounting for state taxes in this docket.[17] Such an approach is widely used in the West. States such as California, Idaho, and Montana exclusively use a flow-through method for state taxes, and other many other states, including Utah and Oregon, use a flow-through method of accounting for some but not all jurisdictional utilities. The flow-through method is the most accurate way to set a revenue requirement because it is based on the current taxes, i.e., the actual taxes payable. The flow-through method also promotes inter-generational equity because it offsets slightly more of the cost of a new resource addition in the early years of the resource's life, which tend to be the most expensive. Therefore, I continue recommend that the flow-through method for state taxes be adopted in this docket as consistent with sound regulatory policy.

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17 AWEC/200, Mullins/3:3-12.

Q. HOW DID PGE RESPOND?

A. PGE Witnesses Batzler and Ferchland summarize their opposition to my recommendation by stating that "AWEC's proposal is inequitable, unbalanced, opportunistic, and would result in an immediate and detrimental impact to PGE's cash flow potentially resulting in numerous other impacts, such as a material change to PGE's stock price, reduced liquidity, increased debt, and higher borrowing costs."[18]

Q. DO YOU AGREE WITH THAT STATEMENT?

A. No. To the contrary, the flow-through method captures only the cash flow impacts of state taxes, since it calculates state tax expense based on the actual taxes payable. In fact, PGE's statement regarding the detrimental cashflow impacts to shareholders is telling as to why it is a good policy for state income taxes to follow the flow-through method. PGE acknowledges that such a change will, from the perspective of its stockholders, produce a negative cash flow impact. Transitioning to a flow-through method, however, establishes revenue requirement based on actual cash flows associated with state income taxes. To the extent shareholders view transitioning to the actual cashflows as producing a negative impact, it means that shareholders are receiving an unjustified cashflow benefit through the application of normalization requirements. Therefore, in making that statement, PGE is effectively acknowledging that the normalization method provides a cashflow windfall to shareholders. This is an inequity that, in my view, is important to eliminate.

18 PGE/1700, Batzler–Ferchland/4:9-12

Q. IS THE FERC PRECEDENT ON THIS MATTER COMPELLING?

A. No. The precedent at FERC is not relevant because FERC is concerned primarily with setting wholesale transmission rates under utilities' open access transmission tariffs, not setting retail rates. Individual state public utility commissions and the FERC frequently adopt different assumptions for purposes of setting revenue requirement. Approved return on equities at the FERC, for example, are often several basis points higher than those approved by state regulators. Contrary to the email survey conducted by the Edison Institute, most states in the Intermountain West with an income tax use flow-through assumptions for state taxes for some or all their jurisdictional utilities, including Oregon. The more reasonable policy consideration from Oregon's perspective is whether it is reasonable to set state tax expenses in revenue requirement on the actual taxes payable or the theoretical tax expense calculated using the normalization method. Either approach is acceptable, although I continue to recommend using the flow-through method as the more reasonable approach.

Q. DOES THE FLOW-THROUGH METHOD RESULT IN INTERGENERATIONAL INEQUITY?

A. No. The revenue requirement of a new utility plant addition is usually highest in the first years of service and declines over time. This aspect of revenue requirement itself, presents generational inequity because the ratepayers who happen to be taking service from the utility plant when it is first placed into service will pay higher rates than ratepayers that take service later in the resource's life. By using the flow-through method, more tax benefits are recognized in the early years of a resource's life, offsetting some of the higher revenue requirement in those years. This results in a somewhat more level revenue requirement profile for the investment, promoting intergenerational equity, although the overall impacts on revenue requirement are marginal.

Q. DOES THE FLOW-THROUGH METHOD RESULT IN LARGE SWINGS YEAR TO YEAR?

A. No. Regardless of whether the normalization method or flow-through method is used, operating expenses will continue to be based on normalized assumptions. While it is true that PGE's actual tax expenses may vary year to year depending on its operating income, from a revenue requirement perspective, the year-to-year impacts are not so significant.

Q. CONSIDERING THIS INFORMATION, WHAT DO YOU RECOMMEND?

A. The flow-through method for state taxes is consistent with good regulatory policy and I continue to recommend it be adopted in this case.

V. WORKING CAPITAL

Q. WHAT DID YOU RECOMMEND WITH RESPECT TO WORKING CAPITAL?

A. I recommended that the working capital lead-lag percentage not be applied to depreciation expenses, because depreciation expenses were not included in the calculation and PGE does not incur any working capital requirements with respect to depreciation expenses.

