Oregon

Theodore R. Kulongoski, Governor

Public Utility Commission
550 Capitol St NE, Suite 215
Mailing Address: PO Box 2148
Salem, OR 97308-2148
Consumer Services
1-800-522-2404
Local: (503) 378-6600
Administrative Services
(503) 373-7394

February 28, 2008

OREGON PUBLIC UTILITY COMMISSION
ATTENTION: FILING CENTER
PO BOX 2148
SALEM OR 97308-2148

RE: **Docket No. UM 1224** - In the Matter of UTILITY REFORM PROJECT AND KEN LEWIS Application for Deferred Accounting.

Enclosed for electronic filing in the above-captioned docket is the Public Utility Commission Staff's Reply Testimony.

/s/ Kay Barnes
Kay Barnes
Regulatory Operations Division
Filing on Behalf of Public Utility Commission Staff
(503) 378-5763
Email: kay.barnes@state.or.us

c: UM 1224 Service List (parties)

PUBLIC UTILITY COMMISSION
OF OREGON

UM 1224

STAFF REPLY TESTIMONY OF

CARLA OWINGS

In the Matter of
UTILITY REFORM PROJECT AND KEN LEWIS
Application for Deferred Accounting.

February 28, 2008

CASE: UM 1224
WITNESS: Carla Owings

PUBLIC UTILITY COMMISSION
OF
OREGON

STAFF EXHIBIT 100

REPLY TESTIMONY

February 28, 2008

Q. PLEASE STATE YOUR NAME, OCCUPATION, AND BUSINESS ADDRESS.

A. My name is Carla Owings. I am a Senior Revenue Requirements Analyst employed by the Public Utility Commission of Oregon. My business address is 550 Capitol Street NE Suite 215, Salem, Oregon 97301-2551.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND WORK EXPERIENCE.

A. My Witness Qualification Statement is found in Staff Exhibit /101.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to provide the Staff recommendation regarding whether or not Portland General Electric (PGE) should be required to amortize approximately $26.5 million attributable to the tax liability for the last quarter of 2005.

Q. WHAT IS STAFF'S RECOMMENDATION IN THIS DOCKET?

A. I recommend that the Commission find the proper amount to be considered for deferral to be $26.5 million and not $26.6 million. Also, I recommend that the Commission not require PGE to amortize the deferred amount pursuant to Commission Order No. 07-351 due to the outcome of PGE's earnings test. I believe that the Commission has authority to deny amortization pursuant to ORS 757.259, which requires an earnings test prior to approving amortization of a deferred amount. During the period of October 1, 2005 through September 30, 2006, I find that PGE's earnings were approximately 6.92% return on equity (ROE), more than 500 basis points below its authorized return of 10.5% ROE. This level of earnings is inadequate to require amortization of approximately $26.5 million tax refund; which would further reduce PGE's ROE to 5.28%.

Q. HOW IS YOUR TESTIMONY ORGANIZED?

A. My testimony is organized as follows:

Issue 1, SB 408 Tax Provision 2
Issue 2, Earnings Test 5

Q. DID YOU PREPARE AN EXHIBIT FOR THIS DOCKET?

A. Yes. I prepared Exhibit Staff/102, consisting of 1 page.

ISSUE 1

SB 408 TAX PROVISION

Q. DID YOU REVIEW THE AMOUNT CLAIMED BY PGE AS REPRESENTING THE PROPER DIFFERENCE BETWEEN TAXES PAID AND TAXES COLLECTED FOR THE LAST QUARTER OF 2005?

A. Yes. Senate Bill 408 (SB 408) was passed by the 2005 Legislative Assembly and is generally codified at ORS 757.268. It requires investor-owned utilities to file an annual Tax Report on or before October 15 following the year for which the filing is being made. The Commission must determine if taxes paid by the utility differ from the amounts collected in rates by a variance of greater than $100,000. If so, the Commission is required to implement an automatic adjustment clause refunding or surcharging the variance. On October 16, 2006, PGE filed UE 178, tax reports covering the calendar years 2003, 2004 and 2005 pursuant to SB 408. For the 2005 tax period, PGE reported the difference between taxes collected and taxes paid to be $110.0 million[1]. This amount would result in a refund to ratepayers.

