

September 15, 2008

Oregon Public Utility Commission  
Attn: Filing Center  
P.O. Box 2148  
Salem, OR 97308-2148

Re: In the Matter of Portland General Electric Company request for a general rate revision – UE 197

Enclosed please find an original and five copies of the surrebuttal testimony and exhibits of the Community Action Partnership of Oregon and the Oregon Energy Coordinators Association, and the in the above-captioned docket.

Thank you.

Sincerely,

/s/ Thomas James (Jim) Abrahamson  
Oregon Energy Partnership Coordinator  
Community Action Partnership of Oregon

Enclosures  
cc: Service List

**BEFORE THE**  
**OREGON PUBLIC UTILITY COMMISSION**

**In the Matter of** :  
 :  
**PORTLAND GENERAL ELECTRIC** : **Docket No. UE-197**  
**COMPANY** :  
 :  
**Application for a general rate increase** :

CAPO-OECA Exhibit 300

**SURREBUTTAL TESTIMONY OF**  
**JIM ABRAHAMSON**

ON BEHALF OF

Community Action Partnership of Oregon  
Oregon Energy Coordinators Association

September 15, 2008

1 This surrebuttal testimony is submitted on behalf of the Community Action Partnership of  
2 Oregon and the Oregon Energy Coordinators Association (CAPO-OECA) who are intervenors in  
3 this docket relating to the request for a general rate increase by the Portland General Electric  
4 Company (Company. It is submitted by Thomas James (Jim) Abrahamson. I am the Oregon  
5 Energy Partnership Coordinator for Community Action Partnership of Oregon. I previously  
6 submitted direct testimony in this docket (CAPO-OECA Exhibit 100) and my qualifications are  
7 on file (CAPO-OECA Exhibit 101).

8 In this proceeding, CAPO has retained the services of Roger D. Colton of Fisher,  
9 Sheehan & Colton, Public Finance and General Economics to provide expert testimony. Mr.  
10 Colton herein provides responses to the rebuttal testimony of Company witness Michaela Lynn  
11 and Company witness Ralph Cavanagh. In addition, Mr. Colton provides response to the  
12 rebuttal testimony of Staff witness George Compton. Mr. Colton's surrebuttal testimony is  
13 included as CAPO-OECA 301.

14  
15 Dated this 15th day of September, 2008

16 Respectfully Submitted,

17  
18 /s/ Thomas James Abrahamson  
19 Oregon Energy Partnership Coordinator  
20 Community Action Partnership of Oregon

**BEFORE THE  
OREGON PUBLIC UTILITY COMMISSION**

**In the Matter of** :  
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**PORTLAND GENERAL ELECTRIC** : **Docket No. UE-197**  
**COMPANY** :  
 :  
**Application for a general rate increase** :

CAPO-OECA Exhibit 301

**SURREBUTTAL TESTIMONY OF  
ROGER D. COLTON**

ON BEHALF OF

Community Action Partnership of Oregon  
Oregon Energy Coordinators Association

September 15, 2008

1 **Q. PLEASE STATE YOUR NAME AND ADDRESS FOR THE RECORD.**

2 A. My name is Roger Colton. My business address is Fisher, Sheehan & Colton, Public  
3 Finance and General Economics, 34 Warwick Road, Belmont, Massachusetts, 02478.

4

5 **Q. ARE YOU THE SAME ROGER COLTON WHO PREVIOUSLY FILED DIRECT**  
6 **TESTIMONY ON BEHALF OF THE COMMUNITY ACTION PARTNERSHIP**  
7 **OF OREGON (CAPO) AND THE OREGON ENERGY COORDINATORS**  
8 **ASSOCIATION (OECA)?**

9 A. Yes. I previously provided Direct Testimony regarding the rates of Portland General  
10 Electric Company (“PGE” or “Company”) in this proceeding.

11

12 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY TODAY?**

13 A. In my testimony below, I will respond to the rebuttal testimony of Company witness  
14 Michaela Lynn and Company witness Ralph Cavanagh. In addition, I provide rebuttal  
15 testimony to Staff witness George Compton.

16

17 **Part 1. Customer Service and Late Fees.**

18 **Q. PLEASE EXPLAIN THE PURPOSE OF THIS SECTION OF YOUR**  
19 **TESTIMONY.**

20 A. In this section of my testimony, I respond to the testimony of Company witness Michaela  
21 Lynn regarding PGE’s proposed residential customer service fees and residential late  
22 payment charge.

23

1 **Q. PLEASE COMMENT ON THE CURRENT EFFORTS OF PGE TO HELP LOW-**  
2 **INCOME CUSTOMERS PAY THEIR BILLS.**

3 A. In PGE's rebuttal testimony, PGE witness Lynn describes certain efforts by the Company  
4 to help low-income customers pay their electric bills. Ms. Lynn goes to great efforts to  
5 describe the energy assistance and weatherization assistance provided through the Public  
6 Purpose Charge and the Low-Income Assistance Charge. (Exh. 2000, at 21). Ms. Lynn  
7 mentions actions ranging from promotion of the Earned Income Tax Credit ("EITC") to  
8 federal advocacy for the Low-Income Home Energy Assistance Program ("LIHEAP").  
9 (Exh. 2000, at 32 – 33). I acknowledge the efforts of PGE, while noting that these efforts  
10 are not eleemosynary by PGE. They are good business decisions by a utility responding  
11 to an inability to pay by low-income customers.

