BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UM 1224

In the Matter of UTILITY REFORM PROJECT and KEN LEWIS, Application for Deferred Accounting.	STAFF'S OPENING BRIEF

I. INTRODUCTION

In Order No. 07-351 the Commission granted a deferred accounting application filed by Utility Reform Project (URP) and Ken Lewis. The Commission found that the passage of SB 408 was an unexpected event with impact sufficient to warrant the exercise of the Commission's discretion in granting the deferral. *Id.* at 7. The Commission directed Portland General Electric Company (PGE or Company) to

> "calculate the deferred amount using the methodologies for determining taxes collected and taxes paid adopted in OAR 860-022-0041. By December 1, 2007, PGE shall make a filing that contains the calculation of the deferral amount and the earnings test, so that the Commission can make a determination for a rate adjustment concurrent with the first automatic adjustment clause rate change currently scheduled for June 1, 2008."

Id. at 7-8 (emphasis in original). The Commission also indicated that it would review PGE's earnings at the time it considers amortization of the deferral citing ORS 757.259(5). *Id.* at 8.

PGE filed testimony that used three methods to calculate the deferred amount. However, only one is consistent with OAR 860-022-0041 as directed in Order No. 07-351. PGE's calculation that uses the SB 408 methodology calculates the deferral at $26.6 million. Staff agreed with the Company's analysis with one minor adjustment that reduces the deferral to $26.5 million.[1] PGE indicated in its rebuttal testimony that it agrees with Staff's adjustment. *See* PGE

[1] Staff adjusted the taxes paid and the taxes collected regarding the deferred amount for Multnomah income tax. *See* Staff/100, Owings/3.

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Exhibit 200/Hager-Tamlyn-Tinker/2-3. Thus, both the Company and Staff agree that the deferral amount is $26.5 million following the SB 408 methodology.[2]

Regarding the earnings test applied to the method discussed above, the evidence shows that PGE's earnings are several hundred basis points below its authorized rate of return. Accordingly, Staff believes that the Commission should not require PGE to amortize the deferred amount due to the outcome of PGE's earning test.

As noted above, PGE's testimony includes two alternative methods that consider what the Company terms the "double whammy." Both alternatives are inconsistent with the methodologies for determining taxes collected and taxes paid adopted in OAR 860-022-0041. Accordingly, they are contrary to Commission's directions in Order No. 07-351.

II. DISCUSSION

a. Calculation of deferred amount

Staff and the Company agree that the deferral amount is $26.5 million using the SB 408 methodology.

b. Earnings test

The Commission indicated that it would review PGE's earnings at the time it considers amortization of the deferral citing ORS 757.259(5). *Id.* at 8. Order No. 93-257 (Dockets UE 82/UM 445), contains the Commission's most thorough discussion of the earnings test standards. The order refers to Exhibit A of an adopted stipulation and standards for earnings test. *Id.* at 9. That exhibit, attached to the order as Appendix A, describes alternative earnings test standards for both deferred costs and deferred refund amounts. A copy of Order No. 93-257 and Appendix A are attached. Staff requests that the Commission take official notice of these documents pursuant to OAR 860-014-0050(1)(c). Refunds would be required only to the extent earnings for the deferral period would fall below a minimum reasonable rate of return after the

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[2] Neither URP nor Ken Lewis filed testimony.

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refund or, alternatively, would exceed a maximum reasonable rate of return without the refund. *See* Appendix A at 8.

Here, Staff found that PGE's earnings provided approximately 6.92% return on equity, more than 450 basis points below the authorized return of 10.5% ROE. *See* Staff /100, Owings/1-2. And if the Company was required to refund the $26.5 million related to this deferral, its earnings would provide 6.11% overall rate of return and 5.28% ROE. *See* Staff Exhibit/100, Owings/8; Staff Exhibit/102, Owings/1, Column 4. Thus, the evidence shows that PGE's earnings are well below even the minimum reasonable level, so the Commission should not require any refunds (that would only serve to drop the earnings further). *See* Staff/100, Owings/3.

c. PGE's alternative methodologies

PGE argues that because this deferral is under ORS 757.259 and the Commission has broad authority to determine how to calculate any deferral amount associated with the deferral period, the Commission should consider alternatives to the SB 408 methodology because of the "double whammy" problem and various asymmetries. *See* PGE Exhibit 100/Hager-Tamlyn-Tinker/10. PGE, citing Order No. 06-532, argues the Commission indicated that it would consider "double whammy" in the context of other proceedings. *See* PGE Exhibit 100/Hager-Tamlyn-Tinker/10. Under PGE's alternative methodologies the deferred amount would be either zero or $20.9 million. *See* PGE Exhibit 200/Hager-Tamlyn-Tinker/3.

Staff agrees with PGE that this is a deferral under ORS 757.259.[3] But, as PGE acknowledges, the Commission has broad authority to determine how to calculate the deferral amount. The Commission here exercised its discretion when it determined that the Company should "<u>calculate the deferred amount using the methodologies for determining taxes collected and taxes paid adopted in OAR 860-022-0041</u>." Order No. 07-351 at 8. (emphasis in original).

[3] *See* Order No. 07-351 at 7-8.

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PGE neither argues nor shows that the Commission abused its discretion in directing the Company to calculate the deferral amount based on the SB 408 methodology.

Moreover, the Company makes no persuasive case showing why the Commission needs to consider the "double whammy" in this proceeding. The Company itself acknowledges that regardless of the method the Commission chooses to calculate the deferral, the PGE's earnings are so far below the authorized rate of return during the earnings period, no amortization should occur. *See* PGE Exhibit 100/Hager-Tamlyn-Tinker/2, 13, 16. If there is no amortization regardless of the method the Commission chooses to calculate the deferral, then there is no reason for the Commission to consider or decide the company's "double whammy" arguments here.

III. CONCLUSION

For the reasons discussed above, the Commission should calculate the deferral at $26.5 million, but it should not require amortization of the deferral because the Company's earnings are far below its authorized rate of return during the earnings period.

DATED this 14th day of April 2008.

Respectfully submitted,

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ORDER NO. 93-257

ENTERED FEB 22 1993

BEFORE THE PUBLIC UTILITY COMMISSION OF OREGON

UE 82
UM 445

In the Matter of the Revised Tariff Sheets Filed by PORTLAND GENERAL ELECTRIC COMPANY to Implement the Provisions of Order No. 91-1781. UE 82	)	ORDER
In the Matter of the Application of PORTLAND GENERAL ELECTRIC COMPANY for an Order Approving Deferral of Costs. UM 445	)	

DISPOSITION: STIPULATION ADOPTED IN PART

BACKGROUND

In March, 1991, the Trojan nuclear plant, owned by Portland General Electric Company (PGE), went out of service for a normal two-month refueling. Unexpectedly, Trojan's steam generator tubes required analysis and repair, and the plant experienced an extended outage to complete that work. Costs of power to replace the power Trojan would have generated were estimated at between $300,000 and $600,000 per day.

On November 1, 1991, PGE filed an application to defer Trojan replacement power costs pursuant to ORS 757.259 and OAR 860-27-300. That matter was docketed as UM 445. On November 12, 1991, PGE filed an application for a temporary price increase by means of a replacement power cost adjustment, to take effect on December 1, 1991. That application, docketed as UE 81, also requested that PGE be allowed to continue deferral of the balance of the replacement power costs. PGE assumed that this relief would supersede UM 445 with respect to costs incurred after December 1, 1991.

