I. Introduction

Q. Please state your names and positions.

A. My name is Carla Owings, I am a Senior Revenue Requirements analyst employed by the Oregon Public Utility Commission. My qualifications appear in Staff Exhibit 401.

My name is L. Alex Tooman, I am a project manager at PGE. My qualifications appear in PGE Exhibit 200, Section XI.

My name is Bob Jenks and I am the Executive Director at the Citizens' Utility Board. (CUB).

Q. What is the purpose of your testimony?

A. Our purpose is to describe the Stipulation reached between the OPUC Staff, PGE, the Citizens' Utility Board (CUB), Industrial Customers of Northwest Utilities (ICNU), and Fred Meyer Stores regarding certain revenue requirement issues in this docket (UE 180). For convenience, we use the issue numbers assigned in the July 6, 2006 Staff Issues List.

Q. Please summarize the agreement contained in the revenue requirement stipulation (Stipulation).

A. The Stipulation represents a settlement of all revenue requirement issues other than Cost of Capital, Power Costs, Port Westward, and AMI. The Stipulation includes Staff issues S-1 through S-15, except issues S-4, S-7, and S-10, which relate to power costs. The stipulation also does not include the Rate of Return adjustment, S-0. A copy of the Stipulation is provided as Exhibit 101. Table 1 lists the settled issues with a short description.

Table 1. Stipulated Issues

Issue Number	Category	Description
S-1	Taxes Other Than Income	PGE to reduce O&M costs by $2,267,000
S-3	O&M / A&G	PGE to reduce O&M costs by $6,551,000, which consists of $34,000 in Transmission O&M, $1,623,000 in Distribution O&M, and $4,894,000 in A&G
S-5	Incentives	PGE to reduce O&M costs by $4,366,000, and to reduce rate base by $1,271,000
S-6	Wages/Salaries	PGE to reduce O&M costs by $3,534,000, and to reduce rate base by $1,029,000
S-8	Other Revenue	PGE to increase Other Revenue by $40,000
S-9	Capital Expenditures	PGE to reduce rate base by $7.0 million
S-11	System Losses	No change to PGE's filed Line Loss Study
S-12	Memberships	PGE to reduce O&M costs by $82,000
S-13	Tenant Improvements	No change to PGE's filed case
S-14	Weatherization	PGE to reduce O&M costs by $69,000
S-15	Customer Service/Accounts	PGE to reduce O&M costs by $1,575,000

Q. Does this Stipulation indicate that all parties agree on the calculations or bases employed by other parties to determine each adjustment?

A. No. Although the parties may not necessarily agree on the calculations or bases used to determine each adjustment, we believe the amounts represent a reasonable financial settlement of the respective issues. Staff provided an initial analysis for each issue. The parties then engaged in settlement discussions with PGE and CUB proposing modifications regarding certain Staff calculations. The parties accepted a number of PGE's suggestions and PGE, in turn, accepted several of Staff's proposed adjustments. For the remainder of the issues, the parties accepted compromise amounts that everyone agreed were reasonable for settlement purposes.

Q. How does the Stipulation resolve the revenue requirement effects of settled issues, since not all of the issues in the case have been settled?

A. The parties did not stipulate to all of the factors necessary to derive the revenue requirement effects of each settled issue. Specifically, the capital structure, the cost of debt, and the cost of equity are unresolved. Once these factors are decided, the final revenue requirement effect of each issue can be calculated.

II. Issues

Q. What is the basis for the stipulation relating to issue S-1, Taxes Other than Income?

A. The parties agree to reduce test-period taxes other than income by approximately $2.3 million. This amount represents $0.8 million for payroll taxes and $1.4 million for Oregon property taxes. These amounts are based on the escalation of actual 2005 taxes. The parties agree that no adjustment will be made for franchise fees at this time because this is a revenue-sensitive cost that will automatically adjust based on the final revenue requirement of this case.

Q. What is the basis for the stipulation relating to issue S-2, Federal and State Income Taxes?

A. Parties agree that no adjustments are necessary at this time for Federal and State Income Taxes because these items will automatically adjust based on the final, pre-tax, utility operating income of this case.

Q. What is the basis for the stipulation relating to issue S-3, Administrative & General (A&G) and Operations & Maintenance (O&M) Expense?