On December 15, 2006, Staff filed a report with the Commission of its initial findings after completing the review of PGE's 2005 tax filing. I participated in the Staff review in 2006. I also reviewed the 2005 tax filing again prior to the writing of this testimony to verify that the procedures used by PGE to calculate the difference between taxes paid and taxes collected for 2005 are consistent with Staff's review of the 2006 tax period. I conclude that procedures used for the 2005 tax period are consistent with Staff's recommendations for procedures to be used for the 2005 and 2006 tax periods.

Commission Order No. 07-351 requires that PGE establish a deferral amount representing the time period of October 5, 2005 to December 31, 2005 (*See* Order No. 07-351 at 7). In order to calculate the amount of taxes due for the final quarter of 2005, I isolated the number of days represented in the time period identified by the Commission as the deferral period (October 5th to December 31, 2005, or 88 days/365) to represent the fraction of the liability attributable to the same time period (i.e., (88/365 * $110.0, or $26.5 million).

Q. DOES THE $26.5 MILLION AGREE WITH THE DEFERRAL AMOUNT CALCULATED BY PGE?

A. No. It varies by approximately $100,000. PGE calculates the deferral amount to be $26.6 million using a similar method of applying the percentage of days that apply to the full-year tax liability. The difference between the two calculations is

[1] This figure does not include approximately $1.6 million attributable to the difference between taxes paid and taxes collected for Multnomah County Income Tax.

that PGE adjusts the impact attributable to the Multnomah County income tax by only $1.2 million of taxes collected. I believe the entire impact of the Multnomah County tax of $1.6 million difference between taxes paid and taxes collected should be adjusted. The $0.4 million difference accounts for the delta between $26.5 million and $26.6 million (0.241% of $0.4 million or approximately $90,000).

Q. WHY SHOULD THE MULTNOMAH COUNTY INCOME TAX BE OMITTED FROM THE CALCULATION OF THE DEFERRAL AMOUNT?

A. PGE was a party to a settlement regarding Multnomah County income tax collections covering the period through early October 2005. For the remainder of 2005, PGE's tariff rider to collect Multnomah county taxes was set to zero (*See* UM 1224/PGE/100, Hager-Tamlyn-Tinker/4, at 16). In order to avoid a double counting of these collections, both PGE and I believe there should be an adjustment prior to calculating the deferral. However, I believe that since PGE negotiated a settlement with Multnomah County for the entire year, including the time in question, and because PGE did not collect any taxes from Multnomah County ratepayers from early October to the end of the year, then an adjustment is necessary. The question becomes whether the adjustment should be just to remove all collections that year and keep the "taxes paid" portion of the local tax amount, or to remove both "taxes paid" for the year and "taxes collected" for the year. The anomaly in this situation is that the "taxes paid" side of the equation that is attributable to Multnomah County ratepayers for the entire 2005 tax period is a refund of approximately $400,000. If the "taxes paid" side of the equation were typical (in that they would credit the company with a smaller margin between "taxes paid" and "taxes owed"), I believe that most parties would argue that since there was an agreement for the entire Multnomah County tax true-up, then we would simply calculate the deferral amount considering only the Federal and State portion of the 2005 tax liability. Leaving the impact of taxes "paid" into the calculation of the deferral amount actually increases the deferred amount for that reason. However, since the settlement was for the entire 2005 impact of the Multnomah County income tax true-up, I calculated the deferral amount using only the difference between taxes paid and taxes collected for the Federal and State tax amounts ($110.0 million) and completely removed the impact related to Multnomah County income taxes. For these reasons, I recommend the Commission find that the proper deferred amount is $26.5 million.

ISSUE 2

EARNINGS TEST

Q. DID PGE PERFORM AN EARNINGS TEST IN ITS TESTIMONY PRESENTED ON NOVEMBER 30, 2007?

A. Yes. PGE Exhibit 103/Hager-Tamlyn-Tinker/2 shows PGE's earnings after regulatory type 1 adjustments and additional adjustments to account for the Boardman Outage Deferral of approximately $26.4 million, as well as an adjustment to reflect the refund of the $26.6[2] million. This calculation produced

[2] The amount calculated by PGE to represent the deferred amount.

an overall rate of return of 5.12% and an ROE of 3.54%[3]. These rates fall far below PGE's authorized cost of capital; an overall rate of return of 8.29% and 10.5% ROE.