On December 11, 1991, the Commission held a special public meeting to consider the issues raised in UM 445 and UE 81. Commission staff, after reviewing PGE's applications, submitted a report and recommended that the Commission: 1) suspend the rate schedule proposed by PGE in UE 81; 2) allow PGE to defer 90 percent of the Trojan outage power costs from November 1, 1991, through March 31, 1992, or until Trojan returned to service (whichever was sooner); and 3) allow PGE to submit a rate filing under ORS 757.210 to amortize the deferral amounts beginning January 1, 1992. PGE concurred in the recommendations. The Commission issued Order No. 91-1715, entered on December 11, 1991, suspending the rate schedules filed in UE 81.

On December 20, 1991, the Commission entered Order No. 91-1781 authorizing a deferred account in UM 445 and permanently suspending the rate schedules filed in UE 81. The Commission also allowed PGE to file a tariff to increase rates in order to amortize the deferred expenses in rates, as provided by ORS 757.259(4). The Commission authorized PGE to begin amortizing deferred sums as they accrued. The monies collected under the tariff filing were collected subject to refund and to a later hearing to determine the reasonableness of the deferral and the utility's ability to absorb the deferred costs. ORS 757.215(4); 757.259(4).

The Commission ordered PGE to file a tariff reflecting the commencement of amortization as an increase in rates under ORS 757.210, in an amount designed to amortize 80 percent of the November 1991 deferrals during January, 1992, with ongoing amortization of deferrals. The Commission directed that the filing be submitted to become effective on January 1, 1992. PGE collected monies under the tariff filing in its Trojan Outage Cost Adjustment Account (TOCAA).

In anticipation of that filing, the Commission opened this docket, UE 82, to determine what portion of the deferred sums should be absorbed by PGE and whether refunds should be made with respect to any amount collected. The Commission directed that a hearing be held in mid-1992 or soon thereafter, to make these determinations and to set the final amortization rate for the deferred account balance. The Commission directed that the earnings period for the deferred accounting earnings test should be the 12-month period ending March 31, 1992.

On March 27, 1992, Commission staff sent a letter to all parties in UE 82/UM 445 containing the earnings test standards it proposed for deferred accounting amortization reviews.

On April 9, 1992, the Commission issued Order No. 92-542 to clarify the relationship between UE 81, UM 445, and UE 82. The Commission explained that PGE had applied to increase rates to offset replacement power costs but that the Commission, on its own motion, had chosen an alternative course, authorizing deferral of the replacement power costs. The right to amortize derived from the tariffs filed by PGE in response to Commission direction, and the tariffs were not suspended by the Commission. Thus monies collected under PGE's tariff filing were collected subject to refund, with a hearing to determine the ability of the utility to absorb the deferred costs. ORS 757.215(4) and 757.259(4).

PGE followed staff's March 27 earnings test directions in this proceeding, and reached a stipulation with staff that resolves all issues. The stipulation is attached as Appendix A. Under the stipulated earnings test, PGE would recover the deferred replacement power costs without refund. Staff filed testimony supporting the stipulation. The Utility Reform Project (URP) also filed testimony. All UE 81 and UE 82 testimony was received into evidence by stipulation of the parties at hearing. All parties had full opportunity for cross-examination. Opening and closing briefs were filed.

DISCUSSION

Positions of the Parties. PGE and staff urge that their stipulation be adopted as a reasonable resolution of this proceeding. URP opposes the stipulation and filed a brief in opposition. Oregon Committee for Equitable Utility Rates (OCEUR) does not oppose the stipulation but challenges its reasoning and asks the Commission to disclaim precedential effect for the stipulation, should it be adopted. PacifiCorp supports the method for applying the earnings test. Without elaboration, PacifiCorp states that it does not agree to the stipulated midpoint return on equity, the range of reasonable returns on equity, the benchmark return on equity, or the methods used in determining these returns.

Evidentiary Issues. During the hearing, counsel for OCEUR asked Kelley Marold, a PGE witness, two questions "subject to check." It was agreed that PGE could respond to the record on October 23, 1992. The first question was whether the information contained in OCEUR Exhibit No. 1 is consistent with the net variable power costs from UE 79 and the stipulation in UE 79.[1] The second question was whether OCEUR Exhibit No. 2 reflects the stipulated net variable power costs and the cost model assumptions used for the stipulation between staff and PGE in this proceeding.

[1] UE 79 is the docket number for PGE's most recent general rate case. The order in question is No. 91-186; the stipulation is attached to that order as Appendix C.

After checking, PGE submitted its responses as PGE Exhibit 4. PGE does not accept that the numbers in Exhibit 1 are contained in the order or stipulation, but agrees that Exhibit 1 is not inconsistent with the UE 79 numbers. The page attached to PGE's exhibit shows which numbers on OCEUR Exhibit 1 were included in the order and stipulation and which were not. It also shows inconsistencies and omissions in the numbers in the OCEUR exhibit and challenges one of OCEUR's assumptions about the order in UE 79. As to OCEUR Exhibit 2, PGE asserts that it reflects the cost model assumptions used for the stipulation in UE 82. The stipulated net variable power costs are derived from the cost model result, with an adjustment.

PGE moves the Commission to accept its response into evidence or, in the alternative, to strike OCEUR Exhibits 1 and 2 as without foundation. PGE's Exhibit 4 is the invited response to OCEUR's exhibits presented subject to check and is received into evidence.

OCEUR moves the Commission to accept into evidence two pages that were inadvertently omitted from its Exhibit 3 at the time of hearing. According to OCEUR, the two pages were part of a four-page response that OCEUR received from PGE in response to a verbal data request. The first two pages were introduced into evidence at the hearing; OCEUR did not discover until recently that the last two pages were not included.

PGE opposes this request for the following reasons. There is no record of this data request during the window provided by the Commission for data requests. This material was not provided to all parties in this matter before the close of the record. It was not authenticated by any PGE or other witness. Finally, there was no opportunity to cross-examine a sponsoring witness about the purpose or source of the documents. The Commission agrees with PGE and will deny OCEUR's motion.

URP's Arguments.

Procedural Matters. URP raises a number of procedural objections to PGE's implementation of the rate increase. As a consequence of all these procedural defects, according to URP, the rate increase is invalid and PGE must refund the revenue already collected. URP argues that PGE implemented the rate increase in violation of OAR 860-22-015, by failing to file the tariffs at least 30 days before the effective date of the rate change. URP also maintains that PGE implemented the rate increase in violation of OAR 860-22-017, by failing to "inform its customers of the filing" within 15 days of filing the tariffs with the Commission in the manner prescribed by OAR 860-22-017.

In UE 81, PGE filed Advice No. 91-24, requesting a rate increase. The public notice required by OAR 860-22-017 was published, and PGE requested waiver of OAR 860-22-015 in seeking to have the Commission allow the tariffs to become effective in less than 30 days. But the Commission suspended the filed tariffs in Order No. 91-1715 and in Order No. 91-1781 ordered PGE to file alternative tariffs to become effective on or after January 1, 1992. URP's argument is irrelevant, because notice is not necessary when the Commission orders a utility to file tariffs.

URP also contends that PGE implemented the rate increase in violation of OAR 860-22-025(2)(b) and (c) by failing to include a statement setting forth "the resulting change in annual revenue" and by failing to include a detailed statement of the reasons for the proposed change. Finally, URP argues that PGE implemented the rate increase in violation of OAR 860-22-030(1)(c) by failing to include with its filing a detailed statement of the reasons for the proposed increase.

PGE filed Advice No. 91-28 on December 23, 1991, to implement the provisions of Order No. 91-1781. That filing was in compliance with the requirements of OAR 860-22-025(2)(b) and (c) and OAR 860-22-030(1)(c). The filing included comparisons of the billings before and after the rate change, a statement of effect on customers, and estimates of the annual change in revenues. The filing also stated that the grounds relied on were the provisions of Order No. 91-1781.

