

**BEFORE THE PUBLIC UTILITY COMMISSION  
OF THE STATE OF OREGON**

**In the Matter of PacifiCorp, dba     )  
Pacific Power                             )     Docket No. UE-307  
2017 Transition Adjustment         )  
Mechanism                                 )**

**Rebuttal Testimony of Kevin C. Higgins**

**on behalf of**

**Noble Americas Energy Solutions LLC**

**August 12, 2016**

1                                   **REBUTTAL TESTIMONY OF KEVIN C. HIGGINS**

2

3    **Introduction**

4    **Q.    Please state your name and business address.**

5    A.           Kevin C. Higgins, 215 South State Street, Suite 200, Salt Lake City, Utah,  
6               84111.

7    **Q.    By whom are you employed and in what capacity?**

8    A.           I am a Principal in the firm of Energy Strategies, LLC. Energy Strategies  
9               is a private consulting firm specializing in economic and policy analysis  
10              applicable to energy production, transportation, and consumption.

11   **Q.    Are you the same Kevin C. Higgins who pre-filed Opening Testimony in this**  
12       **proceeding on behalf of Noble Americas Energy Solutions (“Noble**  
13       **Solutions”)?**

14   A.           Yes, I am.

15   **Q.    What is the purpose of your Rebuttal Testimony in this proceeding?**

16   A.           My Rebuttal Testimony responds to the Reply Testimony of PacifiCorp  
17               witness Brian S. Dickman in which Mr. Dickman opposes my proposal to adjust  
18               the calculation of the Schedule 294, 295, and 296 transition adjustments to reflect  
19               the value of freed-up Renewable Energy Certificates (“RECs”).

20               I also respond to Mr. Dickman’s opposition to my position that in  
21               calculating the Schedule 296 Consumer Opt-Out charge, Schedule 200 costs  
22               should not be escalated in Years 6 through 10, but rather should *decline* in each of  
23               those years to reflect the decline in the Company’s return on generation rate base

1           attributable to the departed customers' loads, due to the effects of increased  
2           accumulated depreciation and amortization.

3   **Q.   What are the primary conclusions in your Rebuttal Testimony?**

4   A.           Mr. Dickman's objections are not reasonable grounds to reject my  
5           proposals. I continue to recommend that the Schedule 294, 295 and 296 transition  
6           adjustments should be adjusted to reflect the value of freed-up RECs. Otherwise,  
7           direct access customers will unreasonably pay for Renewable Portfolio Standard  
8           ("RPS")-related resources twice: once from their Electricity Service Supplier  
9           ("ESS") and a second time from PacifiCorp, which banks the RECs paid for by  
10          direct access customers for future use by cost-of-service customers. In the  
11          alternative, PacifiCorp could agree to transfer to the ESS the RECs for which  
12          these customers are paying the Company and receiving no credit. The ESS could  
13          then, in turn, retire the RECs for each compliance year and pass on that value to  
14          the customer.

15                Although in UE 296 the Commission did not accept my argument to adjust  
16                the transition adjustments to reflect the value of freed-up RECs, the recent  
17                passage of Senate Bill 1547 has significantly increased future Oregon RPS  
18                requirements. The increase in the RPS will exacerbate the inequities in requiring a  
19                double payment from direct access customers for RPS-related resources. This  
20                change in circumstances warrants a further consideration of this issue by the  
21                Commission in this case.

22                Further, in UE 296, I argued that in calculating the Schedule 296 Consumer  
23                Opt-Out charge, Schedule 200 costs should not be escalated in Years 6 through 10

1 as proposed by PacifiCorp. Rather, Schedule 200 costs used in this calculation  
2 should *decline* each year from Year 6 through Year 10 to reflect the decline in the  
3 Company's return on generation rate base attributable to the departed customers'  
4 loads, due to the effects of increased accumulated depreciation and amortization.  
5 In my opinion, the effects of this decline in return should be passed through to the  
6 Consumer Opt-Out charge in the Schedule 296 transition adjustment.

