BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UE 170

In the Matter of	)
PACIFIC POWER & LIGHT,	)
Request for a General Rate Increase in the Company's Oregon Annual Revenues	)

SURREBUTAL TESTIMONY

OF THE

CITIZENS' UTILITY BOARD OF OREGON

June 27, 2005

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1 My name is Bob Jenks, and my qualifications are listed in my opening testimony
2 in CUB Exhibit 101.

3 I. Introduction

4 While we have reached agreement on some items with the Company, three major
5 problems remain. In our surrebuttal we explain why the Company's rebuttal of our
6 testimony on phantom taxes not only fails to weaken our arguments, but attempts to
7 cloud the issue with concerns unrelated to CUB's proposal. We also challenge the
8 Company's insistence that the Transition Adjustment Mechanism be applied to
9 residential customers, demonstrate that the Company's rebuttal is not effective, and
10 describe why the Company's proposed mechanism should not be applied to residential
11 customers. Finally, we address the Company's rebuttal arguments that suggest the

1 current method of adjusting for billing period variability is acceptable, or that, if
2 something must be done, it should only be a partial solution.
3 We are pleased to report that our concern about employee benefits being based on
4 an inflated employee account has been addressed by the second stipulation, and that the
5 Company used an actual employee count to project salaries, so we have no further
6 concerns about this issue.

7 II. The Disparity Between Taxes Collected & Taxes Paid

8 It is no secret that PacifiCorp collects from customers far more money in taxes
9 than actually reaches any government entity. This would seem to be a very difficult
10 position to politically or rationally justify, but the Company is fighting tooth and nail to
11 retain this very generous perk resulting from the historic ratemaking calculation of taxes
12 based on PacifiCorp's stand-alone liability.

13 A. Solid Nexus Between PacifiCorp & Debt At Holding Company

14 We presented numerous examples in our opening testimony demonstrating the
15 relationship between PacifiCorp and the debt at PHI, PacifiCorp's holding company.
16 Through numerous rating agency quotes, we showed that credit rating agencies do not
17 evaluate PacifiCorp in a vacuum, but with its corporate parents as a consolidated unit.
18 We also debunked the myth that there is an impenetrable ring fence around PacifiCorp
19 through which nothing passes, by discussing the costs from ScottishPower that are
20 allocated to PacifiCorp through PHI.

1 **i. PacifiCorp, PHI, & ScottishPower Evaluated On A Consolidated Basis**

2 Ironically, in rebutting our testimony, PacifiCorp actually supports our position by
3 pointing out circumstances when PacifiCorp's credit rating benefited from the presence
4 of its corporate parents. In our testimony, we pointed out circumstances when the
5 opposite was true, but the core of our argument, with which PacifiCorp agrees, is that
6 PacifiCorp and its customers are impacted by the fortunes of its corporate parents.

7 *a. PacifiCorp Argues That Its Credit Rating Is Better Because Of Corporate Parents*

8 Mr. Williams, in rebutting CUB's position that debt at a parent company impacts
9 the credit rating of the subsidiary, actually supports that position by maintaining that:

> 10 The credit rating agencies consistently have concluded that
> 11 PacifiCorp's association with ScottishPower has been such a benefit,
> 12 rather than a hindrance.

13 PPL/304/Williams/12.

14 Clearly, Mr. Williams agrees with CUB, that, despite the ring-fencing measures in
15 place to insulate PacifiCorp from the fortunes of its corporate family, the utility,
16 nevertheless, is impacted by those fortunes. Given the quotes from rating agencies
17 included in CUB's opening testimony, however, it is difficult to understand Mr.
18 Williams' use of "consistently." See CUB/100/Jenks/11. Mr. Williams continues his
19 argument with a quote from Moody's Investors Service.

> 20 The Baa1 senior unsecured rating of PacifiCorp reflects the relative
> 21 predictably [sic]of cash flows expected from a well-positioned,
> 22 vertically integrated utility, and an affiliation with parent, Scottish
> 23 Power, plc, (SP) who has implemented operational efficiencies, and
> 24 has fortified relations with the state regulators.

25 PPL/304/Williams/12 - Moody's Investors Service credit opinion May 27, 2005.

26 Mr. Williams argues that CUB's demonstration of a negative impact on
27 PacifiCorp's credit rating is not true, and that PacifiCorp's credit rating is stronger

1 because of ScottishPower. Therefore, customers are not eligible to a share of the interest-
2 related tax deductions at PHI, because they actually benefit from ScottishPower's
3 presence.

4 *b. Credit Rating Connection Is Valid Because It Exists, Not Because It Is Good Or Bad*

> 5 The Oregon Public Utilities Commission approved an agreement
> 6 allowing PacifiCorp (A-/Negative/A-2) to recover $137 million, or
> 7 82% of its deferred $167 million, including carrying charges…This
> 8 order follows recovery orders of $147 million in Utah, $25 million in
> 9 Idaho, and $7 million in California, all of which represent support for
> 10 credit stability at the utility…The outlook on PacifiCorp remains
> 11 negative as a result of credit concerns at parent ScottishPower U.K.
> 12 PLC, …

13 CUB Exhibit 103 - Standard & Poor's Bulletin, September 10, 2002.

14 Both our testimony and PacifiCorp's rebuttal clearly demonstrate the link between
15 PacifiCorp's credit rating and that of its corporate parents. From the perspective of credit
16 rating agencies, ScottishPower, PHI, and PacifiCorp are one big company. The nexus
17 between PacifiCorp customers and the interest-related tax deductions at PHI is this credit-
18 evaluation relationship between PacifiCorp and its holding company, not that the
19 relationship is positive or negative at any given moment.

20 *c. Income From PacifiCorp Pays The Debt At PHI*

21 PacifiCorp represents the vast majority of PHI's income, and is the primary
22 source of income to pay PHI debt. CUB/100/Jenks/6-7. Should PHI ever struggle to pay
23 its debt, clearly that will impact customers. PHI's obligation to pay its debt, regardless of
24 the strength of the corporate family, is a pressure shared by PacifiCorp and its customers.
25 As the burden of the debt is borne by PacifiCorp and its customers, so should the benefit
26 of that debt's interest tax deductions be allocated to them.

1 **ii. PacifiCorp Is Not Isolated, Parent Concerns & Costs Reach The Utility**

2 In defending its tax benefits, PacifiCorp goes to great length to describe itself as
3 isolated-by-regulation from its corporate parents, but we know this is not the case. Not
4 only does the strength of PacifiCorp's corporate parents impact the utility, but significant
5 costs are paid by the utility's customers for ScottishPower.