12

13 **Q. GIVEN THESE EFFORTS, WHY DO YOU ASK THE COMPANY TO DO EVEN**  
14 **MORE FOR LOW-INCOME CUSTOMERS?**

15 A. The actions that Ms. Lynn outlines are of a completely different nature than the actions I  
16 identify as necessary in my Direct Testimony. Ms. Lynn identifies a variety of steps that  
17 PGE takes to provide low-income energy assistance. While these actions are obviously  
18 welcomed by networks such as CAPO and OECA, my Direct Testimony addresses an  
19 entirely different type of issue. Accordingly, while the list of low-income efforts  
20 identified by Ms. Lynn may well be accurate, those efforts are not relevant to the  
21 problems I have identified with the specific customer service fees and late charge  
22 proposed by PGE.

23

1 **Q. HOW DOES YOUR TESTIMONY DIFFER?**

2 A. My testimony addresses the non-cost-based nature of three particular fees imposed by the  
3 Company. As a result of those non-cost-based fees, it is true that low-income customers  
4 are disproportionately adversely affected as I describe in detail in my Direct Testimony.  
5 The objection to these harmful fees, however, is the lack of their cost basis. The  
6 Company has arbitrarily chosen to isolate certain activities and to allocate expenses to  
7 those activities. Merely because PGE has developed an allocation methodology,  
8 however, does not mean that the expenses are caused by the activities to which the  
9 Company chooses to attach those fees.

10

11 What the Company has done is to take expenses incurred as a result of general customer  
12 service activities and to arbitrarily allocate those expenses to isolated activities that did  
13 not cause those expenses to be incurred. That imposition of a non-cost-based fee is  
14 contrary to basic cost-of-service regulation. That imposition of those non-cost-based fees  
15 is not cured by having the Company comply with statutorily imposed responsibilities to  
16 devote funding to certain low-income support activities.

17

18 While the particularly adverse impact of imposing non-cost-based fees on customers who  
19 cannot afford to pay their bills in the first place makes the policy justification for  
20 remedying the situation more compelling, the fundamental regulatory justification for my  
21 proposed treatment of these non-cost-based charges is their lack of any cost causation  
22 support, not because they deliver low-income energy assistance.

23

1 **Q. PLEASE RESPOND TO PGE’S TESTIMONY REGARDING THE**  
2 **DISPROPORTIONATE IMPACT OF THESE NON-COST-BASED CHARGES**  
3 **ON LOW-INCOME CUSTOMERS.**

4 A. PGE Witness Lynn asserts that the Company’s collection practices do not “unfairly  
5 burden low-income customers relative to other customers.” Ms. Lynn asserts that PGE’s  
6 collection practices “are applied on an equal basis regardless of customers’ income  
7 level.” (Exh. 2000, at 35). When between two and four times the proportion of low-  
8 income customers are in arrears (compared to other customers), it is somewhat  
9 intellectually dishonest to say that collection practices are “applied on an equal basis.”  
10 The Company in this regard ignores the counsel of Anatole France, who observed: “the  
11 law in its majestic equality, forbids rich and poor alike to sleep under bridges, beg in the  
12 streets, or steal bread.”

13  
14 **Q. CAN YOU OFFER AN ILLUSTRATION?**

15 A. Yes. I observed in my Direct Testimony that PGE will not offer Budget Billing to a  
16 customer with arrears. Since four times more low-income customers have arrears than  
17 non-low-income customers do, I assert that the Company policy disproportionately  
18 excludes low-income customers from Budget Billing. The Company responds by saying  
19 that the “no arrears” policy does not burden low-income customers because the Company  
20 applies that policy “equally,” no matter what the income is of the customer.

21  
22 Compare this to an employment requirement that a worker must have a high school  
23 degree to apply for a job. African American job applicants overwhelmingly



1 disproportionately lack high school degrees. The employer in this example could not  
2 justify this exclusion of African-American job applicants on the argument, as advanced  
3 by PGE, that it applied the “high school degree” requirement equally to all applicants.  
4

5 Indeed, the proposition that an action does not “unfairly burden” a certain class because it  
6 is “applied on an equal basis” has been rejected so many times as to be subject to no  
7 honest debate about the illegitimacy of that statement.  
8

9 **Q. WHAT JUSTIFICATION DOES THE COMPANY OFFER FOR THE THREE**  
10 **FEEES THAT YOU CHALLENGE.**

11 A. PGE offers two justifications for the three customer service fees that I challenge. On the  
12 one hand, PGE says that one purpose of the fees it to recover at least a portion of the  
13 costs of providing customer service during its normal course of business. (Exh. 2000, at  
14 37). On the other hand, the Company asserts that “exempting low-income customers  
15 from late fees and credit-related field visit and reconnection fees would send the wrong  
16 price signal to customers that their electric bill is not as important to pay as other bills.”  
17 (Exh. 2000, at 40).  
18