7 The Commission did not accept this argument in UE 296. However, this  
8 matter is being appealed by Noble Solutions to the Oregon Court of Appeals. In  
9 the event that this issue is reconsidered by the Commission, the appropriate  
10 adjustments are presented in my testimony and exhibits in this docket.

11

12 **Response to Mr. Dickman on Whether to Credit the Value of Freed-Up RECs in the**  
13 **Transition Adjustment for Direct Access Customers**

14 **Q. Briefly summarize the disagreement between you and the Company on the**  
15 **issue of whether to credit the value of freed-up RECs in the calculation of the**  
16 **transition adjustment for direct access customers.**

17 A. The Oregon RPS is applicable to both cost-of-service and direct access  
18 service. When direct access customers purchase power from an ESS, the energy  
19 provided by the ESS must meet RPS requirements, which at present require that  
20 15% of supply come from qualifying renewable electricity when serving in the  
21 PacifiCorp territory.<sup>1</sup> At the same time, direct access customers pay for the  
22 renewable energy that PacifiCorp has acquired to meet the RPS for its cost-of-  
23 service customers. The payments from direct access customers to PacifiCorp

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<sup>1</sup> ORS 469A.052(1), 469A.065.

1 occur because the Company recovers its RPS-related costs both through Schedule  
2 200, through which the fixed costs of utility-owned renewable generation are  
3 recovered, and Schedule 201, through which power purchases of RPS-eligible  
4 resources are recovered. Direct access customers are charged directly for  
5 Schedule 200 and also pay for the difference between Schedule 201 costs and the  
6 value of the freed-up power, as calculated through the transition adjustment  
7 calculation.

8 In paying both the ESS and PacifiCorp for RPS power, direct access  
9 customers are paying twice to meet RPS requirements. There is no dispute that  
10 such a double payment occurs; the dispute between Noble Solutions and  
11 PacifiCorp is whether something should be done about it. I believe the double  
12 payment extracted from direct access customers is an unintended consequence of  
13 the transition adjustment calculation. This result is both unreasonable and  
14 inequitable. To remedy this problem, I recommend that direct access customers be  
15 credited with the value of freed-up RECs in the calculation of the Schedule 294,  
16 295, and 296 transition adjustments. I first made this proposal in UE 296, but the  
17 Commission declined to adopt it, citing to PacifiCorp's arguments in opposition.

18 However, circumstances have changed since the Commission ruled on this  
19 matter in UE 296. With the signing into law of Senate Bill 1547 in May 2016, the  
20 Oregon RPS will increase significantly. Under the new law, the proportion of  
21 resources that must be RPS-eligible is increased to 27% by 2025, 35% by 2030,  
22 45% by 2035, and 50% by 2040. These and other significant changes in the RPS  
23 requirements warrant a further consideration by the Commission to address the

1 problem caused by the inequity of requiring a double payment from direct access  
2 customers for RPS-related resources.

3 In his Reply Testimony, Mr. Dickman continues to oppose my proposal.

4 **Q. What specific objections to your proposal does Mr. Dickman offer?**

5 A. Mr. Dickman restates the reasons offered by the Commission in denying  
6 my proposal in UE 296. In its decision in that proceeding, the Commission  
7 accepted PacifiCorp's argument that my adjustment necessarily assumes that  
8 PacifiCorp will sell its RECs, when in fact PacifiCorp intends to bank the RECs  
9 that are freed up by direct access customers. The Commission also cited to  
10 PacifiCorp's representations that if the RECs are sold in the future, departing  
11 direct access customers will receive a share of the revenues from sales, noting that  
12 under such circumstances, the net present value of the value of any freed-up RECs  
13 would be *de minimis*.

14 **Q. Is your recommended approach for valuing RECs freed up by direct access  
15 dependent on the assumption that PacifiCorp must sell the freed-up REC?**

16 A. No. As I pointed out in my Opening Testimony, my argument recognizes  
17 at the outset that PacifiCorp banks freed-up RECs for the purpose of the Oregon  
18 RPS. The purpose of the valuation exercise is to establish a reasonable estimate  
19 of the value of the banked RECs that are attributable to direct access customers.  
20 While PacifiCorp may bank RECs for the purpose of the Oregon RPS, *the*  
21 *Company also regularly sells RECs*. The value of the Company's REC sales can  
22 be used to value the banked RECs for the purpose of incorporating the value of  
23 freed-up RECs in the transition adjustment.