The Commission concludes that PGE did not violate the Commission's administrative rules as alleged by URP. The filings in dockets UE 81 and UE 82 comply with all technical requirements for filings. Even if PGE's compliance were not complete, its deficiencies would have been merely technical and would not have invalidated the rate increase. ORS 756.062(1) provides:

> A substantial compliance with the requirements of the laws administered by the commission is sufficient to give effect to all the rules, orders, acts and regulations of the commission and they shall not be declared inoperative, illegal or void for any omission of a technical nature in respect thereto.

ORS 756.598(2) provides that "errors in procedure shall not be cause for reversal or remand unless the court finds that substantial rights of the plaintiff were prejudiced thereby." URP does not argue that the substantial rights of customers were prejudiced by the procedure employed in these dockets.

Target Rate of Return. URP's next objections arise from URP's claim that PGE has been granted an interim rate increase rather than being allowed to defer expenses and amortize the deferral. URP contends that, because the Commission allowed PGE to put the Trojan replacement power rate increase into effect on an interim basis, ORS 757.215(5) applies. Under that statute, the starting point for determining the appropriate return on equity is January 1, 1992, the date the interim increase takes effect, not April, 1991. The riskless rate of return for the period beginning January 1, 1992, is considerably less than that for the period beginning April 1, 1991, the earnings test period specified by the Commission in Order No. 91-1781 at 5.

The statute relied on by URP is not the basis for the Commission's decision. The Commission did not give PGE an interim rate increase in Order No. 91-1781, but substituted a deferred account coupled with partial, immediate amortization. Authority to defer a cost is not in itself a ratemaking decision, and rates do not change because of it. The right to amortize deferred sums is accomplished by a separate application under ORS 757.210. The utility must file a tariff to increase rates to amortize the deferral. *See* ORS 757.259(4). The tariff filing is subject to suspension under ORS 757.215, but was not suspended here. It is appropriate for the Commission to use ORS 757.259 to determine whether to permit amortization of the remainder of the money in the account.

Additionally, the function of an interim rate increase is different from that of an increase resulting from a deferral and amortization. Interim increases compensate a utility for ongoing expenses or for investment expected to last several years. When an interim rate increase is granted, it is expected to remain in place indefinitely. Here PGE received a finite sum designed to offset a temporary increase in expenses lasting a few months.

Because the Commission granted PGE a deferral and amortization, the earnings test period should begin on April 1, 1991, as specified in Order No. 91-1781. URP's argument is incorrect.

URP further argues that the return on equity should be adjusted to account for non-Trojan related earnings attrition experienced by PGE. URP argues that if Trojan had operated as expected, PGE would have earned 9.57 percent return on equity. URP concludes that PGE was experiencing a 293 basis point attrition of earnings not related to the Trojan outage. That is, the 9.57 percent rate is 293 basis points (2.93 percent) below PGE's 12.5 percent authorized rate of return. URP urges that the Commission not allow PGE to retain earnings above the level of what its earnings would otherwise have been, because that would indemnify PGE for factors not related to the outage. URP contends that with a riskless investment rate benchmark of 6.78 percent (based on its starting point for the riskless investment rate of January 1, 1992), a 4 percent equity premium (suggested by staff), and a 293 basis point downward adjustment for non-Trojan related attrition, the appropriate target return on equity is 7.85 percent.

URP's proposed adjustment is irrelevant to an earnings test. The earnings test, coupled with deferral and amortization, is designed to ensure that utilities do not receive the extraordinary relief of retroactive rate making for added costs when earnings exceed a reasonable rate of return. The sole issue is whether a utility's earnings for the test period enable it to absorb a cost that has been approved for deferral. Therefore, the earnings calculation should approximate the actual earnings realized by the utility during the test period. URP's proposal does not help evaluate whether PGE has excess earnings to offset its deferred cost. Actual earnings and reasonable rate of return serve as the primary basis for addressing the requirements of ORS 757.259(4).

URP's concern that allowing PGE to recover deferred costs for the Trojan outage would indemnify the company for factors not related to the outage is not well founded. Staff's closing brief provides a hypothetical example that clarifies why recovery does not indemnify PGE for other expenses. Assume a utility with $1,000 of revenues, $500 of operating costs, and a rate base of $5,000. Its net operating income is $500, yielding a 10 percent rate of return, which is its authorized rate. Assume that the utility experiences $100 of added costs not related to Trojan. Its operating income drops to $400, resulting in an 8 percent rate of return. Now the utility incurs $200 of expenses related to Trojan. Its net operating income declines to $200, yielding a 4 percent rate of return. If the Commission allows the utility to recover $200, that keeps the rate of return at 8 percent. PGE is not indemnified for the $100 of non-Trojan costs.

Rate Base. URP next contends that under ORS 757.355, Trojan should be removed from the rate base during its extended outage period. ORS 757.355 provides:

> "No public utility shall, directly or indirectly, by any device, charge, demand, collect or receive from any customer rates which are derived from a rate base which includes within it any construction, building, installation or real or personal property not presently used for providing utility service to the customer."

URP concludes that PGE's requested rate increase should actually be a rate reduction.

URP is incorrect. According to a recent Attorney General Letter of Advice, OP-6454, dated June 8, 1992, ORS 757.355 applies only to plant that has never been in service. That position is also consistent with the Commission's holding in *Portland General*

Electric Company, Order No. 79-055 at 22, where we stated that Ballot Measure 9 (codified as ORS 757.355) does not require plant to be removed from rate base, although it may be out of service for "maintenance, malfunction, or modification."

Selective Updating; Reasonable Range of Return on Equity. URP urges that creation and amortization of a deferred account outside a general rate case is an extraordinary proceeding, as it deprives parties of the opportunity to examine all factors affecting the utility's costs and revenues. It would be improper, according to URP, to allow PGE to update its rates to account for only one element of increased cost without concurrently accounting for changes in the other factors. Therefore, changes resulting from the creation and amortization of deferred accounts should be minimized. URP acknowledges that there has been some attempt to examine other factors in this case, but believes that the examination has not been as comprehensive as in a general rate proceeding.

Staff's position, according to URP, would maximize the opportunity for rate changes through selective updating. Allowing PGE to retain an "interim increase" even if its earnings without it were within the reasonable range would reward utilities for incurring unexpected costs and for seeking interim relief (or deferred revenue accounts with later amortization), because doing so would enable the utility to increase its return on equity up to a level 50 basis points higher than the benchmark return on equity adopted in the most recent general rate case. This would encourage frequent deferred revenue account filings and undermine the integrity of basic rate cases. URP urges the Commission to require PGE to refund all sums collected in excess of the minimum of the reasonable range.

The Commission agrees that extraordinary selective updates should be minimized. Minimizing selective updates should occur in the process of approving or disapproving deferred accounting applications, however, which is a matter for the Commission's discretion. URP's objections in this instance are less to the earnings test than to approval of deferred accounting applications. The Commission can take into account any manipulation of the integrity of rate cases in determining whether to permit deferrals at all. The issue of selective updating is much less important once the deferral has been approved, as here.

Finally, URP argues that the Commission should not allow PGE to retain the "interim rate increase" unless PGE's rate of return on equity would otherwise fall below the reasonable range (50 basis points lower than the target return on equity). This argument is similar to OCEUR's, and is discussed below.

OCEUR's Arguments.