> 6 By breaching the carefully maintained ring-fence between regulated
> 7 and non-regulated operations… By reaching through the ring fence,
> 8 the proposals… by breaching the ring-fence, intervenors' proposals
> 9 would…

10 PPL/1300/Martin/20.

> 11 The Commission has historically taken great care to carefully separate
> 12 PacifiCorp from its non-regulated affiliates…

13 PPL/1300/Martin/22.

14 Clearly, we know from the Enron debacle that ring-fencing measures help to
15 insulate the utility from its corporate parents. Equally as clearly, those measures do not
16 provide an absolute boundary such that an earthquake on one side doesn't come across
17 even as a tremor on the other. In addition, ring-fencing measures are discrete
18 mechanisms that together provide a layer of protection; they are not, however, an
19 impenetrable barrier.

20 In our opening testimony, we provide numerous examples of significant costs –
21 filing the consolidated taxes, corporate secretarial and shareholder services, and group
22 finance and corporate strategy expenses – that reach PacifiCorp customers easily, despite
23 the picture of isolation painted by the Company. These costs have always flowed to
24 customers, and so it strikes us as odd that these costs reach customers, but benefits from a
25 burden shared by customers are inaccessible to customers. CUB/100/Jenks/14-18.

1 Finally, as we discussed in our opening testimony, PHI's need for income from
2 PacifiCorp to make its debt payments may influence PacifiCorp's behavior, such as the
3 frequency of PacifiCorp's rate case filings. CUB/100/Jenks/13.

4 B. The Corporate Tax Tangle

5 Mr. Martin did a wonderful job of convoluting the structure of PacifiCorp's
6 corporate family, as well as tax deductions, interest payments, operating losses,
7 subsidiary relationships, and affiliate associations such that the reader would find no way
8 out of the tangle. The tax code is complicated as it is, but Mr. Martin goes out of his way
9 to confuse matters as a tactic to obscure both the core issue raised by CUB as well as
10 CUB's proposed solution. CUB recommends the Commission recognize the interest-
11 related tax deduction at PacifiCorp's holding company, because of the nexus between
12 PacifiCorp and PHI's debt. Neither affiliates nor tax deductions related to accelerated
13 depreciation are a part of CUB's proposal.

14 i. Lions & Tigers & Bankruptcy, Oh My

15 In rebutting CUB's proposal, Mr. Martin paints a picture of confusion, rate
16 volatility, and ratepayer exposure to the activities of unrelated subsidiaries. He also goes
17 so far as to suggest that CUB's proposal could expose PacifiCorp to claims in bankruptcy
18 proceedings of its unrelated affiliates or corporate parents. PPL/1300/Martin/19-20. To
19 the contrary, CUB's proposal is specific, has clearly defined boundaries, and involves
20 none of the risks suggested by Mr. Martin's testimony.

21 *a. PHI Is PacifiCorp's Holding Company, Not PacifiCorp's Affiliate*

22 Mr. Martin's testimony suggests that, if the Commission were to accept CUB's
23 recommendation, PacifiCorp and its customers would be exposed to the tax liabilities of

1 the utility's unrelated subsidiaries. CUB's proposal does nothing of the kind. Though
2 Mr. Martin is careful not to actually call PHI, "PacifiCorp's affiliate," he does say that
3 CUB proposes, "an adjustment based on the tax benefits of an affiliated entity's interest
4 expense." PPL/1300/Martin/3.

5 PHI is PacifiCorp's holding company[1], not its affiliate[2]. "[A]ffiliate is the correct
6 word for intercompany relationships, however indirect, where the parent-subsidiary
7 relationship <u>does not</u> apply." Emphasis added, see footnote. Mr. Martin's testimony
8 misrepresents CUB's testimony by failing to distinguish between affiliates and parent
9 companies.

> 10 By breaching the carefully maintained ring-fence between regulated
> 11 and non-regulated operations, the proposed consolidated tax
> 12 adjustments increase the risk to PacifiCorp, and ultimately to
> 13 ratepayers, of future liabilities to PacifiCorp's affiliates and their
> 14 creditors.

15 PPL/1300/Martin/20.

16 Mr. Martin's testimony portrays PHI as just another affiliate of PacifiCorp, when,
17 in fact, a holding company is quite different. CUB's proposal very specifically addresses
18 the interest-related tax deduction at PacifiCorp's holding company, which involves
19 neither PacifiCorp's affiliates nor PHI's other activities. Recognizing the debt at

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[1] **Parent Company:** [A] company that owns or controls subsidiaries through the ownership of voting stock. A parent company is usually an operating company in its own right; where it has no business of its own, the term holding company is often preferred. Downes, John & Goodman, Jordan Elliot. <u>Dictionary of Finance and Investment Terms: Fourth Edition</u>. 1995. Barron's Series, Hauppauge, NY.

[2] **Affiliate:** *In general:* two companies are affiliated when one owns less than a majority of the voting stock of the other, or when both are subsidiaries of a third company. A subsidiary is a company of which more than 50% of the voting shares are owned by another corporation, termed the parent company. A subsidiary is always, by definition, an affiliate, but subsidiary is the preferred term when majority control exists. In everyday use, affiliate is the correct word for intercompany relationships, however indirect, where the parent-subsidiary relationship does not apply … *Internal Revenue Service:* for purposes of consolidated tax returns an affiliated group is composed of companies whose parent or other inclusive corporation owns at least 80% of voting stock. Downes, John & Goodman, Jordan Elliot. <u>Dictionary of Finance and Investment Terms, Fourth Edition</u>. 1995. Barron's Series, Hauppauge, NY.

1 PacifiCorp's holding company for ratemaking purposes, via a known and measurable
2 change to the taxes included in rates, is not the same as merging PacifiCorp's tax liability
3 with those of its affiliates or exposing PacifiCorp to its affiliates' liabilities in general.

4 *b. Affiliate Losses - Robbing Peter To Pay PacifiCorp*

5 PacifiCorp's witness, Mr. Martin, portrays CUB's proposal as delving, without
6 consideration, into the pockets of whatever nearby affiliate it can reach.