1 **Q. What about PacifiCorp's contention that if RECs are sold in the future,**  
2 **departing customers will receive a share of the revenues from the sales?**

3 A. Under the scenario portrayed by the Company, if PacifiCorp elected to sell  
4 RECs that were freed up (and had been paid for) by direct access customers, the  
5 proceeds would be shared with *all* customers, with the direct access customers  
6 receiving only a tiny pro rata share. I agree that under such a system the credit to  
7 direct access customers would be *de minimis*. But this outcome is not a reason to  
8 fail to credit direct access customers with the value of the RECs they free up, it is  
9 a reason to reject the inequitable mechanism for allocating the benefits from  
10 RECs freed up by direct access customers as depicted by the Company.

11 **Q. Can you provide a simple illustration of why the sharing of REC sale**  
12 **proceeds described by PacifiCorp is inequitable when the RECs in question**  
13 **are freed up by direct access customers?**

14 A. Yes. First, it is important to recognize that we are talking about RECs  
15 that are freed up as a result of direct access. The RECs are freed up because  
16 PacifiCorp's RPS obligation is *reduced* pro rata for the direct access load. And at  
17 the same time, the ESS supplying the direct access customer is independently  
18 required to meet Oregon's RPS standards for its direct access load.

19 So let's consider an example of how the sharing arrangement described by  
20 Mr. Dickman would work. In 2015, PacifiCorp's total Oregon direct access load  
21 was about 208,000 MWh. With a 15% RPS requirement, this translates into an  
22 RPS requirement for the direct access load of about 31,200 MWh, meaning that  
23 the direct access customers must fund the acquisition of 31,200 RECs through

1 their ESSs while PacifiCorp's RPS requirement is reduced by the same 31,200  
2 RECs.

3 Let's assume, for illustrative purposes, a hypothetical value of \$1  
4 unbundled REC.<sup>2</sup> If PacifiCorp sold the 31,200 freed-up RECs at this value, it  
5 would produce revenues of \$31,200. Under the mechanism described by Mr.  
6 Dickman, this \$31,200 would be shared among all of PacifiCorp's Oregon  
7 customers, who, in 2015 consumed about 13 million MWh of power. Spreading  
8 \$31,200 over 13 million MWh of retail load produces a credit of just over 2 tenths  
9 of a cent per MWh on all retail MWh, including direct access load.<sup>3</sup> For the direct  
10 access customers, the 2 tenths of a cent per MWh, given their RPS requirement of  
11 15%, translates into a credit of about 1.6 cents per REC.<sup>4</sup>

12 So under the mechanism that Mr. Dickman portrays as reasonable, direct  
13 access customers would (1) free up RECs worth \$1 a piece, (2) they would incur a  
14 cost of \$1 per REC themselves for their direct access load, (3) and they would  
15 continue to fully pay for their pro rata share of PacifiCorp's RPS on half of cost-  
16 of-service customers. Yet they would get back a credit for the RECs *they freed up*  
17 of only 1.6 cents per REC. This is the result of the pro rata sharing that Mr.  
18 Dickman portrays as reasonable. In my opinion, this result is fundamentally  
19 unreasonable.

20 **Q. How does this result compare to your recommendation?**

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<sup>2</sup> This value is in the general range of REC values that are identified in public sources. See, for example, pricing information compiled by the US Department of Energy at <http://apps3.eere.energy.gov/greenpower/markets/certificates.shtml?page=5>.

<sup>3</sup>  $\$31,200 / 13,000,000 \text{ MWh} = \$.0024 \text{ per MWh}$ .

<sup>4</sup>  $\$.0024/\text{REC} / .15 = \$.016 / \text{REC}$ .