19 **Q. PLEASE RESPOND TO THE COMPANY’S DESCRIPTION OF HOW ITS**  
20 **CHARGES FOR CREDIT RELATED FIELD VISITS AND RECONNECTIONS**  
21 **ARE ESTABLISHED.**

22 A. I outlined the empirical failings of the Company’s allocation methodology in my Direct  
23 Testimony. Rather than responding to these failings, the Company merely reiterates its

1 methodology. (Exh. 2000, at 39). The Company allocation methodology is not  
2 supportable. My conclusion is not simply that the Company has failed to support its  
3 allocation methodology, but that the data shows conclusively that the Company's  
4 allocation is flawed.

5  
6 **Q. IS THERE A DEEPER PROBLEM WITH THE COMPANYS' REBUTTAL**  
7 **TESTIMONY?**

8 A. Yes. The Company fails to even try to attempt to establish a causal connection between  
9 the costs it allocates to the challenged fees and the activities to which those fees are  
10 attached. The Company cannot show that it tracks those costs. The Company cannot  
11 show that its budgeted costs, let alone its actual costs, vary based on the level of the  
12 activity. The Company cannot show that its costs go up as the number of activities goes  
13 up. Indeed, as I documented in my Direct Testimony, rather than recovering costs and  
14 "protecting" other ratepayers, the PGE credit fees were simply a substantial profit center  
15 as the number of collection activities increased (along with the amount of the associated  
16 fees charged to those activities), even though the underlying expenses remained constant.

17  
18 **Q. PLEASE RESPOND TO THE ARGUMENT THAT THE COLLECTION**  
19 **RELATED FEES SEND AN APPROPRIATE "PRICE SIGNAL."**

20 A. A fee that lacks any cost-basis cannot be rescued by an assertion by the Company that,  
21 whether or not the fee is cost-based, the fees sends a "price signal" that the Company  
22 wishes to send. Allowing PGE to justify a non-cost-based fee on the basis that the  
23 Company seeks to send a "price signal," particularly a "price signal" as amorphous as

1 “their electric bill is. . .as important to pay as other bills,” would effectively write the  
2 whole notion of cost-causation out of utility rate regulation.

3  
4 Moreover, if this notion of imposing a non-cost-based charge as a “price signal” is to be  
5 considered at all, the Company should be called upon to provide some shred of evidence,  
6 some iota of empirical data, that the non-cost-based charge is either necessary or  
7 sufficient or effective in accomplishing that purpose. Despite being asked in any number  
8 of ways for such information, PGE could not (and still has not) provided one piece of  
9 evidence supporting the use of its fees to send “price signals.”

10  
11 Consider, for example, the reconnection fee imposed after a disconnection for  
12 nonpayment. My Direct Testimony provided considerable empirical evidence that low-  
13 income customers do not pay because they cannot afford to pay. The disconnection of  
14 service for nonpayment to low-income customers does not occur because of the lack of a  
15 “price signal.” The disconnection of service occurs because of an inability to pay.  
16 Imposing an additional non-cost-based fee will not help prevent that disconnection by  
17 sending a “price signal” that the low-income electric bill is “as important to pay as other  
18 bills.”

19  
20 **Q. WHAT EVIDENCE IS THERE THAT THE NON-COST-BASED FEES IMPOSED**  
21 **BY PGE WOULD NOT SEND A “PRICE SIGNAL” THAT “THEIR ELECTRIC**  
22 **BILL IS AS IMPORTANT TO PAY AS OTHER BILLS”?**

1 A. Substantial research has been undertaken documenting the actions that low-income  
2 households take in order to pay their home energy bills. According to Congressionally-  
3 funded research by the National Energy Assistance Directors Association (NEADA), for  
4 example:

- 5 ○ More than one-in-three customers with income below 50% of Poverty Level  
6 keep their homes at what they believed to be “unsafe or unhealthy  
7 temperatures” some months or almost every month in order to be able to pay  
8 their home energy bills. Nearly one-in-ten customers with income between  
9 100% and 150% of Poverty Level kept their homes at what they believed to be  
10 unsafe or unhealthy temperatures.
- 11 ○ One-in-five low-income customers went without food for at least one day in  
12 an effort to have sufficient money to pay their home energy bills.
- 13 ○ One-in-three low-income customers reported not taking prescription medicine,  
14 or not taking medicines in the dosage prescribed, in order to have enough  
15 money to pay their home energy bills.
- 16 ○ One-in-four low-income customers used their kitchen stove or their kitchen  
17 oven to provide heat because they lacked sufficient money to pay their home  
18 energy bills.
- 19 ○ More than six-in-ten low-income customers with income at or below 100% of  
20 Poverty Level reported reducing expenditures on basic household necessities  
21 in order to have sufficient money to pay their home energy bills.
- 22 ○ One-in-six low-income customers reported that someone in their home  
23 became sick because they were forced to keep their home too cold because  
24 they could not afford their home energy; indeed, more than one-in-ten  
25 customers reported that someone in their home became sufficiently sick that  
26 they required medical care because their home was too cold.