Q. PLEASE EXPLAIN THE ADJUSTMENTS PGE CONSIDERED IN ITS EARNINGS TEST.

A. PGE measured its earnings after first applying type I regulatory adjustments. These adjustments reflect normalization of operating costs for hydro, weather conditions and any regulatory disallowances. The next adjustment PGE made was to include in the earnings test the impact of the Boardman Deferral request of $26.4 million. This deferral amount was approved in Commission Order 07-049, and the Company has applied to amortize the amount in an application docketed as UE 196 that is currently pending before the Commission. PGE reports its earnings after this adjustment to be 6.01% overall rate of return and 5.11% for ROE (*See* PGE Exhibit 103/Hager-Tamlyn-Tinker/1, Column (7) or Staff Exhibit 102/ Owings/1, Column 2). The final adjustment proposed by the Company is to include an adjustment related to the $26.5 million tax liability, as though that amount were refunded through amortization. The outcome of PGE's earnings test including that adjustment is an overall rate of return of 5.12% and an ROE of 3.54% (*See* PGE Exhibit 103/Hager-Tamlyn-Tinker/2, Column (7) or Staff Exhibit 102/ Owings/1, Column 1).

Q. DID YOU AGREE WITH PGE'S EARNINGS TEST?

[3] Staff's calculations for the proper deferral amount of $26.5 million would reflect an overall rate of 5.12% and a 3.53% ROE.

A. While I do agree with the type I regulatory adjustments, the Boardman Outage deferral and the impact of the amortization of the $26.5 million PGE considered in its earnings test, I believe there is also one more adjustment that should be considered. Besides recalculating the deferral amount as described in Issue 1 above and applying that amount ($26.5 million) in the earnings test, I also reviewed PGE's revenues and expenses to verify that PGE had made all the appropriate adjustments that would be necessary to accurately reflect its earnings during the test period. Upon this review, I believe there is an additional adjustment that should be made to PGE's revenues.

Q. PLEASE EXPLAIN THIS ADJUSTMENT.

A. In June of 2006, and again in September of 2006, PGE booked a rate provision for the amount estimated to be the SB 408 refund due to customers for the 2006 tax period. Pursuant to OAR 860-022-0041(2)(n), each Company is required to calculate its revenues minus any rate adjustments imposed under this rule in order to avoid ratepayers paying their own refund or double-funding a surcharge when a rate adjustment is implemented due to the SB 408 impacts. PGE has properly booked this provision as a reduction its 2006 revenues. However, to properly measure its earnings during this period, I believe the revenue effect attributed to this potential refund should be removed. I have performed this adjustment in Staff Exhibit 102/Owings/1, Column 3. The outcome prior to the adjustment related to the $26.5 million deferral in this docket is an overall rate of return of 7.03% and an ROE of 6.92%. If PGE were required to refund the $26.5 million related to this deferral, its earnings would be 6.11% overall rate of return and 5.28% ROE (*See* Staff Exhibit/102, Owings/1, Column 4).

Q. WHY DIDN'T YOU ADJUST THE RATE PROVISION TO REFLECT ONLY A PORTION OF THE 2006 TAX PERIOD SINCE THE ENTIRE 2006 TAX PERIOD IS NOT THE SAME TEST PERIOD USED IN THIS DOCKET?

A. I made an adjustment for all of 2006 because the entire rate provision is booked prior to September 30, 2006. In other words, the Company did not amortize the rate provision into the revenues each month; it booked approximately $9 million of the rate provision in June and the remainder of the rate provision in September, which means that the entire provision was booked during the 12-month period being considered for this earnings review. Therefore, I removed the impact of the entire rate provision.

Q. WHY DIDN'T PGE REMOVE THE RATE PROVISION IN ITS EARNINGS TEST?

A. Since the outcome of the adjustment is still well below the Company's authorized rate of return, I did not query the Company as to why it did not make such an adjustment. However, reasonable minds could disagree as to whether or not the rate provision is properly includable in this earnings test. I believe the conservative position is to look at what revenues were actually available to the Company for the period under question; October 5, 2005 to September 30, 2006.