OCEUR does not oppose the stipulation between staff and PGE, but makes two comments that deserve discussion. OCEUR believes that two aspects of the methodology underlying the stipulation are flawed and urges the Commission not to treat the stipulation as precedent for future earnings tests. OCEUR asks the Commission to institute guidelines consistent with its comments, if the Commission intends to establish firm parameters for future earnings tests.

Power Cost Issue. OCEUR challenges the stipulation's power cost determination and the standards used for the earnings test. Its argument with respect to power costs is based on language from the ordering paragraphs of Order No. 91-1781, at 5: "Earnings data shall be in accord with the Commission decisions on ratemaking issues in UE 79, with the exception of the rate of return. The relevant rate of return is the reasonable rate of return for the 12-month period ending March 31, 1992." OCEUR believes that the stipulation departs from this directive in that it calculates normalized power costs using updated availability factors for generating facilities. OCEUR argues that the actual power cost figures from the UE 79 stipulation and order should be used. The ratemaking assumptions used for earnings tests, OCEUR argues, should be based on the utility's most recent general rate case.

The earnings test method in Order No. 91-1781 does not specify that the earnings data must come from the UE 79 order or stipulation, but that they must be in accord with it. The Commission interprets this to mean that the method used to calculate data must be in keeping with the decisions in UE 79. Staff and PGE used the UE 79 method of normalizing power costs, but supplied updated information on plant availability. This approach is consistent with the earnings test requirements in Appendix A of Order No. 91-1781. The Commission concludes that the stipulation properly employed updated figures for power cost construction.

Earnings Test Standards. Both URP and OCEUR oppose the stipulation's proposed earnings test standard. To determine whether full recovery of the TOCAA is appropriate, the stipulation establishes a return on equity benchmark of fifty basis points around an 11.35 percent midpoint. It then recommends allowing recovery unless the resulting test period return on equity exceeds 11.85 percent, the upper end of the range.

Exhibit A to the stipulation discusses alternative standards for judging the results of deferred accounting earnings tests, and describes the least and most restrictive standards (at 5-7). The least restrictive standard is the one employed in the stipulation: to allow amortization of deferred costs (debits) in rates unless recovery will cause earnings to rise above a *maximum* reasonable level and to allow amortization of deferred income amounts (credits) in rates unless refund will cause earnings to fall below a *minimum* reasonable level. Allowing amortization of deferred costs up to the top of the reasonable range benefits the utility; allowing amortization of deferred income to the bottom of the range benefits the customers.

OCEUR and URP argue for the most restrictive standard, which allows amortization of deferred costs in rates unless recovery will cause earnings to rise above a *minimum* reasonable level, and allows amortization of deferred income amounts in rates unless refund will cause earnings to fall below a *maximum* reasonable level. This alternative benefits the customers in deferred cost situations and the utility in deferred income cases. Exhibit A assumes that the approach to earnings tests should be symmetrical, and both alternatives that it sets out are symmetrical.

Staff and PGE point out that their proposed standard would maximize amortization of approved deferrals for costs and for benefits to customers. As a matter of policy, staff wishes to give the Commission the widest possible latitude to accept or reject deferred accounting proposals. Considerations other than earnings would be relatively more important if the Commission adopts this standard rather than a more restrictive one.

According to OCEUR, the stipulation's proposal that PGE retain earnings up to the top end of the reasonable range establishes disincentives for efficient utility management. This concern is similar to URP's contention that allowing retention of earnings up to the top end of the reasonable range rewards a utility for incurring unexpected costs. A utility could incur unexpected costs and after deferral retain earnings up to 50 basis points above the determined rate of return on equity, whereas another utility could achieve significant savings and after deferral be obligated to refund everything above the low end of the reasonable range. OCEUR, like URP, advocates reversing the proposal in the stipulation and allowing deferred costs to be amortized in rates only if earnings are below the bottom of the range, while requiring deferred benefits to be refunded only if earnings exceed the top of the range.

Staff argues that the Commission's focus should be on when and whether to allow deferred accounting and amortization. Once that decision has been made, it is consistent with the policy of allowing deferral and amortization for the Commission to allow as liberal a recovery as possible. OCEUR's standard would make deferral and amortization least probable. The incentives and disincentives in OCEUR's hypothetical can easily be mitigated, according to staff, in the decision on whether to allow amortization and deferral.

The Commission agrees that the decision to allow deferral and amortization can mitigate the disincentive effect of the earnings test standard proposed in the stipulation. In Order No. 91-1781, for instance, PGE was permitted to defer and amortize only 90 percent of its replacement power costs. However, some disincentive still remains. OCEUR's point about the incentives established by the earnings standard in the stipulation is well taken. A utility has less incentive to contain costs knowing that the standard for earnings test reviews permits the Commission the option of requiring refunds down to the bottom of the range. A utility will also have less desire to contain costs where deferred costs can be recovered to the top of the range. The earnings test standard in the stipulation also shifts the risk of unexpected expenditures to ratepayers to a greater extent than necessary.

OCEUR's and URP's proposal to use the minimum end of the range as a trigger for collecting deferred expenses and the maximum end as a trigger for refunding deferred benefits may create better incentives. The record is inconclusive, however, on how frequently deferred benefit applications are filed compared to deferred expense applications. If many more deferred expense accounting applications are filed, the stipulation's proposed standard would unreasonably advantage the utility. URP's and OCEUR's proposal would unreasonably disadvantage the company under these circumstances.

The problem of uncertainty about the effects of either standard results in part from an assumption that the recovery and refund benchmarks must be symmetrical. The Commission does not believe that symmetry is necessarily desirable in designing earnings tests for deferred accounts. Instead, the earnings test should be designed to further the purpose of the deferral in the first instance. Because deferral and amortization is an extraordinary proceeding, the earnings test could well vary with the circumstances of each case. In any event, the Commission will not now establish an earnings test standard with implications beyond this docket.

In the present case, the Commission adopts the stipulation as to the facts it sets forth. Those facts include the figures on PGE's normalized utility operating income and rate base with and without recovery, and PGE's rate of return on total capital and rate of return on equity with and without recovery. The Commission also adopts the 11.35 percent midpoint and the reasonable range of 50 basis points around the midpoint. No other party has produced figures to call the midpoint into question for the relevant period.

The Commission does not adopt the 11.85 percent benchmark return on equity or the earnings test standard set forth in Paragraph 5 of the stipulation.

For the purposes of this earnings test only, the Commission concludes that PGE's earnings with recovery are reasonable. They are in the bottom half of the reasonable range, and PGE should be allowed to recover the entire amount of its TOCAA.

In the future, the Commission intends to tailor earnings tests to fit the type of deferral. For example, if the Commission authorized deferral of an emergency increase in cost, the earnings test applied might allow a utility to amortize the deferral to the extent that it brings the utility's earnings for the period up to the bottom of a reasonable range. This type of earnings test could also apply to gas tracking cases. In this way, the Commission could encourage the utility to control its costs.

If the deferral was designed to create a fund for the benefit of customers, the earnings test might require the utility to refund the deferral except for the portion necessary to bring the utility's earnings up to the bottom of the range of reasonable rates of return. The earnings test policy in this situation would return to the ratepayers amounts deferred for their benefit to the maximum extent possible consistent with fair treatment of the utility.

If the deferral was of a cost that was intended to be borne by customers, but was delayed for the purpose of more appropriately matching the cost with related benefits to customers, the earnings test applied might allow the utility to amortize the deferral except to the extent that recovery would cause rates to exceed the top of a reasonable range of return for the deferral period. This approach would allow the Commission to better match costs and benefits without unduly limiting the utility's ability to take advantage of favorable economic conditions.