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33 These impacts have been documented by far more than simply this NEADA study. As I  
34 found in performing a study of the public health implications of unaffordable home  
35 energy based on the Iowa data from the Behavioral Risk Factor Surveillance System  
36 (BRFSS) –BRFSS is a national survey undertaken under the auspices of the U.S. Center  
37 for Disease Control (CDC)-- the adverse nutritional impact of unaffordable home energy

1 is an empirically-established fact, not a political slogan. A November 2006 article  
2 published in *Pediatrics*, the journal of the American Academy of Pediatrics, reports that  
3 “convergent evidence suggests that the periodic stress of home heating and cooling costs  
4 may adversely impact the health and nutritional status of children and other vulnerable  
5 populations.”<sup>1</sup> According to this *Pediatrics* article, a study of children 6 to 24 months of  
6 age in Boston (MA) found higher proportions of children with weight-for-age below the  
7 5<sup>th</sup> percentile in the three months after the coldest months, compared with all other  
8 months of the year.

9  
10 A 2006 study by the Child Health Impact Assessment Working Group, at the Boston  
11 Medical Center, reported that “a five city (Baltimore, Boston, Little Rock, Minneapolis,  
12 Washington D.C.) study of predominantly low-income children under 3 years of age seen  
13 in primary care clinics and emergency departments found significant associations  
14 between not receiving LIHEAP and important health and growth indicators.”<sup>2</sup>  
15 For example, “young children not receiving LIHEAP were 30% more likely to be  
16 admitted to the hospital.” In addition, the CHIWG report found that “budget tradeoffs  
17 between energy costs and food expenditures result in food insecurity. . .[F]ood insecure  
18 children are 2 – 3 times more likely to be in fair or poor health or chronically ill.” The  
19 reason is that “a nutritionally inadequate diet makes children susceptible to an ‘infection-  
20 malnutrition cycle’ by impairing children’s immune functions making them more prone  
21 to infection and illness.”

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<sup>1</sup> Deborah Frank, et al. (November 2006). “Heat or Eat: The Low Income Home Energy Assistance Program and Nutritional and Health Risks Among Children Less than 3 Years of Age,” *Pediatrics: Official Journal of the American Academy of Pediatrics*, 118(5):1293-1302.

<sup>2</sup> Elizabeth Harrison (2006). *Unhealthy Consequences: Energy Costs and Child Health*, Child Health Impact Working Group: Boston (MA).

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The adverse health impacts are particularly acute in very young children. A 2007 study by the Children’s Sentinel Nutritional Assessment Project (C-SNAP) reported that “babies and toddlers who live in energy insecure households are more likely to: be in poor health; have a history of hospitalization; and be at risk for developmental problems.”<sup>3</sup>

**Q. DO YOU OFFER THIS NEADA DATA AS PROOF OF THE NEED FOR ADDITIONAL LOW-INCOME ENERGY ASSISTANCE?**

A. No. While I obviously believe this information does support additional home energy assistance at the state and federal level, that is not the purpose for which I offer the information in this proceeding.

Instead, I offer this data as proof that PGE’s assertion that its non-cost-based customer service fees will somehow send a “price signal” to customers that “their electric bill is as important to pay as other bills” is misplaced. When households are going hungry, skipping medicines, and keeping their homes so cold that family members get sick enough to require medical care in order to have enough money to pay their home energy bill, you do not have households for whom the non-cost-based fees that PGE seeks to justify as sending a “price signal” that “their electric bill is as important to pay as other bills.”

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<sup>3</sup> Children’s Sentinel Nutritional Assessment Program (C-SNAP) (2007). *Fuel for our Future: Impacts of Energy Insecurity on Children’s Health, Nutrition and Learning*, Boston Medical Center: Boston (MA).

1 **Q. WHAT FEES DOES YOUR DISCUSSION ABOVE PERTAIN TO IN**  
2 **PARTICULAR?**

3 A. I have identified the specific fees that CAPO/OECA challenges. These include the  
4 reconnect fee and the field collection fees, as well as the late payment charge.

5  
6 **Q. DO YOU HAVE ANY RESPONSE TO THE COMPANY'S REBUTTAL WITH**  
7 **REGARD TO LATE FEES IN PARTICULAR?**

8 A. The Company concedes that it treats its late fee revenue as "other revenue" for  
9 ratemaking purposes. (Exh. 2000, at 41). Accordingly, as I document in my Direct  
10 Testimony, the effect of the Company's proposed ratemaking treatment is to  
11 disproportionately take money from low-income customers through a non-cost-based fee  
12 and redistribute those low-income dollars to higher income customers. That reverse  
13 subsidy from low-income customers to non-low-income customers cannot be justified by  
14 any ratemaking principle.