1 A. Under my recommended approach, in this example, the direct access  
2 customers would be paid the full \$1 per REC for each REC they cause to be freed  
3 up. Then, if PacifiCorp were to sell the freed-up RECs, the revenue from the sale  
4 could be used to reimburse the Company for the payment to the direct access  
5 customers.

6 **Q. Are there any alternatives to using the Company's REC sales to determine**  
7 **the value of RECs freed up by direct access customers?**

8 A. Yes. PacifiCorp has issued a Request for Proposals ("RFP") to acquire  
9 new RECs to help the Company meet its RPS obligations. As an alternative to  
10 using PacifiCorp REC *sales* to value the RECs freed up by direct access  
11 customers, the value of RECs *acquired* by the Company through the RFP could  
12 be used to determine this value. If PacifiCorp will be paying third parties for  
13 additional RECs necessary to meet the RPS standard, then there is no valid reason  
14 for failing to recognize the value of RECs freed up by direct access customers,  
15 which are banked for later use for the benefit of the Company's cost-of-service  
16 customers. The RFP pricing should provide a convenient means for determining  
17 this value. Moreover, this alternative approach dispenses with the Company's  
18 contention that the Company's REC sales cannot be attributed directly to RECs  
19 freed up by direct access. Additionally, the Company's recent acquisition of  
20 RECs to meet the newly increased RPS standard is a materially different factual  
21 circumstance than that in existence when the Commission addressed this issue last  
22 year. The Company is no longer simply banking excess RECs but is also actively

1 acquiring RECs for future use and has stated it will continue to hold additional  
2 REC RFPs to meet its new RPS requirements.

3 **Q. Does Mr. Dickman offer additional reasons for opposing your proposal?**

4 A. Yes. Mr. Dickman argues that valuing RECs would be administratively  
5 burdensome. In support of his argument, Mr. Dickman asserts that if a REC  
6 credit is provided to direct access customers, then remaining customers would  
7 have to be surcharged. Further, Mr. Dickman contends that RECs that are  
8 “hypothetically sold” would have to be separately tracked to ensure that if a direct  
9 access customer returns to cost-of-service rates, the customer would not receive  
10 any benefit from those RECs. Mr. Dickman raises the specter of having to create  
11 “multiple REC banks” just to keep track of all of this information.

12 **Q. What is your response to Mr. Dickman’s arguments concerning the  
13 administrative burden of adopting your proposal?**

14 A. Mr. Dickman’s arguments are without merit. First, the Company has  
15 already contended that the REC values that would be provided to direct access  
16 customers would be *de minimis*. No surcharge should be necessary to recover the  
17 costs of credits that PacifiCorp maintains are too trivial or minor to merit  
18 consideration. Further, to the extent that recovery is determined to be  
19 appropriate, it could be accomplished through the recently-created Schedule 203,  
20 the Renewable Resource Supply Deferral Adjustment, which recovers the costs  
21 deferred for renewable resources as approved by the Commission, and which  
22 apparently is not unduly burdensome for PacifiCorp to administer.

1           Second, it is difficult to take seriously Mr. Dickman’s claim that crediting  
2           direct access customers with the value of the RECs they free up would require  
3           “multiple REC banks” to ensure that direct access customers who were credited  
4           with freeing up RECs in one period did not receive the benefit of the banked REC  
5           in a later period. In making this argument, Mr. Dickman fails to recognize that  
6           the issue he raises concerning RECs acquired in one period and banked for use in  
7           a later period really pertains to a much more general policy question of how to  
8           rationalize paying for a resource in one period and using it later when the  
9           composition of customers may have changed. Totally apart from direct access,  
10          future customers who are not yet on the PacifiCorp system do not pay for RECs  
11          that are acquired today and banked for later use. Yet Mr. Dickman shows no  
12          concern and offers no proposals to establish “multiple REC banks” to ensure that  
13          *new* cost-of-service customers, who join the system say in 2020, do not benefit  
14          from banked RECs created in 2016. Yet, this is exactly what he contends would  
15          be needed for direct access customers if they were credited with the RECs they  
16          freed up. In fact, in the scenario posited by Mr. Dickman, direct access customers  
17          are simply a specific case in the more general situation created when banking is  
18          pursued. Today’s direct access customers are not PacifiCorp’s cost-of-service  
19          customers, just as a cost-of-service customer who does not materialize until 2020  
20          is not a PacifiCorp customer today. If a direct access customer returns to cost-of-  
21          service rates pursuant to the terms and conditions of the Company’s tariff then  
22          that customer should be not be treated any differently than a brand new cost-of-  
23          service customer. And just as it would be considered ill-advised to establish