The record in this case presents the Commission with a limited range of options. These examples show the types of factors that the Commission could also consider in future earnings test proceedings. When such cases arise, the parties should analyze the specific circumstances surrounding the deferral, and the record should exhibit that analysis. Recommended earnings test treatments should be designed to further public policy goals related to the specific deferral.

CONCLUSIONS

1. The Commission adopts the facts set forth in the stipulation between PGE and Commission staff.

2. The Commission adopts the reasonable range of return on equity set forth in the stipulation.

3. The Commission does not adopt the 11.85 percent benchmark or the earnings test standard set forth in the stipulation.

4. PGE's rate of return for the earnings test period, 11.29 percent, is reasonable, and PGE should be allowed to retain all monies in its TOCAA.

ORDER

IT IS ORDERED that:

1. The stipulation between PGE and Commission staff is adopted as to its facts and its reasonable range of return on equity.

2. The stipulation between PGE and Commission staff is not adopted as to its 11.85 percent benchmark for recovery of the full amount of its TOCAA or as to its earnings test standard.

3. PGE shall recover the full amount of its TOCAA.

Made, entered, and effective FEB 22 1993.

Ron Eachus
Chairman

Joan H. Smith
Commissioner

Roger Hamilton
Commissioner

A party may request rehearing or reconsideration of this order pursuant to ORS 756.561. A party may appeal this order pursuant to ORS 756.580.

BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UE 82
UM 445

In the Matter of the Revised Tariff Sheets Filed by PORTLAND GENERAL ELECTRIC COMPANY to Implement the Provisions of Order No. 91-1781. UE 82	)	STIPULATION
In the Matter of the Application of PORTLAND GENERAL ELECTRIC COMPANY for an Order Approving Deferral of Costs. UM 445	)	

STIPULATION

On December 20, 1992, the Oregon Public Utility Commission (Commission) entered Order 91-1781 that authorized Portland General Electric Company (PGE) to file rates to defer and amortize, with interest, 90 percent of Trojan outage power costs as defined in Appendix "A" of the Order from November 1, 1991, until the earlier of Trojan's return to service (March 6, 1992) or March 31, 1992. The Commission opened this investigation to determine what portion of the deferred sums, if any, should be absorbed by PGE.

PGE and Staff have resolved the issues in this docket and hereby agree to the following:

1. PGE's replacement power costs for the deferral period are reasonable and the method of calculation of those costs comports with the method recommended by Staff and adopted by the Commission in Order 91-1781.

2. The appropriate method to review PGE's earnings for the 12 months ending March 31, 1992 to determine what portion of the deferred power costs in the Trojan Outage Cost Adjustment Account (TOCAA), if any, should be absorbed by PGE is to use the approach set forth in Exhibit A to this Stipulation. This method is based on a determination of "normalized earnings" for the earnings period.

3. PGE's normalized Utility Operating Income and Rate Base for the earnings review period, without recovery of the TOCAA, are \$136.347 million and \$1,576.315 million respectively. PGE's Rate of Return on Total Capital without recovery is 8.65 percent,

and Return on Equity without recovery is 9.25 percent. With recovery of the TOCAA balance, PGE's normalized Utility Operating Income and Rate Base are $150.402 million and $1,576.745 million respectively. PGE's Rate of Return on Total Capital with recovery is 9.54 percent and Return on Equity with recovery is 11.29 percent. See Exhibit B to this Stipulation.

4. The appropriate ROE benchmark to determine whether full recovery of the TOCAA is appropriate is 11.85 percent. This benchmark is derived by creating a 50 basis point (.5 percent) range around an 11.35 percent mid-point.

5. Although Staff and PGE do not agree on a specific method for determining either the benchmark ROE, the mid-point or the range, Staff and PGE agree that the maximum ROE in a reasonable range will serve as the benchmark for allowing collection of any deferred cost, expense, or increase in revenue requirement; and the minimum ROE in a reasonable range shall serve as the benchmark for requiring a refund of any deferred revenue, reduction in expense, or other potential reduction in revenue requirement.

6. As a result of this stipulation and agreement on the results of review of PGE's normalized earnings before and after collection of the TOCAA, PGE should be allowed to collect, with interest, the full TOCAA balance without adjustment. The current amortization rate should continue to be used.

7. This stipulation shall be entered in the record in this proceeding as evidence pursuant to OAR 860-14-085(1). Staff and PGE agree to support and argue in good faith for the Commission's approval of all provisions of this Stipulation.

8. This Stipulation is submitted to resolve the issues in this proceeding. If the Commission rejects any part of this Stipulation, Staff and PGE may withdraw from the whole Stipulation unless both parties agree to modification of this Stipulation. In the event of such withdrawal, the Stipulation may not be used as evidence against either party.

Executed this 19th day of August, 1992.

Paul A. Graham
Attorney for the Staff
of the Oregon Public Utility Commission

Randall W. Childress
Attorney for
Portland General Electric Company

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Earnings Test Standards for Deferred Account Amortization Reviews

Background

ORS 757.259 and ORS 759.200 give the Commission authority to set rates retroactively with specified limits and conditions. ORS 757.259 applies to regulated utilities other than those in the telecommunications industry. ORS 759.200 applies to telecommunications utilities.

Subsection 4 of each statute describes the procedures to be used to place deferred amounts in rates. Except for references to another statute, the subsections are identical, as follows:

> Unless subject to an automatic adjustment clause . . . , amounts described in this section shall be allowed in rates only to the extent authorized by the commission in a proceeding to change rates and <u>upon review of the utility's earnings at the time of application to amortize the deferral.</u> (Emphasis added.)

With respect to the required earnings review, the Commission's Administrative Rule OAR 860-27-300(9) says:

> (9) Amortization: . . . Upon request for amortization of a deferred account, the utility shall provide the Commission with its financial results for a 12-month period or for multiple 12-month periods to allow the Commission to perform an earnings review. The period selected for the earnings review will encompass all or part of the period during which the deferral took place or must be reasonably representative of the period of deferral. . . .

Section 1 of the administrative rule also offers the following definitions:

> (a) "Deferred Accounting" means the recording in a balance sheet account, with Commission authorization under ORS 757.259, of a current expense or revenue associated with current service for later reflection in rates;
>
> (b) "Amortization" means the inclusion in rates of an amount which has been deferred under ORS 757.259 and which is designed to eliminate, over time, the balance in an authorized deferred account. Amortization does not include the normal positive and negative fluctuations in a balancing account.

To date, deferred accounting earnings reviews have been based on semi-annual adjusted results of operations reports. Recorded results have been adjusted to reflect Commission adopted rate-making treatment of matters such as wages and salaries, advertising, etc., and results have also been adjusted to reflect normal weather, streamflows, and thermal generating plant operation.

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Most amortizations have related to deferred costs. Commission decisions have been based on whether revenues from recovery of the deferred cost would cause earnings of the company to rise above a reasonable rate of return for the period of deferral.

Purpose of Earnings Tests

The earnings test ensures that utilities do not get the extraordinary relief available through retroactive rate making for added costs while earnings exceed a reasonable rate of return. The test also ensures that utilities are not required to reduce rates retroactively for lower costs or added income while earnings fall short of a reasonable rate of return.

Financial Results Constructions for Earnings Tests

The matter at issue here is whether financial results should be left as recorded or adjusted in some way. Adjustments could range from a minimal level, for example, to remove the effects of transactions disallowed in the most recent rate order, to the full spectrum of restating and pro forma adjustments which would be appropriate were the historic period to be the basis for testing potential tariffs.