> 7 Mr. Jenks' argument that the adjustment is justified by the benefits-
> 8 burdens test is without merit. The tax benefit at issue arises from
> 9 another entity's losses. For purposes of determining these losses,
> 10 interest expense is no different than any other expense incurred in
> 11 operations … [T]he tax benefit of the interest deduction is an asset.
> 12 None of the Intervenors has proposed an adjustment … to "pay back"
> 13 the tax benefit it uses to the loss affiliate…

14 PPL/1300/Martin/18.

15 First of all, keep in mind that PHI is PacifiCorp's holding company, not just
16 another affiliate, so the poor loss affiliate that Mr. Martin speaks of doesn't exist.
17 Second, the tax benefit in question does not result from a loss, at least not in any
18 layman's sense of the word. An interest expense is just that, an expense. It is an expense
19 related to the debt load carried by PHI, PacifiCorp's holding company, that, as we
20 discussed earlier, clearly impacts PacifiCorp. CUB's proposal says nothing about
21 affiliate losses.

22 *c. Bankruptcy - Forget The Tigers, Watch Out For The Accountants*

23 As if the prospect of paying affiliate tax liabilities weren't scary enough, Mr.
24 Martin goes on to suggest that CUB's proposal could expose PacifiCorp to an affiliate's
25 debts should the affiliate file for bankruptcy. He even suggests that, should PacifiCorp's
26 parent(s) file for bankruptcy, claimants against those estates could seek compensation
27 from PacifiCorp.

> By failing to observe corporate formalities, the proposals would increase the risk that a bankruptcy court would disregard PacifiCorp's and its affiliates' corporate separateness and make PacifiCorp liable for its affiliates' debts. By reaching through the ring fence, the proposals could also subject PacifiCorp to claims by loss entities such as a bankrupt parent could have a claim against PacifiCorp for the value to the entity of the consolidated tax benefits that the Commission allocated from that entity to PacifiCorp.

PPL/1300/Martin/20.

As we have demonstrated in detail, despite the ring-fencing measures in place to protect PacifiCorp, there are costs and risks that are shared by the utility and its corporate parents. PacifiCorp is the primary asset of PHI, and regardless of CUB's proposal in this case, there is little doubt that PHI's bankruptcy would impact PacifiCorp. When setting rates, a known and measurable tax adjustment to reflect PacifiCorp's share of the interest tax deduction at PHI is simply a step toward improving ratemaking forecasts, not an open portal for bankruptcy claimants to access PacifiCorp in the event of an affiliate's or parent's bankruptcy.

ii. PacifiCorp's Timing Argument Is Nothing But A Smoke Screen

It seems that the interest-related tax deductions CUB referred to in opening testimony don't really exist. There are no actual tax deductions, or so it appears from Mr. Martin's testimony, only tax rearrangements. In its filing, the Company projects federal income taxes payable by customers to be $70.8 million. PPL/801/Weston/1.1. In our opening testimony, on confidential page CUB/100/Jenks/6, we cite the average amount of federal taxes paid to the government by PHI for 2001, 2002, and 2003. Mr. Martin's testimony, however, assures us that every cent of this phantom tax difference will eventually reach the federal government.

1 *a. PacifiCorp Claims It's Not Tax Savings, It's Just Tax Timing*

> 2 If filing of a consolidated tax return decreases current taxes owing, it
> 3 will increase deferred taxes by an equal amount. In other words,
> 4 filing a consolidated tax return does not create a permanent benefit.

5 PPL/1300/Martin/8.

> 6 The savings are a timing benefit only. Consolidated tax adjustments
> 7 made in the PHI consolidated return are deferred items and do not
> 8 permanently minimize tax expense. Because deferred taxes will
> 9 ultimately be paid, the only benefit to the company is the time value
> 10 of money on the tax payment deferred. Over time, a consolidated tax
> 11 return and a stand-alone return for a company the size of PHI or
> 12 PacifiCorp will yield the same result once all the deferrals have
> 13 reversed.

14 PPL/1300/Martin/10.

15 Mr. Martin's argument suggests that there is no difference between consolidated
16 taxes and stand-alone taxes other than timing. He uses this theory to claim that a tax
17 deduction used today creates a tax liability later, and, if regulators claim a share of a tax
18 deduction now, they are therefore required to provide a share of the tax liability that
19 exists later.

20 *b. It's Not Timing, Interest-Related Tax Deductions Are Not Deferred Taxes*

21 Mr. Martin's portrayal of tax deductions revels in verbiage at the expense of
22 clarity. Mr. Martin does not actually say that interest-related tax deductions are the same
23 as deferred taxes. He is also careful to use, in the above quote, "tax adjustments" rather
24 than "tax deductions" when describing why timing is the only issue, and why the money
25 will actually be paid to the government. However, unless read carefully, his testimony
26 muddies the distinctions between deferred taxes due to something like accelerated
27 depreciation and the deferral of tax deductions in general.

28 *1. Tax Deductions From Accelerated Depreciation*

1 Accelerated depreciation allows a utility to front-load the tax deductions
2 associated with a capital expense, and, yes, in this case, the utility will have to end-load
3 its tax payments in later years to compensate for taking these accelerated-depreciation tax
4 deductions early. These deferred taxes must be paid to government entities eventually.
5 When a utility enjoys accelerated tax deductions in an asset's early life, it is, in essence,
6 deferring taxes until a later date when it must pay back the government for the early use
7 of those deductions. CUB's proposal does not implicate tax deductions related to
8 accelerated depreciation.

9 *2. Tax Deductions From Interest Paid On Debt*

10 A tax deduction resulting from interest paid on debt, however, is not a tax
11 deduction associated with the accelerated depreciation of an asset. It is not a
12 rearrangement of timing. It simply is. Tax deductions can sometimes be carried over and
13 used in a future tax year, but they are still deductions. When a company pays interest on
14 its debt, that is considered a tax-deductible expense. Period. There is no future payment
15 the company must make to recognize an interest-related tax deduction. Home mortgages
16 seem to be the example du jour, and in this case, when an individual deducts the interest
17 paid on a home loan, that's the end of it; the individual doesn't have to compensate the
18 IRS later for having taken that deduction.

19 *3. If PacifiCorp Really Wants To Make This A Timing Issue…*

20 Despite Mr. Martin's ruse of rebutting CUB's proposal with a tax timing
21 argument, we could theoretically make a more-reasonable argument in regard to timing.
22 Customers would not be unjustified in asking for a deferral of their tax payments that do
23 not reach the government, such that those tax payments could be used to pay actual tax
24 liabilities in the future. Under this approach, the difference between taxes collected and

1 taxes paid to the government would simply be one of timing. However, we are not
2 proposing this solution in the current case. Instead we recommend a more-accurate
3 method of forecasting taxes for the future test year.