15  
16 PGE focuses on the need for legislative action on low-income assistance in general. In  
17 trying to misdirect the Commission's attention in that regard, PGE mis-states and mis-  
18 characterizes what CAPO/OECA's proposal was. I propose that the Commission exempt  
19 low-income customers from payment of late fees because: (1) the late fee is not cost-  
20 based; (2) the late fee serves no incentive function for low-income customers; and (3) the  
21 late fee represents a reverse subsidy, taking dollars *from* low-income customers and  
22 redistributing those dollars *to* higher-income customers.

23

1 In addition, as I testified in my Direct Testimony, should the Commission insist on  
2 imposing a non-cost-based late fee as a mechanism for promoting full and timely  
3 payment, the Commission should take the next step and devote the revenue from that  
4 non-cost-based fee to the purposes for which the fee was imposed in the first place. In so  
5 doing, CAPO/OECA is not simply proposing “additional energy assistance” as argued by  
6 PGE witness Lynn. Rather, CAPO/OECA is urging that the late fee be used to further the  
7 purposes for which it was collected.

8  
9 That decision is not a legislative decision. How the Commission allocates “other  
10 revenue” that has been collected through a non-cost-based fee does not fall within the  
11 need of the Oregon legislature to “comprehensively address additional energy assistance,  
12 poverty and energy affordability.”

13  
14 **Q. DO YOU HAVE ANY FINAL RESPONSE TO PGE’S REBUTTAL ON FEES?**

15 A. Since PGE cannot cost-justify its customer service and late fees, Company witness Lynn  
16 seeks to turn the CAPO/OECA challenge to those fees into something which it is not.  
17 Ms. Lynn seeks to dismiss the CAPO/OECA challenge by arguing that CAPO/OECA are  
18 simply “seek(ing) to help low-income customers.” (Exh. 2000, at 42). Even the most  
19 casual reading of my Direct Testimony reveals the fallacy in that argument. The  
20 challenge brought by CAPO/OECA to the PGE collection and late payment fees is much  
21 more fundamentally grounded in basic regulatory principles than increasing low-income  
22 assistance. While I have documented how these non-cost-based fees disproportionately  
23 harm the poor, and represent a non-cost-based subsidy from low-income customers to



1 non-low-income customers, the fundamental challenge to the fees is their lack of a  
2 regulatory justification. Not only do the fees lack any cost-basis, they also are  
3 unsupported, and unsupportable, as a mechanism for delivering a “price signal” that  
4 payment of electric bills is “as important” as the payment of any other bills.

5  
6 **Part 2. Freezing Base Rates.**

7 **Q. PLEASE EXPLAIN THE PURPOSE OF THIS SECTION OF YOUR**  
8 **TESTIMONY.**

9 A. In this section of my testimony, I respond to the Company’s rebuttal testimony with  
10 respect to my proposal to freeze the first residential block energy rate at the UE-180 level  
11 of 4.429 cents per kWh.

12  
13 **Q. PLEASE RESPOND TO THE COMPANY’S FIRST ARGUMENT USED IN**  
14 **RESPONSE TO YOUR PROPOSAL TO FREEZE THE RATES FOR THE FIRST**  
15 **BLOCK OF ENERGY USAGE.**

16 A. The Company argues that I made a “significant error” in calculating the costs of the rate  
17 freeze which I propose in my Direct Testimony. According to the Company, I “should  
18 have used” all the kWh that passes through the first consumption block, not just the usage  
19 that occurs exclusively within the first block threshold. (Exh. 2000, at 34). The  
20 Company notes that if one were to calculate the value of the freeze for all consumption  
21 passing through the first consumption block, the dollar figure would be approximately  
22 \$13 million.

23

1 The difference in calculation which the Company notes is not an “error” on my part. I  
2 disagree with the Company’s argument that the appropriate dollar figure to examine is  
3 \$13 million. The purpose of my calculation was to determine how many dollars would  
4 not be “made up” to the Company should the rates on the first block of consumption be  
5 frozen in this proceeding. The value of that lost revenue is not the dollar value of all  
6 kWh passing through the first block of consumption. The dollars of lost revenue in this  
7 regard are those dollars that are associated with accounts that have consumption up to,  
8 but not exceeding 250 kWh, the usage limit on the rate freeze. As even the Company  
9 notes, when a customer has consumption above the 250 kWh level, the rate freeze which  
10 I propose simply has the impact of transferring cost responsibility from the first block of  
11 consumption to the second block of consumption.

12  
13 The customers who experience a transfer of costs from the first to the second block of  
14 consumption are neither worse off nor better off because of the rate freeze. They simply  
15 pay in the second block what they would have paid in the first block in the absence of the  
16 freeze. Customers with consumption in the second block are only “worse off” to the  
17 extent that the rate freeze requires an absolute increase in the revenue to be recovered by  
18 customers having consumption in the second block. That absolute increase is not \$13  
19 million as argued by the Company. It is instead only \$750,000 as I calculated in my  
20 Direct Testimony.