There appears to be little support for use of raw recorded data. Utilities do not always record transactions in parallel with ratemaking treatment, and recorded results may contain errors. At a minimum, corrections should be made for these factors. In addition, the accounting process gives some leeway in timing and estimating transactions. Failure to make any adjustments would encourage companies to book expenses, when possible, within an earnings test period to lower earnings and help ensure recovery of deferrals.

The question then becomes whether and to what extent additional adjustments are appropriate. Many adjustments to recorded data are designed to make the period representative of the future. These include annualizing wages and salaries, using end-of-period rate base and sales levels, incorporating known and measurable subsequent factors such as tax rate or postage changes, removing recorded adjustments related to prior period activity, and restating revenues and costs to reflect normal weather, streamflows, and plant availabilities.

We do not believe a case can be made for using annualizing, end-of-period, or known and measurable subsequent factor adjustments in deferred accounting earnings tests. These adjustments tend to move results forward in time. They are not appropriate in an analysis intended to determine whether a utility could absorb a cost or should keep added income during a specific historical period.

Other potential adjustments are those relating to prior or subsequent period activity and weather, streamflow, and plant availability normalizations.

With respect to prior period items, the argument for leaving the transactions in the earnings report is that they properly should be considered in assessing the capacity to absorb potential deferrals. These transactions may include, for example, a charge or credit related to audit and settlement of prior tax returns, or refunds or surcharges related to prior natural gas taken from a pipeline under FERC-approved tariffs. Accounting rules allow recognition of prior period transactions in the current period. In most cases, current cash flows are also involved. Including these recorded elements in the earnings study captures a real increase or decrease in financial ability during the period.

The argument for removing prior period items, of course, is that the changes relate to economic activity of another time. While accounting convention may allow incorporation in the current period, that need not be controlling for an earnings study.

A similar argument can be made in support of including in the earnings test period subsequent period transactions representing corrections of estimates or errors, surcharges, credits, or any other transactions clearly related to the test period.

With respect to weather, etc., normalizing adjustments, the argument for not making these restatements is that the purpose of the test is to determine a utility's actual capacity to absorb costs or need to retain income. Actual sales and costs are the appropriate measures for this purpose, by definition.

The argument in favor of making weather, etc., normalizing adjustments is that failure to do so will tend to remove the risks and rewards arising from variation in these elements from utilities and transfer them to customers. Assume, for example, we are testing whether a utility should recover a deferred added cost item and earnings are low during the deferral period solely because of warmer than normal weather. Failure to normalize is likely to lead to indirect recovery by the company of some of the lost margins. Successful deferred accounting applications and amortizations will depend on vagaries of weather, streamflows, and plant availabilities. Including normalizing adjustments for these elements leaves risks and rewards in a more reasonable relationship than excluding the adjustments does.

The Commission could decide, however, on a case-by-case basis, that it is appropriate to depart from the normal risk-reward assumption by utilities for the effects of variations in streamflows, weather, or plant availability. The most probable reason for deciding to allow deferrals related to these conditions is that the financial effects

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are significant enough to cause unreasonably low or high utility earnings. For example, in Dockets UM 445 and UE 82, the Commission approved deferrals of excess power costs related to an extended Trojan outage. Permission to defer was founded on preliminary conclusions about financial effects of the extraordinary costs.

It should be obvious that an earnings test which normalizes away the condition which gives rise to the deferral would be inappropriate. To continue with the Trojan outage power cost example, it would make no sense to test PGE's earnings using financials assuming normal Trojan operations. The point of the test is to find out whether PGE's absorption or recovery of the excess costs would produce unreasonable results.

In addition, a utility can gain an unfair advantage with respect to deferred accounting actions if these normalizing adjustments are not made. If, for example, a utility knows it will not achieve normal thermal plant output or if snowpack is low and hydroelectric power availability is likely to be below normal, it may seek deferrals of other costs knowing that recovery, if deferral is approved, is virtually certain.

Conclusion - Adjustments: The earnings study should incorporate adjustments for significant amounts as follows:

1. Correcting results for matters recorded on the books differently than as adopted in the most recent rate order, e.g., bonuses or other compensation disallowed for rate making but recorded in full on the books;

2. Removing from results the effects of prior period transactions;

3. Including in results refinements of estimates, corrections of errors, and transactions subsequently recorded but related to economic activity of the earnings test period; and

4. Normalizing results for the effects of weather, streamflows, and plant availability on sales levels and operating costs; however, normalization would not occur with respect to any one of the listed elements where that element is the cause of the deferral subject to the earnings test.

Such a construction is oriented as much as possible toward observation of actual in-period earnings while generally leaving the utility with the risks and rewards of sales and cost variations associated with weather, streamflow, and plant availability, thereby retaining consistent regulatory policy through time.

Alternative Earnings Standards

There are many possible standards for judging the results of deferred accounting earnings tests. The least and most restrictive standards are as follows:

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Alternative A

1. The Commission concludes that the revenues from the amortization of the deferred cost will not cause the earnings of the company to rise above a reasonable rate of return for the period of the deferral.

2. The Commission concludes that the refund of the deferred revenues will not cause the earnings of the company to fall below a reasonable rate of return for the period of the deferral.

Alternative B

1. The Commission concludes that the company cannot absorb the deferred costs and still earn a reasonable rate of return for the period of deferral.

2. The Commission concludes that the company was not earning more than a reasonable rate of return during the period of deferral and therefore should not be required to refund the deferred sums.

These standards may be easier to understand and analyze if stated in question form with pass (allow amortization) and fail (deny amortization) decisions associated with yes and no answers to the question. Note, however, that partial amortization can be authorized if the earnings test indicates that is appropriate.

Costs

A1. Will earnings be above a maximum reasonable level after recovery of deferred costs?

Yes = Deny amortization
No = Allow amortization

B1. Will earnings be below a minimum reasonable level if deferred costs are not recovered?

Yes = Allow amortization
No = Deny amortization

Income

A2. Will earnings be at or above a minimum reasonable level after refund of deferred income?

Yes = Allow amortization
No = Deny amortization

B2. Will earnings be at or below a maximum reasonable level without refund of deferred income?

Yes = Deny amortization
No = Allow amortization

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Tests A1 and A2 above focus on the consequences of amortization. Earnings would thus be observed after amortization of deferred sums. (Note that this produces the same result as earnings with no reflection in income of deferred amounts.)

Tests B1 and B2 above focus on the result of denial of deferral and amortization. Earnings would be observed with amounts at issue included in costs or income.

There is a symmetry to the tests within each potential standard. Alternative A allows amortization of deferred costs, primarily of benefit to the company, unless recovery causes earnings to exceed the top of a reasonable range. It also allows amortization of deferred income items, primarily of benefit to customers, unless refund causes earnings to fall below the bottom of a reasonable range. The tests are thus as unrestrictive as possible, whether costs or income amounts are at issue.

Alternative B is also symmetrical. It allows amortization of a deferred cost only if earnings before deferral are below the bottom of a reasonable range. It allows amortization of deferred income amounts only if earnings before deferral will be above the top of a reasonable range. The tests are the most restrictive possible as to both deferred debits and credits.

Deferred accounting is clearly extraordinary relief from the normal prohibitions against retroactive rate making, but that characteristic is of little use in deciding whether the most or least restrictive standard as to earnings tests is the more appropriate. One could argue that the extraordinary nature of the process means it should be used as infrequently as possible, and the most restrictive standards should apply. Another could argue with equal validity that the Legislature recognized the potential benefits and detriments to deferred accounting and decided to allow the Commission to do limited retroactive rate making. Staff believes the Commission should have the widest latitude reasonable to allow deferred accounting and amortization where considerations other than earnings make it appropriate.