4 **iii. CUB's Core Concern Is Better Tax Forecasting For Ratemaking**

5 The central concern addressed by CUB's proposal is actually far simpler than Mr.
6 Martin suggests. In setting rates, the parties attempt to forecast PacifiCorp's tax liability
7 in a future test year. We would like that forecast to be as accurate as possible. We know
8 that PHI will likely file taxes on a consolidated basis, and we know that the interest-
9 related tax deduction from the debt PHI carries will reduce the consolidated tax liability.
10 Therefore, the Commission should allocate this tax deduction between the various
11 subsidiaries of PHI, based on their contribution to consolidated profits, and produce a
12 more-reasonable forecast of taxes.

13 **iv. Additional Diversionary Tactics In PacifiCorp's Rebuttal**

14 *a. PacifiCorp Argues That PHI Might Need The Tax Deduction*

15 Apparently, according to Mr. Martin, CUB is proposing, along with raiding
16 PPM's wind tax credits, PPL/1300/Martin/19, also denying PHI a tax deduction for its
17 wealth of taxable income.

> 18 Absent compensation to the non-regulated entity, such an action
> 19 would create a liability to the non-regulated entity when it later has
> 20 taxable income against which it would otherwise offset its losses.

21 PPL/1300/Martin/16-17.

22 PHI is a holding company, not a widget manufacturer, and so doesn't generate
23 profit-related tax liabilities for which to use tax deductions. CUB Exhibit 201 is the
24 Company's response to a CUB data request.

> PHI presently has no business activity independent of its subsidiaries; however, PHI is not precluded from engaging in such business activity. PHI also owns multiple subsidiaries. Any gain achieved on the sale of its subsidiaries would generate income at PHI. Net operating losses attributed to PHI could be used to offset this income and reduce taxes payable.

CUB Exhibit 201 - PacifiCorp response to CUB data request 38

Currently, PacifiCorp represents the vast majority of PHI's consolidated profits. It is unclear what future tax liability PHI would use its tax deductions for, but, as PacifiCorp produces most of the consolidated profit, if PHI were to save a tax deduction for later, most likely it would use it later to offset the tax liability from PacifiCorp's profit.

If PHI starts a widget business and makes a profit on those widgets, then PacifiCorp's contribution to the consolidated profits may be less. Regardless, in the year the tax deduction is produced – not when it is used – PacifiCorp's share of that deduction should go to PacifiCorp. PHI can use its and its other subsidiaries' share of the consolidated tax deductions as it sees fit.

Though the Company asserts, in its response to our data request, that PHI could begin to widget at any time, the relevant year for this rate case is the future test year, and there is no indication that PHI will begin widgeting any time soon.

b. To Consolidate Or Not To Consolidate, That Is The Question

PacifiCorp's witness, Mr. Martin, paints a picture of a poor, hamstrung holding company with no real choice but to file a consolidated federal tax return, because of the Internal Revenue Code.

> Although filing a consolidated return is "elected" under the IRC, in fact, if corporations meet certain ownership thresholds, the IRS will impose certain limitations on the group irrespective of whether the corporation elects to join in a consolidated tax return.

1 PPL/1300/Martin/7.

2 Interestingly, what the ownership thresholds Mr. Martin speaks of are, whether
3 PacifiCorp and/or PHI meet them, what the limitations might be, or what the impact
4 might be if the limitations apply, Mr. Martin fails to say. While Mr. Martin's testimony
5 suggests that the Company doesn't have complete control over the decision to
6 consolidate, he has offered no evidence to support such a claim, and until PacifiCorp has
7 met its burden of proof, we presume that PHI controls the decision to consolidate the tax
8 filing.

9 *c. The Home Mortgage Example Gone Awry*

10 Coming back to the example du jour, Mr. Martin manages to stretch the
11 comparison between an interest-related tax deduction at a holding company, and the
12 interest tax deduction taken by an individual homeowner, a bit beyond its breaking point.

> 13 This argument would suggest that an employer, by virtue of the fact
> 14 that it pays its employee's salary, is entitled to the tax benefit of the
> 15 employee's home mortgage tax deduction.

16 PPL/1300/Martin/14.

17 The employer-employee relationship is not the same as the corporate parent-
18 subsidiary relationship. An employer does not own a majority voting share in its
19 employee and an employer does not decide how an employee will file taxes. Most
20 importantly, banks do not consider an employee and an employer together when deciding
21 on an appropriate interest rate for a home mortgage.

22 C. The Times They Are A-Changin'

23 Over the last decade, things have changed significantly in the energy industry.
24 Mr. Uffelman describes the purpose of his testimony as to:

1 … present information to support a conclusion that the stand-alone
2 method should be the methodology that is continued for Oregon
3 ratemaking purposes and that allocation to ratepayers of the parent
4 interest deduction is not consistent with the stand-alone method.

5 PPL/1400/Uffelman/3.

6 A significant chunk of the information Mr. Uffelman presents relates to a study he
7 performed while with the Public Utilities Practice of KPMG titled "Survey Results:
8 Survey of Federal Income Taxes in Regulation" (March 1994). The results are included
9 in his testimony as Exhibit 1402. While concluding that the stand-alone method is still
10 the predominant approach to utility taxes, he does quote the survey in his testimony.

11 The version of the non-traditional method that has received the most
12 attention across the country in recent years is the "consolidated tax
13 adjustment." ... The survey responses for eight of the 53 regulatory
14 commissions indicated that a CTA [Consolidated Tax Adjustment]
15 was imposed during the five year survey period. Of these eight
16 commissions, it appears that the imposition of a CTA is a
17 predominant regulatory practice of only five jurisdictions…

18 PPL/1400/Uffelman/5-6.

19 Though regulatory bodies that recognize a consolidated tax filing may be few,
20 their numbers may be growing as the unfairness of the current situation becomes more
21 widely known. Though Mr. Uffelman claims the stand-alone approach is still
22 predominant, he fails to mention any update to his 1994 survey.

23 Precedent does have its place, and the precedent of this Commission has been to
24 calculate a utility's tax liability on a stand-alone basis. There are times, however, when
25 the most appropriate course is to break from precedent, and this is one of those times.
26 Utilities have for years been pocketing extra profits in the form of phantom tax payments
27 from customers. Oregon customers are fed up. The current situation is not acceptable, it

1 is no longer politically viable, and it does not adhere to the principle that rates should be
2 just and reasonable to cover costs and allow the utility to earn its regulated rate of return.

3 III. PacifiCorp's Proposed Transition Adjustment Mechanism

4 PacifiCorp proposes to implement a Transition Adjustment Mechanism (TAM) to
5 value load that leaves its system during the direct access window. As we have found
6 with PGE's Resource Valuation Mechanism (RVM), this procedure is long, drawn-out,
7 and resource intensive. Nevertheless, PacifiCorp proposes applying the mechanism to all
8 customers, though most of them are not eligible for direct access, do not want direct
9 access, and certainly do not want to be burdened by the cost and risk associated with it.
10 At the end of the day, the Company has failed to offer any compelling reason why the
11 TAM should be applied to residential customers.