21  
22 **Q. PLEASE RESPOND TO THE SECOND ARGUMENT ADVANCED BY THE**  
23 **COMPANY AGAINST THE PROPOSED RATE FREEZE.**

1 A. The Company argues that my Direct Testimony failed to show a correlation between low-  
2 use and income levels of residential customers living in PGE's service territory. (Exh.  
3 2000, at 34). PGE's argument in this regard is somewhat disingenuous. CAPO/OECA  
4 requested PGE to provide a distribution of consumption data for low-income customers  
5 in its service territory. The Company refused to provide such data, saying that it had no  
6 record of which of its customers were low-income. Moreover, the Company stated that it  
7 had never performed a study of the distribution of consumption data for customers known  
8 to be recipients of benefits from the Low-Income Home Energy Assistance Program  
9 (LIHEAP). (CAPO/OECA-1-85). CAPO/OECA further requested PGE to provide load  
10 data for low-income customers, another set of data that the Company said that it could  
11 not provide. (CAPO/OECA-1-83; CAPO/OECA-1-84). For the Company to argue that  
12 CAPO/OECA did not provide an empirical data based on information that the Company  
13 said it does not keep cannot provide a justification for rejecting the rate freeze proposal.

14

15 **Q. WHAT DO YOU KNOW ABOUT ELECTRIC CONSUMPTION IN THE PGE**  
16 **SERVICE TERRITORY?**

17 A. Since PGE does not maintain information on consumption by income for its service  
18 territory, I examined electric expenditure data for Census Public Use Microdata Areas  
19 (PUMAs) that correspond most closely to the PGE service territory. I used the PUMA  
20 data for the 2006 American Community Survey ("ACS"), the most recent data that is  
21 available. I found that there is a consistent correlation between income and electric  
22 expenditures in the PUMAs that correspond to the PGE service territory. While it may be  
23 true that, as PGE asserts, "some" low-income customers might use more than the system

1 average –that observation is so vague as to be empirically meaningless—low-income  
2 customers consistently use less electricity than the average customers. It is, however,  
3 inappropriate to compare low-income customers to the overall average; that involves  
4 comparing low-income customers to a group of which they are a substantial part. More  
5 importantly, low-income customers consistently use less electricity than do non-low-  
6 income customers in the PGE service territory.

7  
8 **Part 3. Revenue Decoupling.**

9 **Q. WHAT IS THE PURPOSE OF THIS SECTION OF YOUR TESTIMONY?**

10 A. In this section of my testimony, I respond to the testimony of Ralph Cavanagh with  
11 respect to the Company’s revenue decoupling proposal. Mr. Cavanagh, in his eagerness  
12 to assert my lack of familiarity with the Company’s low-income usage reduction  
13 programs, forgets to address either the specific proposal advanced by the Company or the  
14 specific objections that I present to that proposal.

15  
16 **Q. DOES THE COMPANY PROPOSE TO CAPTURE AND REDISTRIBUTE THE**  
17 **LOST MARGINS ASSOCIATED WITH ITS LOW-INCOME USAGE**  
18 **REDUCTION PROGRAMS?**

19 A. No. Indeed, in discovery, the Company asked CAPO/OECA to “explain why  
20 CAPO/OECA in its discussion of PGE’s decoupling proposal does not mention or  
21 evaluate the low-income weatherization programs funded by PGE Schedule 108 and  
22 administered by the Housing and Community Service Department.” CAPO/OECA  
23 explained that “by the Company’s own testimony, the SNA [the decoupling mechanism]

1 would be limited to the effect of energy savings reported by the Energy Trust of Oregon  
2 resulting from incremental energy efficiency programs approved by the Oregon  
3 Commission. (Piro Direct, at 21; Kuns/Cody Direct, at 28).” (Response to PGE Second  
4 Set of Data Requests to CAPO, No. 54). In writing his Rebuttal Testimony, Mr.  
5 Cavanagh either failed to read the responses to PGE’s own discovery, or simply chose,  
6 for reasons of his own, to ignore CAPO/OECA’s explanation to PGE.  
7

8 **Q. WERE THERE OTHER ISSUES THAT MR. CAVANAGH CHOSE NOT TO**  
9 **RESPOND TO IN HIS REBUTTAL TESTIMONY?**

10 A. Yes. Amongst the issues that Mr. Cavanagh chose to ignore in his rebuttal testimony,  
11 were the following:

- 12 ➤ “. . .efficiency savings occur at the margin, not in that first block of consumption. If  
13 the lost margin was originally billed to the second usage block, it should be re-billed  
14 to that second usage block as well.” (CAPO/OECO Exhibit 200, at 58).  
15
- 16 ➤ “. . .billing fixed cost margins lost from reduced consumption in the second block to  
17 all residential usage, including energy consumption in the first block, would involve  
18 the inequitable income transfer I identify above. . .To move lost fixed cost  
19 contribution from the margin of the second block to the first block has the effect of  
20 moving costs billed to higher-use, higher-income customers to lower-use, lower-  
21 income customers.” (CAPO/OECA Exhibit 200, at 58).  
22
- 23 ➤ “The fixed costs identified by PGE witnesses, however, should not be considered the  
24 last costs collected in the Company’s total billings. Even if one accepts the notion,  
25 simply for the sake of argument, that the Company may not be receiving its full  
26 revenues given revenue reduction attributable to its energy efficiency investments,  
27 one cannot a priori assign those lost revenues to the fixed-cost component of the PGE  
28 revenue requirement.” (CAPO/OECA Exhibit 200, at 60).  
29
- 30 ➤ “. . .the Company should be required to disgorge certain expense reductions that are  
31 associated with identified low-income energy efficiency investments in particular. If  
32 the Company is going to be protected against lost fixed cost contributions, it should  
33 not be allowed to benefit from retaining those ratepayer dollars that have been paid  
34 for expenses that have been reduced or eliminated.” (CAPO/OECA Exhibit 200, at  
35 63).