1 “multiple REC banks” to ensure that future new customers did not receive the  
2 benefits of RECs that are banked today, any proposal to subject direct access  
3 customers to a proposal to require such tracking should be rejected as equally  
4 frivolous, as well as discriminatory.

5 **Q. Are there any alternative approaches to accomplishing your objective?**

6 A. Yes. In my Opening Testimony, I suggested an alternative in which  
7 PacifiCorp could agree to transfer to the ESS the RECs for which the ESS’s  
8 direct access customers are paying PacifiCorp and receiving no credit. The ESS  
9 could then, in turn, retire the RECs for each compliance year and pass on that  
10 value to the customer. This solution would address all of PacifiCorp’s objections,  
11 to the extent there is any merit to any of those objections, but PacifiCorp did not  
12 respond to this proposal in its Reply Testimony.

13

14 **Response to Mr. Dickman Concerning the Escalation of Schedule 200 in the**  
15 **Calculation of the Consumer Opt-Out Charge**

16 **Q. Briefly summarize the disagreement between you and the Company**  
17 **regarding the escalation of Schedule 200 rates in the calculation of the**  
18 **Consumer Opt-Out Charge.**

19 A. In UE 296, I recommended two refinements to the calculation of the  
20 Consumer Opt-Out Charge. PacifiCorp’s calculation of the Consumer Opt-Out  
21 charge is based on projected Schedule 200 costs for Years 6 through 10. Under  
22 PacifiCorp’s approach, these projected costs are simply current Schedule 200  
23 rates escalated at an assumed rate of inflation. However, I argued that it is not

1 reasonable for Schedule 200 costs to be escalated for Years 6 through 10 as part  
2 of this calculation, because the five-year opt-out customer will have already  
3 departed cost-of-service rates five years prior, and *incremental* fixed generation  
4 costs incurred during Years 6 through 10 should not be incurred on the departed  
5 customer's behalf. Rather, the opt-out charge for Years 6 through 10 should be  
6 limited to the generation investment that had been built for the departed  
7 customer's benefit. At the maximum, this would extend to the five-year planning  
8 horizon following the customer's departure (i.e., Years 1 through 5 of the opt-out  
9 period). Consistent with this position, I have not objected to assumed Schedule  
10 200 cost escalation for Years 1 through 5. The allowance for escalation of costs  
11 in the first five years is very conservative from Noble Solutions' perspective  
12 because it assumes that PacifiCorp cannot unwind prior commitments for five full  
13 years after the date of the opt-out election.

14 My first refinement to the Consumer Opt-Out charge was that Schedule  
15 200 costs should not be escalated in Years 6 through 10; since incremental  
16 generation expenditures are not incurred on departed customers' behalves, it is not  
17 reasonable to assume increased Schedule 200 costs for departing customers  
18 beyond the projected Year 5 Schedule 200 price.

19 The second refinement is an extension of this argument. Not only should  
20 Schedule 200 costs not be escalated for the purpose of determining the Consumer  
21 Opt-Out charge, these costs should in fact *decline* each year from Year 6 through  
22 Year 10 to reflect the decline in the Company's return on generation rate base  
23 attributable to the departed customers' loads, due to the effects of increased

1 accumulated depreciation and amortization. That is, as I just discussed, the  
2 portfolio of generation resources acquired to meet the departed customer's load  
3 should not be increased after Year 5. Once the portfolio of assets is "frozen" for  
4 the purposes of this calculation, the revenue the Company earns from its return on  
5 these assets properly will decline each year as a portion of those assets is  
6 depreciated and amortized. This treatment is consistent with basic ratemaking  
7 principles, which provide that a utility's return is earned on its net plant, reflecting  
8 the removal of accumulated depreciation and amortization from rate base. The  
9 effects of this decline in return should be passed through to the Consumer Opt-  
10 Out charge.