12 A. No Compelling Reason To Apply TAM To Residential Customers

13 The Company offers no compelling reason why the proposed TAM should be
14 applied to residential customers. PacifiCorp attempts to rebut CUB's testimony
15 concerning the Company's proposed mechanism by repeating its claim that PGE applies
16 the mechanism to residential customers, so PacifiCorp should be able to as well. This is a
17 ridiculous rationale for applying the proposed mechanism to residential customers.
18 PacifiCorp's witness, Ms. Omohundro, does add an additional argument. CUB's
19 proposal to apply the TAM only to direct-access eligible customers, she argues, would
20 require a calculation that updates power costs for only a subset of PacifiCorp's
21 customers, would create complexity, and would be difficult to do in the available time
22 frame. PPL/701/Omohundro/2. This is also an absurd argument for applying the

1 proposed mechanism to residential customers. We never suggested the Company color
2 code electrons in order to separately identify the net power costs for direct-access eligible
3 customers; we simply said that the Company should not apply this annual process to
4 residential customers.

5 If the Commission and the Company believe the benefits of this mechanism in
6 facilitating direct access outweigh the costs of implementing it, then the proposed
7 mechanism can be appropriately applied to those customers who receive the benefit. We
8 never suggested that the Company should come up with a different mechanism. The
9 need for the proposed Transition Adjustment Mechanism is caused by customers who are
10 eligible for direct access, and the mechanism should, therefore, be limited to them.
11 Residential customers, who receive no benefit from direct access, should not be dragged
12 into this costly and time-consuming process when they receive no benefit from it.

13 B. PacifiCorp Rebuttal Demonstrates That CUB's Concern Is Valid

14 PacifiCorp failed to effectively rebut any of CUB's arguments against applying
15 the TAM to residential customers. In fact, the Company's rebuttal reinforces the validity
16 of a number of CUB's concerns.

17 i. Difficult To Conduct A Prudence Review

18 The Company's rebuttal does acknowledge CUB's concern that the TAM update
19 in October will include new market purchase contracts, fuel purchases, and energy
20 transactions that have not been reviewed by either the parties or the Commission.
21 PPL/701/Omohundro/3. The final TAM update occurs after the Commission issues its
22 order in the proceeding, so none of the updated items can be properly subject to discovery

1 and review. PacifiCorp's attempt to rebut our concern ends up ducking the issue entirely,

2 and, in so doing, highlights the nature of the problem.

> 3 Because the transition adjustment that will be in place for an entire
> 4 year is set during a one-week window, it is in the best interest of all of
> 5 PacifiCorp's customers to update relevant data to ensure the final
> 6 adjustment is as accurate as possible. By updating the Company's net
> 7 power costs to include new market purchase contracts, fuel purchases
> 8 contracts, fuel purchases, and energy transactions – a limited and
> 9 verifiable set of data – the RVM[3] will represent the most accurate
> 10 determination of the value of the displaced power applied to departing
> 11 customers.

12 PPL/701/Omohundro/3-4.

13 CUB never argues against finding "the most accurate determination of the value

14 of displaced power applied to departing customers." We fully support an accurate

15 determination of the transition credit or charge to be assessed to departing customers.

16 That being said, burdening residential customers with costs that, because of the tight

17 timing of the direct access window, are not subject to the traditional ratemaking

18 protection of a prudence review, when residential customers don't need to be a part of the

19 process, does not make sense.

20 In addition, we find the Company's claim that these costs represent "a limited and

21 verifiable set of data" misleading. After the Commission decision in the TAM

22 proceeding, there is no process for customers to review and verify the costs, regardless of

23 how limited or verifiable those costs may be. Finally, the updated costs that are included

24 after the Commission's order may include power purchase and power sale contracts

25 which have both been contested on prudence grounds in recent Commission proceedings.

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[3] Interestingly, the Company seems to have shifted from calling its proposed mechanism by its original name, Transition Adjustment Mechanism, to calling their proposed mechanism an RVM. This follows the Company's primary argument that PGE gets a mechanism, so PacifiCorp should too.

ii. Mismatch Between Fixed Costs And Variable Costs

The Company acknowledges that CUB's argument demonstrating that the Company's proposed mechanism creates a mismatch between fixed and variable costs is "accurate." PPL/701/Omohundro/5. However, the Company argues that in "the current cycle of heavy capital expenditures, and with the impact of inflation, this mismatch will likely benefit customers, not harm them." PPL/701/Omohundro/5.

We are not convinced. Although the Company does project making significant capital expenditures in new power plants, clean air equipment, and hydro re-licensing commitments, these capital investments are not evenly distributed over time; they will be intermittent as the Company addresses each project. It is important to remember that the Company controls the timing of new rate cases, and we expect the Company will seek recovery in a timely manner as soon as a new investment becomes used and useful. Between these investments, however, the Company's ratebase is amortized, and return on ratebase is likely to be a declining cost. The proposed mechanism will update the fuel cost for each power plant annually, but will not update rates for the declining ratebase associated with that plant.

iii. Mismatch Between Allocation Factors

"The Company is confused by CUB's assertion of mismatched allocation factors." PPL/701/Omohundro/5. The Company claims that CUB's argument is "irrelevant given that, under the proposed RVM, both the fixed and variable costs of new resources are excluded until the time when both can be included." Ibid.

The Company is correct; it is confused. The mismatch between allocation factors we addressed in our opening testimony is not related to new resources, but is, instead,

1 related to the proposed mechanism's allocation of the system costs, regardless of new
2 resources. The point we demonstrated is really quite simple. Each year, as Utah grows,
3 Oregon's load represents a smaller percent of PacifiCorp's system. The Company's
4 proposed mechanism will update the allocation factors, but will only apply the new
5 allocation factors to a limited number of costs – net power costs. There are a number of
6 other costs, such as corporate overhead, O&M, and ratebase that are also distributed
7 among PacifiCorp's states based on these allocation factors, but the Company's proposed
8 mechanism would not apply the new, more-accurate allocation factors to these costs.
9 This creates multiple problems. First, to the degree that updating fuel costs,
10 purchased power, and other net power costs allows the Company to raise customer rates,
11 it takes pressure off PacifiCorp to file a general rate case. A general rate case, however,
12 would at least recognize that Oregon's allocation of other system costs has decreased, and
13 could soften the blow of a rate increase for Oregon customers. Conceivably, there could
14 be a situation where updating only new power costs and avoiding a full rate case – and
15 thereby not reducing Oregon's allocated share of overhead, O&M, personnel, and
16 ratebase – might even benefit the Company.
17 Second, it is not clear to us why the Commission should undertake an annual
18 proceeding which will update the projected allocation factors used to assign costs, but
19 then not recognize those new allocation factors for those system costs that are allocated.
20 For example, if the Commission determines that Oregon's share of the system is now
21 25%, why would we continue to allocate 27% of ratebase and corporate overhead to
22 Oregon customers? We see no reason, if we are going to undertake updating allocation

factors annually, that we should not apply those updated allocation factors to all allocated costs.