1  
2 While Mr. Cavanagh was criticizing CAPO/OECA for failing to discuss the low-income  
3 programs funded through PGE's Schedule 108, while ignoring the CAPO/OECA  
4 explanation for why it did not consider the Schedule 108 programs relevant to its  
5 analysis, he chose completely to ignore the issues that CAPO/OECA did raise. For those  
6 reasons, his testimony should be dismissed.

7

8 **Q. DID MR. CAVANAGH ADDRESS ANY OTHER ISSUE RAISED BY**  
9 **CAPO/OECA IN OPPOSITION TO THE COMPANY'S PROPOSED**  
10 **DECOUPLING PROPOSAL?**

11 A. Mr. Cavanagh seeks to limit CAPO/OECA's opposition to the PGE decoupling proposal  
12 as being based exclusively on the argument that "decoupling adjustments will  
13 disproportionately burden low-income customers collectively." (PGE Exhibit 2100, at  
14 19). Mr. Cavanagh chooses to ignore CAPO/OECA's regulatory objections to the  
15 Company's decoupling proposal. That is surprising since PGE specifically requested  
16 CAPO/OECA to identify each regulatory principle the decoupling proposal stands in  
17 contravention to. (PGE Second Set of Discovery to CAPO/OECA, Data Request 55).  
18 CAPO/OECA responded that the principles identified in my Direct Testimony that are  
19 violated by the decoupling proposal include:

- 20 ➤ The purpose of a rate case, of course, is not to establish a specific level of revenue  
21 and expenses that a utility is entitled to recover on a monthly or annual basis. Rather,  
22 the purpose of a rate case is to establish the *relationship* between costs and revenues  
23 which will allow the Company a reasonable opportunity to earn its authorized rate of  
24 return.  
25  
26 ➤ Only in extraordinary circumstances should an automatic adjustment clause be used  
27 to recover costs or revenues.  
28

- 1           ➤ Once one recognizes that PGE's fixed costs could just as easily be determined to be  
2 recovered by the *first* dollars paid by customers, any revenue reduction attributable to  
3 the Company's energy efficiency investments would be associated with variable costs  
4 rather than fixed costs. The *remedy* for the Company, in this situation, would be to  
5 become more efficient in its operations rather than to seek to ensure its collection of a  
6 certain level of revenue per customer through a rate stabilization mechanism.  
7
- 8           ➤ It is *not* appropriate to isolate the revenue reductions attributable to the energy  
9 efficiency programs for single issue rate recovery. It cannot simply be assumed that  
10 the Company's lost revenues associated with energy efficiency investments cause any  
11 earnings deficit.  
12
- 13          ➤ Collection of costs through volumetric base rates creates an incentive for PGE to be  
14 efficient in the expenses that it incurs.  
15
- 16          ➤ It would be inappropriate to allow PGE to adjust its collection of revenues in the  
17 absence of a full rate inquiry into the total costs and revenues of the Company. . .It is  
18 improper to isolate one component of the Company's cost-of-service for special rate  
19 recovery without considering the corresponding cost savings.  
20
- 21          ➤ Merely because some expenses increase and some revenues decrease does not mean  
22 that the relationship between costs and revenues has changed. Even if dollars of  
23 revenue do not equal the dollar amount that was included in cost-of-service in the  
24 most recent base rate case, in other words, it cannot be *a priori* concluded that the  
25 Company is not recovering its costs.  
26

27 (CAPO/OECA Response to PGE Second Set of Discovery, Data Request 55).  
28

29 **Q. DID MR. CAVANAGH RESPOND TO ANY OF THE PROPOSED**  
30 **MODIFICATIONS TO THE PGE DECOUPLING PROPOSAL?**

31 A. No. Mr. Cavanagh recommends three modifications to the PGE decoupling proposal. He  
32 fails, however, to respond to the proposed modifications of CAPO/OECA. He neither  
33 opposes those proposals nor provides any data or reasoning for why the CAPO/OECA  
34 proposal should be rejected. The three CAPO/OECA proposals that Mr. Cavanagh  
35 simply chose to ignore include:

- 36          ➤ “. . .should the Commission decide to approve some form of the Company's proposed  
37 rate stabilization mechanism, the lost fixed cost contribution collected through that

1 mechanism should be billed exclusively to the second block of consumption, not to  
2 the first.” (CAPO/OECA Exhibit 200, at 58).