Q. HOW DID PGE RESPOND?

A. PGE responded that including the depreciation expenses in the lead lag factor is consistent with past practice.[19] PGE also responded that "investors are not fully compensated for their expenditures until customers pay for the depreciation and amortization expense through their bills."[20]

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19 PGE/1700, Baltzer – Ferchland /70:17-71:4.
20 PGE/1700, Baltzer – Ferchland /70:21-23.

Q. DO YOU AGREE?

A. No. Depreciation expenses are not considered in the lead lag study. If they were, they would be included as an expense with no net lead or lag. Based on the way the lead lag factor is applied, however, including depreciation expenses would otherwise increase the factor because it would reduce the net lag days for operating expense. Therefore, I accept PGE's explanation and withdraw this recommendation.

VI. POWER COST ADJUSTMENT MECHANISM

q. HOW DID PARTIES RESPOND TO PGE'S RECOMMENDATIONS TO MODIFY THE PCAM?

A. Intervening parties uniformly opposed making changes to the design elements of the PCAM as PGE proposed in Direct Testimony. Staff, for example states that PGE's "proposed changes to the PCAM are entirely out of step with current principles governing the PCAM."[21] Similarly, CUB laid out the extensive history behind the current PCAM design elements and noted that "[d]espite PGE's arguments to the contrary, there is no evidence that there is a problem with PGE's PCAM, and it has been operating as the Commission intended since its inception."[22] Likewise, in my Opening Testimony, I recommended the Commission reject PGE's proposed modifications to the PCAM principles and the fundamental structure of the mechanism. Specifically, I noted that the PCAM is operating as the Commission intended and that eliminating the ratepayer protections included within the current PCAM structure was not in the public interest.[23] Moreover, I recounted the Commission's repeated rejections of efforts by

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21 Staff/2300, Ahmed–Dlouhy–Jent–Pileggi/10:11-12.
22 CUB/200, Jenks/7.
23 *See* AWEC Exhibit 200, pp. 24-25.

PGE and other Oregon utilities to modify the PCAM framework and dilute the Commission-approved ratepayer protections in favor of increased shareholder protection.[24]

Q. HOW DID PGE RESPOND TO THIS UNIFORM OPPOSITION?

A. PGE asserted that AWEC's and other intervenor parties' support for the current PCAM structure and principles did "not hold up to scrutiny" and is "antithetical to [PGE's] current and future operating environment…."[25]

Q. DO YOU AGREE WITH THE COMPANY'S CRITIQUES?

A. No. PGE has not presented anything novel in its Reply Testimony; rather, PGE has merely repeated its complaints presented in Opening Testimony. For example, with respect to the PCAM's deadbands that the Company proposes to eliminate, PGE admits that "[t]he deadband was designed to account for the normal business risk which PGE is expected to absorb as part of its return on equity"[26], but merely asserts that because utilities in its "peer group"[27] operate under a different structure, the PCAM imposes risks that are not normal.[28] However, PGE's assertion fails to capture the breadth and scope of the Commission's rationale in establishing the deadband element of the PCAM. When the Commission established the PCAM, it specifically noted that the deadband was set "so that PGE will absorb some normal variation of power costs" and that "an asymmetric deadband is necessary to ensure that the PCAM is revenue neutral."[29] PGE has not provided evidence to demonstrate that the proposed

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24 *See* AWEC Exhibit 200, pp. 29-31.
25 PGE Exhibit 2800, pp, 1-2.
26 PGE Exhibit 2800, p. 9, ll. 7-8.
27 PGE Exhibit 2800, p. 9, l. 8.
28 *See* PGE Exhibit 2800, pp. 8-9.
29 Order 07-015.

elimination of the deadband will continue to accomplish the Commission's goal of revenue neutrality.

Likewise, in Reply Testimony, PGE continued to assert that the business environment today is "profound[ly]" different than that which existed at the time the PCAM was initially approved. However, PGE did not respond substantively to my discussion in Opening Testimony where I detailed that "the current PCAM structure is operating as intended", nor where I specially discussed that "[t]he Commission has stated that 'any adjustment under a PCAM should be limited to unusual events and capture power cost variances that exceed those considered normal business risk for the utility…'"[30]

Q. WHAT IS YOUR RECOMMENDATION REGARDING THE PROPOSED CHANGES TO THE PCAM?

A. I maintain my recommendation that the Commission deny PGE's proposal to modify the PCAM Principles and the PCAM framework structure. PGE has not provided compelling evidence that the PCAM as repeatedly reaffirmed by the Commission is not reasonable. Specifically, PGE has failed to demonstrate that any proposed changes to the PCAM will maintain the integrity of the mechanism, including, but not limited to, the revenue neutrality. I continue to recommend the Commission maintain the PCAM as currently designed and reject PGE's requests to modify it.

Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

A. Yes.

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30 AWEC/200, p. 28, ll. 10-13.