PacifiCorp argues that its proposed TAM should be applied to all customers, because PGE applies its RVM to all customers. PGE, however, is a single-state utility, and PGE customers do not have a declining share of system costs to be concerned about. PacifiCorp is different.

iv. The Cost Of Utah's Load Growth

CUB raised the concern that the TAM will allow the Company to pass through to Oregon customers the higher costs associated with Utah's load growth. CUB/100/Jenks/26. Utah is growing more rapidly than Oregon, and, in the short-term, between the acquisition of new power plants, much of this growth is met with market purchases. The proposed TAM allows the Company to pass a significant share of the cost of these market purchases through to Oregon customers.

The Company's rebuttal responds to CUB's concern by referring to our participation in the Multi-State Process (MSP).

> CUB has participated actively in the company's Multi-State Process initiative where the issue of cost shifts to slower growing states was analyzed extensively. Over forty studies were conducted to analyze the cost shifting issue and the conclusion demonstrated Utah was paying 86-127 percent of the incremental revenue requirement associated with their load growth under the traditional Rolled-In allocation methodology.

PPL/701/Omohundro/6.

Yes, CUB did participate in the MSP. Yes, there were studies done that showed that Utah paid between 86% and 127% of the incremental revenue requirement increase. Those studies showed that there was a cost to Oregon from Utah's load growth, but that this cost was offset by the decline in Oregon's allocated share of system costs, such as

1 Company overhead. Those studies assumed that, as new costs of Utah's load growth
2 were added to Oregon's rates, Oregon's allocated share of system overhead would be
3 reduced.

4 This is not the way that the Company's proposed TAM is designed. As we
5 addressed above, under the proposed mechanism, updated allocation factors are not
6 applied to system overhead costs. The TAM, on an annual basis, adds the costs
7 associated with Utah's load growth to Oregon, but does not reduce Oregon's allocated
8 share of system overhead. PacifiCorp's rebuttal did not respond to our concern or rebut
9 our position.

10 **v. Gaming The Forward Price Curve**

11 According to the Company's rebuttal, it:

> 12 … has a detailed and transparent process in place for calculation of its
> 13 forward price curve, which has been in place for several years and has
> 14 been reviewed by all regulatory Commissions overseeing
> 15 PacifiCorp's operations.

16 PPL/701/Omohundro/7.

17 The point that the Company seems to miss, however, is that the forward price
18 curve used to set rates in the proposed TAM is the one that cannot be reviewed by the
19 Commission. The process may involve a number of different price curve updates which
20 can be vetted, but the one price curve that really matters, the one upon which customers'
21 rates will be based, cannot be reviewed because it is filed after the Commission's final
22 order in the proceedings.

23 It is the Company that produces the forward price curve, not an independent
24 source, and those price projections can have a significant impact on rates. In a traditional
25 rate proceeding, the Company's forward price curve is subject to review both by

1 interested parties and the PUC Staff. Such a review is not possible in the Company's
2 proposed TAM, and CUB recommends that a regulatory process should use an
3 independent forward price curve, not one developed internally by the Company.

4 We are not suggesting that the Company has gamed or intends to game the
5 forward price curve. We do, however, feel strongly that regulatory mechanisms should,
6 insomuch as is possible, be designed to leave no room for gaming.

7 **vi. Increased Regulatory Burden**

8 The Company seems to agree with CUB that its proposed TAM will increase the
9 workload of parties who practice before the PUC.

> 10 The transition adjustment requires an accurate determination of the
> 11 value of a slice of an electric utility's system. This is a difficult and
> 12 complex task that inevitably results in a time consuming,
> 13 controversial and resource intensive process for all parties involved.

14 PPL/701/Omohundro/7.

15 The Company's solution, however, makes the problem worse.

> 16 The Company also acknowledges the workload on Staff and
> 17 intervening parties resulting from the annual transition adjustment
> 18 process…By proposing a mechanism that mirrors the existing
> 19 schedule and overall framework of PGE's RVM, the Company
> 20 avoided the complexities associated with a new, and unfamiliar,
> 21 mechanism and process.

22 PPL/701/Omohundro/3.

23 On the contrary, by mirroring the schedule of PGE's RVM, with yet another
24 proceeding that is "difficult," "complex," and "time consuming," the Company doubles
25 the workload of Staff, CUB, and ICNU. PGE and PacifiCorp would have one TAM-
26 RVM to litigate, but we would have two.

1 **vii. Phantom Costs**

2 In our opening testimony, we discussed the problem of the proposed mechanism's
3 use of phantom market purchases to represent the actual use of new resources that are not
4 yet in the Company's ratebase. CUB/100/Jenks/27-29. This means that customers' rates
5 will be based on market purchases the Company never made. PacifiCorp discounts this
6 argument, because its modeling is "consistent with the Commission's previously adopted
7 treatment for resource acquisitions." PPL/701/Omohundro/7.

> 8 [T]he new resource is excluded from rates until it is used and useful
> 9 and in the interim it is assumed that load will be served through
> 10 system balancing transactions.

11 PPL/701/Omohundro/7.

12 CUB does not disagree that this process, as described by the Company, has been
13 used in the past, but the past has not included an annual ratemaking update such as the
14 proposed TAM. Costs of a new resource cannot be included in a utility's ratebase, and
15 therefore in rates, until the resource is used and useful, and so the Company's proposed
16 TAM will ignore new resources until after the general rate case that includes them.
17 However, the new generation resource may be functional and generating, probably at a
18 cost lower than market purchases, while customers are being charged as if that resource
19 did not exist and the Company were making market purchases. The proposed mechanism
20 will, when modeling the transition cost, simply purchase power on the market to serve
21 load that is, in reality, being served by the new resource.

22 As we pointed out in our opening testimony, the market price of these purchases
23 is likely to be higher than the variable power costs associated with the new resource. In
24 addition, had the new resource not been acquired, the Company would have looked at

1 other options, such as term purchases, to balance its system. These too would likely be
2 lower than market purchases.