A. The parties agree to reduce non-labor costs for A&G and O&M Expense by approximately $6.6 million. This adjustment has several components, some of which were agreed to without changes while others were the result of subsequent discussions and revisions. Ultimately, the final amount represents an overall adjustment to test year non-labor A&G and O&M costs that all parties considered reasonable. The approximate breakdown for this adjustment is: $34,000 reduction of transmission O&M, $1.6 million reduction of distribution O&M, and $4.9 million reduction of A&G expense.

Q. What is the basis for the stipulation relating to issue S-5, Incentives?

A. Staff escalated PGE's actual 2004 non-officer incentives and then removed approximately 50% of those incentives due to the potential for them to be based on financial performance. PGE responded by proposing to remove 100% of officers' incentives and 25% of employee incentives based on PGE's 2007 labor costs (after incorporating the stipulated amount for Staff adjustment S-6). The parties agreed to PGE's proposal which resulted in approximately $5.6 million reduction of incentive costs. PGE accepted staff's distribution of that reduction and will reduce test year O&M costs by approximately $4.4 million and rate base by approximately $1.3 million.

Q. What is the basis for the stipulation relating to issue S-6, Wages and Salaries?

A. Staff's proposal adjusted PGE's test period wages and salaries in accordance with guidelines followed in UE 88. This analysis involved the escalation of PGE's actual 2004 labor costs, adjusted for work-force changes. Staff then proposed a 10% band around their projection, and a 50-50 split of any remaining difference. Although PGE prefers a more explicit market-based determination of non-union wages and salaries, they accepted Staff's adjustment based on an updated projection of test-year labor costs.

Q. What is the basis for the stipulation relating to issue S-8, Other Revenue?

A. Staff proposed to add approximately $40,000 to PGE's Other Revenue based on PGE's response to OPUC Data Request No. 467. PGE and other parties agreed to this adjustment.

Q. What is the basis for the stipulation relating to issue S-9, Capital Expenditures?

A. Staff's initial proposal was based on PGE's historical capital expenditures escalated to 2007. PGE responded with several adjustments to Staff's calculation, to which Staff agreed. The final adjustment was based on a compromise between the remaining difference between Staff's and PGE's positions, to which all parties agreed.

Q. What is the basis for the stipulation relating to issue S-11, System Losses?

A. Staff originally proposed an adjustment to more closely match historical results. PGE explained that conditions have changed from Staff's 2000-2004 analysis to PGE's 2007 test year and that costs have increased accordingly. Parties agreed to PGE's explanation and reduced the adjustment to zero.

Q. What is the basis for the stipulation relating to issue S-12, Memberships?

A. Staff's proposal was based on 2005 actual costs with disallowance percentages based on the activities performed by the organizations to which the memberships apply. PGE replied that for numerous memberships (Edison Electric Institute in particular), PGE had already removed 25% from its revenue requirement to conform to Staff's criteria. Parties agreed to PGE's explanation and the final adjustment was based on a compromise between the remaining difference between Staff's and PGE's positions.

Q. What is the basis for the stipulation relating to issue S-13, Tenant Improvements?

A. This adjustment was based on interpretation of the Code of Federal Regulations, Chapter 18, Electric Plant Instructions, part 6, Expenditures on Leased Activity. Ultimately, parties agreed that PGE's accounting for leasehold improvements under operating leases was proper and no adjustment was necessary.

Q. What is the basis for the stipulation relating to issue S-14, Weatherization?

A. Staff proposed to remove $69,000 in costs related to low-income weatherization programs because these costs should be borne by other organizations including the Energy Trust of Oregon. PGE agreed to remove the costs from its test year revenue requirement but indicated that the issue should remain open for a Commission decision. CUB supports PGE's position on this issue. PGE maintains that it provides a valuable service to customers in addition to the services provided by the other organizations cited by Staff.

Q. What is the basis for the stipulation relating to issue S-15, Customer Service and Information Costs?

A. Staff proposed a reduction of $2.2 million from PGE's Customer Service and Information Costs based on: 1) Category A advertising costs held at one-eighth of one percent of utility revenues, 2) Category B advertising costs held at 2004 actual costs escalated for inflation, and 3) non-labor customer service costs held at 2004 actual costs escalated for inflation. PGE agreed to the reduction for Category A advertising costs and otherwise proposed a reduced adjustment based on an updated analysis of test year Customer Service costs. CUB also responded but with an adjustment higher than Staff's based on different amounts related to customer research and new programs. After subsequent discussions, primarily regarding renewables programs, the parties agreed to a compromise adjustment of approximately $1.6 million.