Q. WHY DO YOU INCLUDE IT IN YOUR EARNINGS TEST?

A. I believe it is the most conservative look at PGE's earnings. OAR 860-022-0041 is silent on this issue since no earnings test is required when implementing the automatic rate adjustment pursuant to ORS 757.268. Rather than wonder if this adjustment would have made a material difference in the earnings test results, I believe that the most prudent approach is to include this adjustment before finalizing the earnings test. However, ultimately, it does not force the Company into a situation of over-earning and does not alter my recommendation to not require the amortization.

Q. WHY SHOULD WE CONSIDER AN EARNINGS TEST IN THIS DOCKET WHEN NONE IS CONSIDERED IN ORDER TO IMPLEMENT THE AUTOMATIC RATE ADJUSTMENT PURSUANT TO ORS 757.268?

A. Commission Order 07-351 required PGE to establish a deferred account. Deferred accounts are authorized pursuant to ORS 757.259, which requires the Commission to consider an earnings test prior to allowing the Company to amortize a deferred amount (*See* ORS 757.259(5)). OAR 860-027-0300(9) states the following:

> "Upon request for amortization of a deferred account, the energy ... utility shall provide the Commission with its financial results for a 12-month period ...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 reasonable representative of the deferral period."

Q. DO YOU BELIEVE THAT PGE HAS CHOSEN A REASONABLE 12-MONTH PERIOD THAT ENCOMPASSES ALL, OR PART, OF THE PERIOD DURING WHICH THE DEFERRAL TOOK PLACE IN ORDER TO PERFORM AN ADEQUATE EARNINGS TEST?

A. Yes.

Q. PLEASE SUMMARIZE YOUR RECOMMENDATIONS.

A. I recommend that the Commission find the deferral amount under consideration in this docket to be $26.5 million. I have included, in Column 4 of Staff Exhibit 102, the earnings test if the Commission were to require PGE to amortize the entire $26.5 million deferral amount; the outcome of the Staff earnings test is a 6.11% overall rate of return and 5.28% ROE. Even without amortization of the $26.5 million tax deferral, PGE's ROE was 6.92%, well below its authorized ROE. For these reasons, I recommend that the Commission not require PGE to amortize the deferred tax amount due to the outcome of the Company's earnings, far below its authorized rate of return on equity.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.

CASE: UM 1224
WITNESS: Carla Owings

PUBLIC UTILITY COMMISSION
OF
OREGON

STAFF EXHIBIT 101

Witness Qualification Statement

February 28, 2008

WITNESS QUALIFICATION STATEMENT

NAME:	Carla M. Owings
EMPLOYER:	Public Utility Commission of Oregon
TITLE:	Senior Utility Analyst/Revenue Requirement/Rates and Regulation
ADDRESS:	550 Capitol Street NE Suite 215, Salem, Oregon 97301-2115.
EDUCATION:	Professional Accounting Degree Trend College of Business 1983

EXPERIENCE:

I have been employed by the Public Utility Commission of Oregon since April of 2001. I am the Senior Utility Analyst for revenue requirement for the Rates and Regulation Division of the Utility Program. Current responsibilities include leading research and providing technical support on a wide range of policy issues for electric, telecommunications, and gas utilities.

From September 1994 to April 2001, I worked for the Oregon Department of Revenue as a Senior Industrial/Utility Appraiser. I was responsible for the valuation of large industrial properties as well as utility companies throughout the State of Oregon.

I have testified in behalf of the Public Utility Commission in Docket Nos. UE 177, UE 178, UG 170, UG 171, UE 180, UM 1234, UE 167, UE 180, UE 188, UM 1121, UM 1261 and UM 1271.

OTHER EXPERIENCE:

I received my certification from the National Association of State Boards of Accountancy in the Principles of Public Utilities Operations and Management in March of 1997. I have attended the Institute of Public Utilities sponsored by the National Association of Regulatory Utility Commissioners at Michigan State University in August of 2002 and the College of Business Administration and Economics at New Mexico State University's Center for Public Utilities in May of 2004.