3 This has not been a significant problem in the past, because rates are only
4 changed in general rate cases, at which time the Company's ratebase would be updated
5 for new resources. Under the Company's proposed TAM, though, customers' rates
6 would be changed. The proposed mechanism would ignore resources that are not yet in
7 ratebase, even after they are used and useful, and instead calculate customers' rates based
8 on market purchases we know the Company will not actually make.

9 C. Commission Should Not Apply TAM To Residential Customers

10 The preceding discussion makes clear that PacifiCorp's proposed TAM has some
11 real problems. The TAM does, however, solve one important problem: how to determine
12 the "value of the displaced power applied to departing customers."
13 PPL/701/Omohundro/4. CUB does not reject the proposed TAM as a solution to that
14 problem, as it may prove to be an important tool in providing some customers with direct
15 access. Customers who are eligible for direct access receive a benefit from the TAM, and
16 so should bear the burden of its implementation. Residential customers, on the other
17 hand, are not eligible for direct access and receive no benefit from the proposed
18 mechanism. Yet the Company proposes saddling them with the costs and problems
19 associated with the mechanism anyway, even though it isn't necessary to do so. There is
20 no valid reason that the Company's proposed TAM should be applied to customers who
21 are not eligible for direct access, who will not benefit from direct access, and who may be
22 harmed by the TAM itself. Contrary to the Company's argument of complexity, simply
23 applying the proposed mechanism only to those customers who are eligible for direct

1 access can be easily done using the mechanism as designed. It is a simpler solution and a
2 more equitable one.

3 IV. Billing Period Variability Over-Charges Customers

4 In our opening testimony, we explained how the Company over-charges
5 customers, because of variations in customer billing periods. PacifiCorp didn't dispute
6 the existence of the problem; instead, the Company simply argued that the Commission
7 should not take CUB's recommendation.

8 A. The Problem

9 PacifiCorp's customers are charged for their usage on an increasing block rate
10 structure based on monthly usage. As discussed in our opening testimony, customers
11 whose billing periods are longer than a month will often be charged for electricity at a
12 higher block rate than they should have been, had their billing period actually been a
13 month. CUB/100/Jenks/32-34.

14 i. PacifiCorp's Perspective Is That No Change Is Necessary

15 The Company does not dispute CUB's argument that variations in customers'
16 billing periods impact customer bills, and can result in charges to customers for
17 electricity at one block rate, when that usage should really have been charged at a
18 different block rate.

19 *a. PacifiCorp Argues The Problem Is Already Taken Care Of*

20 The Company assures us, however, that this problem is all taken care of, because
21 the Company accounts for billing period variability when it sets rates.

> 22 Retail rates are set based on historic usage patterns in a test period …
> 23 April 1, 2003 to March 31, 2004 … This means that the meter read

1 cycle variation that Mr. Jenks refers to is reflected in the three-tier
2 energy charge blocking for residential customers prepared for this
3 case.

4 PPL/1204/Griffith/3.

5 *b. The Company's Solution Only Addresses The Problem On A Normalized Basis*

6 The Company does acknowledge that its solution to the problem relies on
7 normalized conditions, and that overcharging or undercharging could occur.
8 Unfortunately for the Company's solution, conditions are never normal and usage
9 patterns are never constant, so overcharging or undercharging will always occur. Also, as
10 we pointed out in our opening testimony, the problem is not symmetrical. Billing period
11 variability is more likely to overcharge than to undercharge. CUB/100/Jenks/34.

12 A cold, snowy winter will increase customer usage at the same time as slowing
13 the meter reading process. It is a compound problem; when customers' usage is up, their
14 billing periods tend to be the longest, which will increase the number of customers who
15 have discrepancies as well as the magnitude of those discrepancies. Our opening
16 testimony discusses this at length. CUB/100/Jenks/32-34. The normalization problem
17 may also explain why CUB's estimation of the financial impact and the Company's are
18 different. In addition, our analysis shows that the pattern of billing period variability can
19 be quite different from year to year.

20 B. The Solution

21 No one is in disagreement that there is a problem, but the Company and CUB
22 clearly disagree as to an appropriate solution.

1 **i. PacifiCorp's Band-Aid – Let's Meet Halfway**

2 As discussed above, the Company claims to already have the problem under
3 control, but it concedes that another option would be to prorate those bills that have
4 billing periods longer than 34 days and shorter than 26 days.

5 *a. PacifiCorp Warns That It Would Raise The Revenue Requirement*

6 While conceding that it could prorate some of its customers' bills, the Company
7 claims that such a solution would raise the Company's revenue requirement.

> 8 Implementing this change would result in a revenue requirement
> 9 increase of $175,000 for the residential class in order to recover the
> 10 difference between the current billing cycles in this case and the
> 11 shortfall caused by this proration proposal.

12 PPL/1204/Griffith/4.

13 *b. No It Wouldn't*

14 Given Mr. Griffith's description of PacifiCorp's current approach to the problem
15 of billing period variability, we found it unlikely that prorating customers' bills would
16 increase revenue requirement, and so asked the Company to explain in a data request.
17 The Company's response is included as CUB Exhibit 202.

> 18 This billing method revision would affect present revenues, but it
> 19 would not affect the proposed revenue requirement as indicated in
> 20 your question.

21 CUB Exhibit 202 - PacifiCorp response to CUB data request 36.

22 The distinction that was not clear in Mr. Griffith's testimony is that, though the
23 setting of retail rates would change if the Commission were to adopt prorated billing
24 periods, the Company's revenue requirement would not.

1 **ii. CUB's Cure - Why Settle For Halfway When A Full Solution Is Available**

2 CUB recommends that the Commission match PacifiCorp's block rate design to
3 customers' billing period. The Company's solution gets us halfway there, but
4 considering that the mechanism used to prorate a subset of bills is the same mechanism
5 used to prorate all bills, why settle for a partial solution when a full solution is available
6 at little or no extra cost?

7 *a. The Company's Proposal Retains Far Too Much Billing Period Variability*

8 The Company's proposal leaves a window of over a week, 9-days, for billing
9 period variability. Under the company's proposal, a customer whose bill includes 26
10 days of usage will be billed using the same rate block usage as someone whose bill
11 includes 34 days of usage. The customer whose bill includes 34 days, however, is much
12 more likely to have used more than 1,000 kWh over that time, and will pay for that usage
13 at the highest block rate. Besides being a partial solution to an easily-fixable problem,
14 the Company's suggestion allows far too much billing period variability in customer
15 bills.