Conclusion - Earnings Test Standards: The Commission should adopt Alternative A, the least restrictive standard for deferred accounting earnings tests. Use of that standard will allow pursuit of policy goals and exercise of Commission discretion across a wider range of possibilities.

Recommendations

The Commission should require earnings tests covering or reasonably representative of the period of deferral. The period should encompass a minimum of 12 months' operations. Recorded earnings should be adjusted to: 1) Remove prior period adjustments and include subsequent period transactions related to the earnings test period;

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2) Correct the recording of transactions so they properly reflect rate-making treatment; and 3) Normalize results for the effects of weather, streamflow, and plant availability, except that normalization would not occur with respect to any one of the listed elements where that element is the cause of the deferral subject to the earnings test.

Finally, the Commission should adopt the following standard for evaluating the results of deferred accounting earnings tests:

Deferred costs (debits) will be allowed to be amortized in rates unless recovery will cause earnings to rise above a maximum reasonable level. Deferred income amounts (credits) will be allowed to be amortized in rates unless refund will cause earnings to fall below a minimum reasonable level.

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PORTLAND GENERAL ELECTRIC CO.
Stipulated UE 82 Results of Operation
12 Months Ended March 31, 1992
(000)

		Recorded 1991-92 Test Period	Stipulated Adjustments	Adjusted Results Without TOCAA* Recovery	Trojan Outage Cost Adjustment Recovery	Adjusted Results With TOCAA Recovery
		(1)	(2)	(3)	(4)	(5)
1	Operating Revenues					
2	Sales to Consumers	$745,087	$76,123	$821,210	$23,501	$844,711
3	Sales for Resale	131,504	(131,504)	0	0	0
4	Other Revenues	13,952	(6,733)	7,219	0	7,219
5	Total Operating Revenues	$890,543	($62,114)	$828,429	$23,501	$851,930
6	Operating Expenses and Taxes					
7	Operation & Maintenance					
8	Net Variable Power Costs	$239,480	($49,749)	$189,731	$0	$189,731
9	Total Fixed O&M	186,305	(18,921)	167,384	0	167,384
10	Other Oper.& Maint.	116,571	(6,373)	110,198	85	110,283
11	Total Operation & Maintenance	$542,356	($75,043)	$467,313	$85	$467,398
12	Depreciation & Amortization	114,522	(128)	114,394	0	114,394
13	Taxes Other than Income	56,445	33	56,478	583	57,061
14	Income Taxes	44,032	9,865	53,897	8,779	62,676
15	Gains on Disp. of Utility Property	0	0	0	0	0
16	Total Operating Expenses and Taxes	$757,355	($65,273)	$692,082	$9,446	$701,528
17	Utility Operating Income	$133,188	$3,159	$136,347	$14,055	$150,402
18	Average Rate Base					
19	Utility Plant in Service	$2,657,871	($3,302)	2,654,569	$0	$2,654,569
20	Accumulated Depreciation	(966,282)	1,553	(964,729)	0	(964,729)
21	Accumulated Deferred Income Taxes	(146,170)	(418)	(146,588)	0	(146,588)
22	Accumulated Deferred Inv. Tax Credit	(72,578)	0	(72,578)	0	(72,578)
23	Net Utility Plant	$1,472,841	($2,167)	$1,470,674	$0	$1,470,674
24	Nuclear Fuel	33,121	0	33,121	0	33,121
25	Weatherization Investment	31,937	0	31,937	0	31,937
26	Deferred Power Costs	0	0	0	0	0
27	Operating Materials & Fuel	60,993	(4,076)	56,917	0	56,917
28	Working Cash	34,460	(2,970)	31,490	430	31,920
29	Misc. Deferred Debits	83,035	2,314	85,349	0	85,349
30	Misc. Deferred Credits	(9,546)	0	(9,546)	0	(9,546)
31	Unamortized Ratepayer Gains	(123,627)	0	(123,627)	0	(123,627)
32	Total Average Rate Base	$1,583,214	($6,899)	$1,576,315	$430	$1,576,745
33	Rate of Return	8.41%		8.65%		9.54%
34	Implied Return on Equity	8.70%		9.25%		11.29%

* Trojan Outage Cost Adjustment Account

PORTLAND GENERAL ELECTRIC CO.
Adjustments to Oregon Results
UE 82 Earnings Test
(000)

		RPA	WAPA	Sales-for-Resale	Interest Adjustment (S-33)	ESOP Interest	Normal Water/Plant Operation	Normal Weather	Two Cities Sale Revenues (S-4)
		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1	Operating Revenues								
2	Sales to Consumers	$71,123	$0	$0	$0	$0	$0	$17,868	$0
3	Sales for Resale			(131,504)					
4	Other Revenues	(6,253)							
5	Total Operating Revenues	$64,870	$0	($131,504)	$0	$0	$0	$17,868	$0
6	Operating Expenses and Taxes								
7	Operation & Maintenance								
8	Net Variable Power Costs	$64,870	$3,077	($131,504)	$0	$0	($752)	$6,989	($1,038)
9	Fixed O&M			0				0	
10	Other Oper.& Maint.			0	0	3,141	0	64	
11	Total Operation & Maintenance	$64,870	$3,077	($131,504)	$0	$3,141	($752)	$7,053	($1,038)
12	Depreciation & Amortization					0			
13	Taxes Other than Income		0	0	0	0	0	443	0
14	Income Taxes	(44)	(1,185)	89	5,038	(1,210)	290	3,983	408
15	Gains on Disp. of Utility Property								
16	Total Operating Expenses and Taxes	$64,826	$1,892	($131,415)	$5,038	$1,931	($462)	$11,479	($630)
17	Utility Operating Income	$44	($1,892)	($89)	($5,038)	($1,931)	$462	$6,389	$630
18	Average Rate Base								
19	Utility Plant in Service		$0	$0	$0	$0	$0	$0	$0
20	Accumulated Depreciation					0			
21	Accumulated Deferred Income Taxes		0			0			426
22	Accumulated Deferred Inv. Tax Credit		0	0	0	0	0	0	0
23	Net Utility Plant	$0	$0	$0	$0	$0	$0	$0	$426
24	Nuclear Fuel				0				
25	Weatherization Investment		0	0	0	0	0	0	0
26	Deferred Power Costs								
27	Operating Materials & Fuel						0		
28	Working Cash	2,950	86	(5,979)	229	88	(21)	522	(29)
29	Misc. Deferred Debits		0						(1,081)
30	Misc. Deferred Credits								
31	Unamortized Ratepayer Gains								
32	Total Rate Base	$2,950	$86	($5,979)	$229	$88	($21)	$522	($684)

PORTLAND GENERAL ELECTRIC CO
Adjustments to Oregon Results
UE 82 Earnings Test
(000)