- 3
- 4 ➤ “At a minimum, the Oregon PUC should limit PGE’s rate stabilization mechanism to  
5 a certain proportion of the lost revenue as a means of encouraging the Company to  
6 offset its lost revenues through improvements in its efficiency of operations. Under  
7 such an approach, I propose imposing a 50% limitations on the Company’s recovery  
8 of lost revenue should the Commission decide to approve the rate stabilization  
9 mechanism at all.” (CAPO/OECA Exhibit 200, at 60).
- 10
- 11 ➤ “If the Company is going to be protected against lost fixed cost contributions, it  
12 should not be allowed to benefit from retaining those ratepayer dollars that have been  
13 paid for expenses that have been reduced or eliminated. . . [I]n the event that the rate  
14 stabilization proposal is accepted in whole or part, I further recommend that the  
15 Commission direct that utility-related Non-Energy Benefits generated by low-income  
16 efficiency investments. . . be quantified on an annual basis. The value of those  
17 avoided costs should then be provided for use in additional low-income energy  
18 efficiency investments through the federal WAP initiative.” (CAPO/OECA Exhibit  
19 200, at 64).
- 20

21 Mr. Cavanagh offered no data, no analysis, and no rationale for rejecting these three  
22 proposals should the Company’s decoupling proposal be approved in whole or part.

23

#### 24 **Part 4. Staff’s Seasonal Pricing Proposal.**

25 **Q. PLEASE STATE THE PURPOSE OF THIS SECTION OF YOUR TESTIMONY.**

26 A. In this section of my testimony, I respond to the testimony of Staff Witness George  
27 Compton regarding rate design reforms. In particular, Mr. Compton proposes rate design  
28 reforms for “major customer schedules so that these rates respond to the higher summer  
29 period electricity costs that are being experienced by PGE. . .” (Staff Exhibit 500, at 1).  
30 While I recognize that Staff is not proposing to implement seasonal rates for residential  
31 customers at this point in time, I wish to make clear that CAPO/OECA would oppose  
32 such residential seasonal rates should they be offered. The approval of non-residential  
33 seasonal rates in this proceeding without objection should not be viewed as acquiescence



1 to the rationale for, or acceptance of the impacts of, such rates should they be extended to  
2 the residential class.

3

4 **Q. PLEASE EXPLAIN THE LOW-INCOME INTEREST IN SEASONAL RATES.**

5 A. As I document in my Direct Testimony, low-income customers do not contribute to the  
6 seasonal differences in residential electricity usage. To impose seasonal rates on all  
7 residential customers would involve assigning cost-responsibility to low-income  
8 customers for expenses which those customers did not cause the Company to incur. This  
9 is particularly true should seasonal differentiation in rates apply to all residential energy  
10 consumption. To the extent that PGE's peak residential demand is associated with higher  
11 costs, those customers, and that consumption, that do not contribute to that peak demand  
12 should not be called upon to pay those higher seasonal rates.

13

14 **Q. WOULD SEASONAL RATES GENERATE ANY CONSERVATION "PRICE  
15 SIGNAL" TO LOW-INCOME CUSTOMERS?**

16 A. No. The issue of price signals for low-income customers has received considerable  
17 attention within the context of low-income rate affordability programs that base bills on a  
18 customer's income rather than on a customer's actual energy consumption. When such  
19 programs were first proposed (20 or more years ago), there was concern that tying low-  
20 income rates to a percentage of income would give rise to unbridled increases in energy  
21 consumption since bills would not increase as consumption increased. The concern was  
22 based on the lack of any "price signal" that would be conveyed by the rate affordability  
23 program. Over the past 20 years, however, not one program evaluation that has

1 examined the issue has found a systematic increase in the energy consumption of  
2 participants in income-based programs. Indeed, in research I performed, published in the  
3 *Journal of Economic Issues*, I outlined the theoretical problems with the concerns about  
4 the lack of price signals to low-income customers.<sup>4</sup> Having spent considerable time  
5 examining the issue, I conclude that rate structures are an ineffective mechanism through  
6 which to provide conservation price signals to low-income customers.

7  
8 While my previous work related to the impact of income-based rate affordability  
9 programs, it would apply equally to seasonally-differentiated rates as well. Seasonally-  
10 differentiated rates, particularly as applied to lower levels of consumption, would provide  
11 no conservation price signal to low-income consumers. The only impact would be to  
12 increase rates while generating no offsetting benefits.

13  
14 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

15 **A.** Yes, it does.

---

<sup>4</sup> Roger Colton. (1990). "Customer Consumption Patterns within an Income-Based Energy Assistance Program." 24 *Journal of Economic Issues* 1079.

**CERTIFICATE OF SERVICE**  
**UE 197**

I hereby certify that on September 15, 2008 I served an original and five copies of the foregoing SURREBUTTAL TESTIMONY OF THE COMMUNITY ACTION PARTNERSHIP OF OREGON and the OREGON ENERGY COORDINATORS ASSOCIATION to:

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And on September 15, 2008, I hereby certify that the foregoing documents were served electronically on all parties whom have an email address on the official service list, and by U.S. Mail, postage-prepaid, to those parties who do not have an email address on the official service list for UE 197.

/s/ Thomas James (Jim) Abrahamson  
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Oregon Energy Partnership Coordinator  
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