16 *b. PacifiCorp Warns It Would Raise The Revenue Requirement A Lot & Be Confusing*

> 17 [I]t would require an increase to revenue requirement of $410,000 for
> 18 residential customers to reflect the difference between the current
> 19 billing cycles in this case and a fixed, prorated billing cycle. The
> 20 Company believes that the simpler alternative of prorating only those
> 21 bills under 26 days and over 34 days would provide sufficient
> 22 correction for outlying bills, would minimize the cost and number of
> 23 prorated bills, and would retain billing simplicity.

24 PPL/1204/Griffith/5.

25 *c. No It Wouldn't & No It Wouldn't*

26 Above we discussed the misleading suggestion that a revenue requirement
27 increase would result from CUB's suggested solution to the problem of billing period

variability. Why it would be less confusing to prorate some bills and not others, instead of just prorating all bills, remains a mystery to us. As mentioned earlier, we would be surprised if the cost difference between partial prorating and full prorating were even noticeable.

C. Last, But Certainly Not Least: Equity

Regardless of how one values the over-collection of revenue due to billing period variability, a fundamental problem remains. Customers are being overcharged, somewhat at random, because of their meter reading cycles. Whatever the overcharge amount, some customers are being overcharged while others are not. The impact of billing period variability is not equitably distributed across customers.

Fundamentally we all agree there is a problem, though we disagree on the scale of the problem, and the same question remains: Why settle for a partial solution, as the Company proposes, when the very same programming and implementation can be used to achieve a full solution? PacifiCorp provides no public policy argument against fixing the billing period variability problem. There should be a good reason to allow inequity between customers to continue, and the Company's argument that its solution results in a smaller discrepancy than the original discrepancy is not a valid argument for not fixing the discrepancy altogether.

V. Employee Benefits Based On Inflated Employee Count

In our opening testimony we showed that PacifiCorp's employee benefits were based on a budgeted employee count that was higher than the actual employee count. We also said that we would examine whether the employee count overall was inflated and

might call for additional adjustments in our surrebuttal testimony. Further research has shown that the Company used separate employee counts to project employee salaries and employee benefits. Salaries were based on an actual employee count, while benefits were based on a budgeted employee count that was greater than the number of employees actually working for the Company. We believe that the second partial stipulation addresses this point, by reducing the revenue requirement to reflect actual employee levels when forecasting the cost of benefits. CUB supports this stipulation and believes that it removes this problem.

VI. Conclusion

The time has come for the Commission to tackle the enormous customer overpayment for phantom taxes. It has been a difficult and contentious issue, and involves an adjustment in the traditional method of calculating taxes for ratemaking purposes, but the injustice of the situation cannot continue. The change required is not the drastic upheaval described by the Company's witnesses, but a known and measurable adjustment to the Company's forecasted tax burden.

PacifiCorp's desire to apply its proposed Transition Adjustment Mechanism to residential customers is not supportable. It does not make sense, would involve residential customers in a long and time-consuming process from which they reap no benefit, and could expose them to harm as a result of the weaknesses in the Company's proposed mechanism. There is simply no reason to drag residential customers into this process.

Rarely is a complete solution to a problem available at little or no additional cost compared to the partial solution, but billing period variability is one of those fully fixable

1 problems. We demonstrate that billing period variability overcharges customers, and
2 does so randomly such that the impact of the problem is not shared equally between
3 customers. The Company proposes prorating only a subsection of customer bills, leaving
4 a huge time window within which customers could experience billing period variability.
5 Why not just prorate them all such that, whatever a customer's billing period, the block
6 rates will be properly applied? This one is a no-brainer.

UE-170/PacifiCorp
June 22, 2005
CUB Data Request 38

CUB Data Request 38

PPL/1300/Martin/7-8 argues that a net operating loss not used in one year will be carried over to reduce taxes payable in a subsequent year. Does PHI have any business operations independent of its subsidiaries? If so, please describe those operations and identify what share of PHI gross income they represent in each of the last three years.

Response to CUB Data Request 38

PHI presently has no business activity independent of its subsidiaries; however, PHI is not precluded from engaging in such business activity. PHI also owns multiple subsidiaries. Any gain achieved on the sale of its subsidiaries would generate income at PHI. Net operating losses attributed to PHI could be used to offset this income and reduce taxes payable.

UE-170/PacifiCorp
June 22, 2005
CUB Data Request 36

CUB Data Request 36

PPL/1204/Griffith/5 says that implementing CUB's proposal for prorating residential bills would require an increase in revenue requirement of $410,000. Is PacifiCorp saying that if the Commission approved a revenue requirement of $400,000,000 for residential customers, and the Commission also approved CUB's proposed billing design, that the Company would actually be required to collect a revenue requirement of $400,410,000? Please explain.

Response to CUB Data Request 36

No. As stated on page 4 of Mr. Griffith's testimony, residential customers would be undercharged from today's present rates by approximately $410,000 if all customers received prorated bills based on a 30 day cycle. This billing method revision would affect present revenues, but it would not affect the proposed revenue requirement as indicated in your question. It also affects the amount of the ordered price *change*, also known as the revenue requirement change.

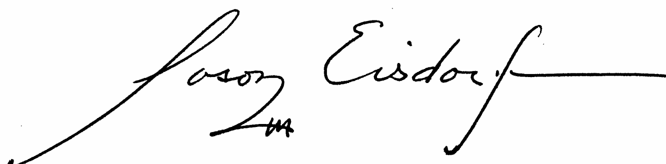
As an example, for simplicity, assume that present residential revenues are $390,000,000. Present residential revenues are based on the billing method currently in place (including the historic billing cycle variation) in the test period and reflect the rates currently in effect. If the Commission modified the billing methodology to prorate all bills to 30 days, the Company would be collecting less revenue from residential customers and present revenues would be reduced by $410,000; present residential revenues would now equal $389,590,000.

If, at the end of the case, the ordered revenue requirement for residential customers were $417,000,000, the ordered price increase would be $27,000,000 ($417,000,000 minus $390,000,000) under the existing billing method, and $27,410,000 ($417,000,000 minus $389,590,000) if the Commission adopted the modified 30 day cycle billing methodology.

CERTIFICATE OF SERVICE

I hereby certify that on this 27th day of June, 2005, I served the foregoing Surrebuttal Testimony of the Citizens' Utility Board of Oregon in docket UE 170 upon each party listed below, by email and U.S. mail, postage prepaid, and upon the Commission by email and by sending 6 copies by U.S. mail, postage prepaid, to the Commission's Salem offices.

Respectfully submitted,



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