In 2008, I attended a Energy Utility Consultants presentation on Performance Benchmarking in Denver, Colorado. In 2005, I attended the National Association of Regulatory Utility Commissioners Advanced Course at Michigan State University. I worked for seven years for the Oregon State Department of Revenue as a Senior Utility and Industrial Appraiser.

CASE: UM 1224
WITNESS: Carla Owings

PUBLIC UTILITY COMMISSION
OF
OREGON

STAFF EXHIBIT 102

Exhibit in Support
of Reply Testimony

February 28, 2008

PORTLAND GENERAL ELECTRIC
EARNINGS TEST - UM 1224
Assuming Boardman Deferral Recover and Income Tax Refund
October 1, 2005 - September 30, 2006
$000

	Column 1	Column 2	Column 3	Column 4
	Regulated Results Including Type 1 Adjustments	Regulated Results Including Boardman	Regulated Results Including Boardman & SB 408 Tax Provision for 2006 Tax Period	Regulated Results Including Boardman SB 408 Provision & Refund of 2005 Tax Deferral
Revenues				
Sales to Consumers	1,330,776	1,330,776	1,330,776	1,330,776
Other Operating Revenues	6,940	33,379	33,379	63,974
Adjust for Revenue Provision			30,595	(26,600)
Total Operating Revenues	1,337,716	1,364,155	1,394,750	1,368,150
Operation & Maintenance				
Net Variable Power Cost	613,705	613,705	613,705	613,705
Total Fixed O&M	139,754	139,754	139,754	139,754
Other O&M	153,605	153,605	153,605	154,230
Total Operation & Maintenance	907,064	907,064	907,064	907,689
Depreciation & Amortizaion	222,740	222,740	222,740	222,740
Other Taxes/Franchise Fee	74,447	74,447	74,447	74,447
Income Taxes	40,512	50,904	62,920	52,465
Total Op. Expenses & Taxes	1,244,763	1,255,156	1,267,171	1,257,341
Utility Operating Income	92,953	108,999	127,579	110,809
Rate Base	1,814,006	1,814,006	1,814,006	1,814,006
Rate of Return	5.12%	6.01%	7.03%	6.11%
Return on Equity	3.54%	5.11%	6.92%	5.28%

COST OF CAPITAL	% of CAPITAL		COST	WTD COST
Long Term Debt	910,125	42.70%	7.16%	3.06%
Preferred Stock	15,995	0.75%	8.43%	0.06%
Common Equity	1,205,105	56.55%	10.50%	5.94%
Total	2,131,225	100.00%		**9.06%**

UM 1224
Service List (Parties)

PORTLAND GENERAL ELECTRIC COMPANY RATES & REGULATORY AFFAIRS	121 SW SALMON ST 1WTC0702 PORTLAND OR 97204 pge.opuc.filings@pgn.com
DANIEL W MEEK ATTORNEY AT LAW	
DANIEL W MEEK ATTORNEY AT LAW	10949 SW 4TH AVE PORTLAND OR 97219 dan@meek.net
DEPARTMENT OF JUSTICE	
DAVID HATTON ASSISTANT ATTORNEY GENERAL	REGULATED UTILITY & BUSINESS SECTION 1162 COURT ST NE SALEM OR 97301-4096 david.hatton@state.or.us
KAFOURY & MCDOUGAL	
LINDA K WILLIAMS ATTORNEY AT LAW	10266 SW LANCASTER RD PORTLAND OR 97219-6305 linda@lindawilliams.net
PORTLAND GENERAL ELECTRIC	
DOUGLAS C TINGEY **(C)** ASST GENERAL COUNSEL	121 SW SALMON 1WTC13 PORTLAND OR 97204 doug.tingey@pgn.com

<u>CERTIFICATE OF SERVICE</u>

UM 1224

I certify that I have this day served the foregoing document upon all parties of record in this proceeding by delivering a copy in person or by mailing a copy properly addressed with first class postage prepaid, or by electronic mail pursuant to OAR 860-13-0070, to the following parties or attorneys of parties.

Dated at Salem, Oregon, this 28th day of February, 2008.

Kay Barnes

Kay Barnes
Public Utility Commission
Regulatory Operations
550 Capitol St NE Ste 215
Salem, Oregon 97301-2551
Telephone: (503) 378-5763