		Fuel Inventories (S-9) (9)	Wage & Salary Adjustment (S-10) (10)	Incentive Pay Adjustment (S-12) (11)	Employee Transfer Fee (S-13) (12)	Marketing Operations (S-16) (13)	Trojan VIC & Rec. Area (S-17) (14)	Median Benefits Increase (S-14) (15)	Prior Year Tax Adj. (16)
1	Operating Revenues								
2	Sales to Consumers	$0	$0	$0	$0	$0	$0	$0	$0
3	Sales for Resale								
4	Other Revenues								
5	Total Operating Revenues	$0	$0	$0	$0	$0	$0	$0	$0
6	Operating Expenses and Taxes								
7	Operation & Maintenance								
8	Net Variable Power Costs	$0	$0	$0	$0	$0	$0	$0	$0
9	Fixed O&M						(135)		
10	Other Oper.& Maint.	0	1,273	(1,940)	(121)	(139)	0	(1,607)	0
11	Total Operation & Maintenance	$0	$1,273	($1,940)	($121)	($139)	($135)	($1,607)	$0
12	Depreciation & Amortization						(153)		0
13	Taxes Other than Income	0	(27)	0	0	0	(50)	0	0
14	Income Taxes	60	(485)	754	47	54	170	625	(296)
15	Gains on Disp. of Utility Property								
16	Total Operating Expenses and Taxes	$60	$761	($1,186)	($74)	($85)	($168)	($982)	($296)
17	Utility Operating Income	($60)	($761)	$1,186	$74	$85	$168	$982	$296
18	Average Rate Base								
19	Utility Plant in Service	$0	$347	($470)	$0	$0	($4,072)	($407)	$0
20	Accumulated Depreciation						1,397		
21	Accumulated Deferred Income Taxes								
22	Accumulated Deferred Inv. Tax Credit	0	0	0	0	0	0	0	0
23	Net Utility Plant	$0	$347	($470)	$0	$0	($2,675)	($407)	$0
24	Nuclear Fuel								
25	Weatherization Investment	0	0	0	0	0	0	0	0
26	Deferred Power Costs								
27	Operating Materials & Fuel	(4,076)							
28	Working Cash	3	35	(54)	(3)	(4)	(8)	(45)	(13)
29	Misc. Deferred Debits								
30	Misc. Deferred Credits								
31	Unamortized Ratepayer Gains								
32	Total Rate Base	($4,073)	$382	($524)	($3)	($4)	($2,683)	($452)	($13)

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PORTLAND GENERAL ELECTRIC CO.
Adjustments to Oregon Results
UE 82 Earnings Test
(000)

		Non-Fuel Materials & Supplies (S-21)	Advertising Categories "A" & "C" (S-22/23)	WSA/WAPA Intertie (S-5)	Line Extensions (S-34)	Other Revenue	Trojan TOCAA Reversal	UE 47/48 Colstrip Revenue Refund	Capitalize Stm. Gen. Repairs
		(17)	(18)	(19)	(20)	(21)	(22)	(23)	(24)
1	Operating Revenues								
2	Sales to Consumers	$0	$0	$0	$0	($5,438)	($7,430)	$0	$0
3	Sales for Resale								
4	Other Revenues							0	
5	Total Operating Revenues	$0	$0	$0	$0	($5,438)	($7,430)	$0	$0
6	Operating Expenses and Taxes								
7	Operation & Maintenance								
8	Net Variable Power Costs	$0	$0		$0	$0	$6,065	$2,544	$0
9	Fixed O&M			($1,138)					(17,648)
10	Other Oper.& Maint.	0	(208)	0	0	(20)	(27)	0	0
11	Total Operation & Maintenance	$0	($208)	($1,138)	$0	($20)	$6,038	$2,544	($17,648)
12	Depreciation & Amortization				(49)		0		74
13	Taxes Other than Income	0	0	0	(14)	(135)	(184)	0	0
14	Income Taxes	(0)	80	438	35	(2,031)	(5,111)	(980)	6,756
15	Gains on Disp. of Utility Property				0		0		
16	Total Operating Expenses and Taxes	$0	($128)	($700)	($28)	($2,186)	$743	$1,564	($10,818)
17	Utility Operating Income	($0)	$128	$700	$28	($3,252)	($8,173)	($1,564)	$10,818
18	Average Rate Base								
19	Utility Plant in Service	$0	$0	$0	($906)	$0	$0	$0	$2,206
20	Accumulated Depreciation				159		0		(3)
21	Accumulated Deferred Income Taxes								(844)
22	Accumulated Deferred Inv. Tax Credit	0	0	0	0	0	0	0	0
23	Net Utility Plant	$0	$0	$0	($747)	$0	$0	$0	$1,359
24	Nuclear Fuel				0		0		
25	Weatherization Investment	0	0	0		0		0	0
26	Deferred Power Costs								
27	Operating Materials & Fuel	0							
28	Working Cash	0	(6)	(32)	(1)	(99)	34	71	(492)
29	Misc. Deferred Debits								
30	Misc. Deferred Credits								
31	Unamortized Ratepayer Gains								
32	Total Rate Base	$0	($6)	($32)	($748)	($99)	$34	$71	$867

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PORTLAND GENERAL ELECTRIC CO
Adjustments to Oregon Results
UE 82 Earnings Test
(000)

		Severance Cost Adjustment (25)	Reverse SAVE Program Incentive (26)	Total Stipulated Adjustments (27)
1	Operating Revenues			
2	Sales to Consumers	$0	$0	$76,123
3	Sales for Resale			($131,504)
4	Other Revenues		(480)	($6,733)
5	Total Operating Revenues	$0	($480)	($62,114)
6	Operating Expenses and Taxes			
7	Operation & Maintenance			
8	Net Variable Power Costs	$0	$0	($49,749)
9	Fixed O&M			($18,921)
10	Other Oper.& Maint.	(6,790)	0	($6,373)
11	Total Operation & Maintenance	($6,790)	$0	($75,043)
12	Depreciation & Amortization			($128)
13	Taxes Other than Income	0	0	$33
14	Income Taxes	2,565	(185)	$9,865
15	Gains on Disp. of Utility Property			$0
16	Total Operating Expenses and Taxes	($4,225)	($185)	($65,273)
17	Utility Operating Income	$4,225	($295)	$3,159
18	Average Rate Base			
19	Utility Plant in Service	$0	$0	($3,302)
20	Accumulated Depreciation			$1,553
21	Accumulated Deferred Income Taxes			($418)
22	Accumulated Deferred Inv. Tax Credit	0	0	$0
23	Net Utility Plant	$0	$0	($2,167)
24	Nuclear Fuel	0	0	$0
25	Weatherization Investment	0	0	$0
26	Deferred Power Costs			$0
27	Operating Materials & Fuel			($4,076)
28	Working Cash	(192)	(8)	($2,970)
29	Misc. Deferred Debits	3,395	0	$2,314
30	Misc. Deferred Credits			$0
31	Unamortized Ratepayer Gains			$0
32	Total Rate Base	$3,203	($8)	($6,899)

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PORTLAND GENERAL ELECTRIC CO.
UE 82 Earnings Test
(000)

INPUT ASSUMPTIONS

COST OF CAPITAL	AMOUNTS	% OF CAPITAL	COST	WEIGHTED COST
Long Term Debt	$816,364	47.52%	8.10%	3.85%
Preferred Stock	151,904	8.84%	8.63%	0.76%
Common Equity	749,635	43.64%	11.85%	5.17%
Total	$1,717,903	100.00%		9.78%

REVENUE SENSITIVE COSTS	
Revenues	1.00000
O&M – Uncollectibles	0.00360
Other Taxes–Franchise Fees	0.02479
Short–Term Interest	0.00000
Other Taxes–OPUC Fee	0.00200
State Taxable Income	0.96961
State Income Tax @ 6.61%	0.06409
Federal Taxable Income	0.90552
Federal Income Tax @ 34%	0.30788
ITC	0.00000
Current FIT	0.30788
ITC Adjustment/Env. Tax	0.00120
Total Income Taxes	0.37317
Total Revenue Sensitive Costs	0.40356
Utility Operating Income	0.59644
Net–to–Gross Factor	1.67661

CERTIFICATE OF SERVICE

I certify that on April 14, 2008, I served the foregoing upon all parties of record in this proceeding by delivering a copy by electronic mail and by mailing a copy by postage prepaid first class mail or by hand delivery/shuttle mail to the parties accepting paper service.

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