11 The Commission did not accept my recommendation in UE 296.  
12 However, Noble Solutions has appealed this decision in the Oregon Court of  
13 Appeals. In my Opening Testimony in this docket, I testified that if this issue is  
14 readdressed by the Commission, then the reduction in overall Schedule 200  
15 revenue requirement of 2.36% per year that I calculated in UE 296 is still  
16 applicable. The appropriate adjustments are presented in my Opening Testimony  
17 and Exhibits in this docket.

18 In his Reply Testimony, Mr. Dickman objects to my proposal. Mr.  
19 Dickman maintains that the escalation of Schedule 200 costs in Years 6 through  
20 10 is necessary to account for the time value of money, allowing the fixed  
21 generation costs to be reduced to a present value to calculate the Consumer Opt-  
22 Out Charge. Mr. Dickman asserts that if it is appropriate to include an inflation

1 adjustment in Years 1 through 5, as Noble Solutions concedes, then it is equally  
2 appropriate to have the same adjustment in Years 6 through 10.

3 **Q. Is it necessary to include an inflation adjustment if a discount rate is used?**

4 A. No. When applying present value analysis using a nominal discount rate,  
5 the analyst should use projected future values that reflect the actual expected  
6 future values, including inflation, *but only to the extent that the variable in*  
7 *question is actually subject to inflation.* If, as is the case with the return on a  
8 discrete set of rate base items, the value is expected to *decline* due to accumulated  
9 depreciation, then it is not proper to mechanistically inflate these values simply  
10 because a discount rate is being used.

11 **Q. In reality, have Schedule 200 rates been escalating as projected by**  
12 **PacifiCorp in the Consumer Opt-Out Charge calculation?**

13 A. No. In Table KCH-1 below, I compare PacifiCorp's projections for  
14 Schedule 200 provided in UE 296 for calculating the Consumer Opt Out Charge  
15 for Schedules 47/48<sup>5</sup> to the same projections in this case.<sup>6</sup>

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<sup>5</sup> PacifiCorp's Schedule 200 projections for calculating the Consumer Opt Out Charge in UE 296 were presented in Exhibit Noble Solutions 102, Higgins/4 in that docket.

<sup>6</sup> PacifiCorp's Schedule 200 projections for calculating the Consumer Opt Out Charge in this docket are presented in Exhibit Noble Solutions 104, Higgins/3.

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**Table KCH-1**

<b>Comparison of PacifiCorp Schedule 200 Projections</b>		
<b>Year</b>	<b>UE-296 PacifiCorp Projected Avg Schedule 200 for Schedule 47/48 (\$ per MWh)</b>	<b>UE-307 PacifiCorp Projected Avg Schedule 200 for Schedule 47/48 (\$ per MWh)</b>
2015	\$26.98	
2016	\$27.49	
2017	\$28.01	\$26.73
2018	\$28.54	\$27.31
2019	\$29.08	\$27.91
2020	\$29.63	\$28.55
2021	\$30.19	\$29.24
2022	\$30.76	\$29.94
2023	\$31.34	\$30.96
2024	\$31.94	\$31.43
2025		\$32.15
2026		\$32.86

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As shown in Table KCH-1, the projected Schedule 200 rate for 2017 in UE 296 was \$28.01 per MWh, which was calculated by *adding two years of projected inflation* onto the 2015 Schedule 200 rate of \$26.98 per MWh.

However, in this docket, Table KCH-1 shows that the updated Schedule 200 rate for 2017 of \$26.73 per MWh is actually even slightly less than the 2015 rate of \$26.98. Thus, the two years of Schedule 200 inflation that were baked into the 2017 value in UE 296 did not materialize.

The point here is not to exclude inflation from the calculation in Years 1 through 5, but to dispel the notion that Schedule 200 inflation is somehow inexorable, or necessary to conduct a present value analysis, or that it even represents a conservative assumption from PacifiCorp's standpoint. It is none of



1 those things. (It is a conservative assumption from *Noble Solutions*' standpoint in  
2 that Noble Solutions is not objecting to including the inflation assumption for  
3 Years 1 through 5.)

4 **Q. How do you respond to Mr. Dickman's claim that if the inflation adjustment**  
5 **is appropriate for Years 1 through 5 then it must be equally applicable to**  
6 **Years 6 through 10?**

7 A. That is simply not the case. One of Mr. Dickman's own statements  
8 demonstrates the flaw in the Company's argument. On page 93 of his Reply  
9 Testimony, Mr. Dickman states:

10 In fact, the exact same inflation adjustment is made to the fixed costs in years one  
11 through five as in years six through 10 because costs from both periods must be  
12 reduced to a present value to calculate the charge. The only difference between  
13 the two periods is that years six through 10 do not include costs of new  
14 investments.

15  
16  
17 According to Mr. Dickman, Years 1 through 5 include the costs of new  
18 investments whereas Years 6 through 10 do not. However, the Company's  
19 workpapers indicate that *virtually identical inflation rates were applied to both*  
20 *periods*. On its face, five years of inflation *including* new investments and five  
21 years of inflation *excluding* new investments would not be governed by the same  
22 inflation assumptions.

23 **Q. On pages 93 to 94 of his Reply Testimony, Mr. Dickman depicts the**  
24 **Company's inflation methodology as comparable to that used by Portland**  
25 **General Electric ("PGE") in its five-year opt-out program. Do you believe**  
26 **this is an apt comparison?**

1 A. No, not at all. The dispute in this case regarding cost escalation pertains  
2 to the inflation assumptions used by PacifiCorp for Years 6 through 10 in the  
3 calculation of the Consumer Opt Out Charge. Unlike PacifiCorp, *PGE does not*  
4 *even have a consumer opt out charge.* PGE's five-year program assesses  
5 transition charges based on only five years of ongoing valuation calculations,  
6 whereas PacifiCorp assesses ten years of transition charges calculated through the  
7 ongoing valuation method. And consequently, PGE's calculations have no need  
8 for cost escalation assumptions for Years 6 through 10 because those years play  
9 no role whatsoever in determining PGE's transition adjustments for its five-year  
10 opt-out program.

11 **Q. On page 94 of his Reply Testimony, Mr. Dickman lists a number of fixed**  
12 **generation costs that could increase for existing assets, which he claims you**  
13 **ignore. What is your response to this argument?**

14 A. Each of the items listed by Mr. Dickman (overhauls, capital additions,  
15 maintenance, union labor contracts, etc.) is a cost incurred to provide *forward-*  
16 *going* service some six to ten years (or more) *after* the direct access customer has  
17 departed the Company's generation service. My adjustment provides for  
18 continued *full* recovery of the assets that the departed customer "left behind" after  
19 adjusting properly for accumulated depreciation. The purpose of the exercise of  
20 calculating "uneconomic utility investments" attributable to the five-year program  
21 participant and thus eligible for inclusion in the consumer opt-out charge is to  
22 estimate the above-market costs of the fixed generation investments that *were*

1 incurred on that customer's behalf.<sup>7</sup> But it does not include new expenditures  
2 incurred to provide forward-going service to the Company's future cost-of-service  
3 customers – nor should it.

4 **Q. Does this conclude your Rebuttal Testimony?**

5 A. Yes, it does.

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<sup>7</sup> Oregon's direct access statute defines "uneconomic utility investments," in pertinent part, as:

"all electric company investments, including plants and equipment and contractual or other legal obligations, properly dedicated to generation, conservation and workforce commitments, that *were prudent at the time the obligations were assumed* but the full costs of which are no longer recoverable as a direct result of ORS 757.600 to 757.667, absent transition charges."

ORS 757.600(35) (emph. added).