BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UE 197

In the Matters of PORTLAND GENERAL ELECTRIC COMPANY Request for a General Rate Revision	**PORTLAND GENERAL ELECTRIC COMPANY'S OPENING BRIEF**

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On February 27, 2008, Portland General Electric Company ("PGE") filed this general rate case. PGE's initial revenue requirement request was $145.9 million higher in 2009 than PGE would have expected based on 2008 prices. The proposed increase was composed of three major categories of cost increases. First, approximately one-third of the increase was the result of fuel and purchased power increases. The forecasted increase in net variable power costs ("NVPC") constituted approximately $53 million of the proposed revenue requirement increase. Second, a little over one-third of the increase was due to increases in Operations and Maintenances ("O&M") and Administrative and General ("A&G") expenses. The final third of the increase was primarily driven by increases in rate base and a proposed higher cost of capital. (PGE/100, Piro/2.) On March 24, 2008, the NVPC portion of the request was bifurcated and addressed in commission docket UE 198. The UE 197 docket (non-power cost issues) accounted for $92.9 million of the initial proposed increase in revenue requirement.

Since PGE's initial filing in February, 2008, a number of factors have reduced the size of its request. In UE 198, PGE has entered into a stipulation that reduces the increase due to NVPC by approximately $4.7 million. With respect to costs other than NVPC, PGE has entered into two separate stipulations which cumulatively reduce PGE's revenue requirement increase by approximately $26.7 million. In its sursurrebuttal testimony, PGE has agreed to reduce its request by an additional $13.7 million. As a result, PGE's requested revenue requirement increase for non-power cost items has decreased from its initial proposal of $92.9 million to $56.6 million.

Since the initial filing, power costs have become the dominant factor driving the proposed increase. PGE currently forecasts that its NVPC will increase by approximately $104.1 million for 2009. Accordingly, the percentage of the proposed increase attributable to power costs has doubled from about one-third in PGE's initial rate finding to about two-thirds.

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The table below summarizes PGE's revenue requirement request in UE 197/UE 198.

Table 1
(Revenue Requirement Increase Summary)

Filing	NVPC (UE 198)	All other (UE 197)	Total (UE 197/198)
PGE Direct Filing	$53.0 million	$92.9 million	$145.9 million
Errata Filing Effect	$---	$0.8 million	$0.8 million
June Stipulation Effect	$---	$(13.6) million	$(13.6) million
September Stipulation Effect	$---	$(13.1) million	$(13.1) million
Sept. 26 NVPC/Load Effect	$55.8 million	$3.2 million	$59.0 million
NVPC Stipulation Effect	$(4.7) million	$---	$(4.7) million
Additional Reductions per PGE Sursurrebuttal Testimony	$---	$(13.7) million	$(13.7) million
Net Revenue Requirement Increase	$104.1 million	$56.6 million	$160.7 million

Of the three main drivers for this rate case (power costs, O&M and A&G expenses, and capital additions), all but the O&M and A&G costs have been settled. The vast majority of the challenges to O&M and A&G items are not based on specific claims of imprudence or that the activity is not needed for PGE's regulated operations. Rather, the challenges rely on the unsupported assumption that PGE is not committed to internal cost control. This is dead wrong. PGE is strongly committed to cost control and pursues it in all aspects of its operations. PGE has listed a few examples of recent savings and cost-cutting initiatives in PGE Exhibit 100, Section B. Some examples are:

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- Stringent review of all capital expenditures: PGE ensures that all investments are necessary and cost effective. PGE also uses a strict annual budgeting process to ensure that expenditures are prudent, and reviews results to ensure costs are within expected ranges and that variances are justified.
- Generation improvements: PGE has upgraded power plants over the last 10 years to increase capacity by 108MW, which is the equivalent of building a new plant. Thus, PGE has increased the availability of low-cost power and reduced cost exposure to the volatile wholesale market.
- Highly efficient generation: PGE recently brought Port Westward and Biglow Canyon 1 online, also reducing exposure to wholesale market costs. PGE negotiated fixed-price contracts for Port Westward that brought the plant on budget even as material costs rose significantly.
- Implementation of a smart meter system: PGE projects approximately $18 million in annual operating savings that will only increase through the life of this system. This produces an estimated net present value of approximately $34 million over the 20 years of this project.
- Automated outage reporting system: This new system has improved outage response, reduced costs, and enhanced customer service.

These are only some examples of prudent measures that PGE has undertaken to efficiently provide excellent service to its customers. Other examples are set out in PGE Exhibit 100 and in PGE's other testimony. (PGE/1300, Piro/15). The fact is we have actively managed our costs to such a degree that there are no longer any discretionary programs to significantly cut without compromising service quality and reliability. That is why the other parties in this case rarely attack specific programs or activities but instead rely on broad brush claims that lack specifics.

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PGE has taken action since filing this case to reduce the size of the request. We have entered into three separate stipulations in UE 197 and UE 198 that have cumulatively reduced our request by $31.4 million. In sursurrebutal testimony, PGE agreed to remove another $13.7 million from its request. Far from doing nothing since filing the rate case, PGE has actively considered ways to reduce its request. In sum, PGE has worked diligently both before and during this rate case to manage and reduce its costs.

Without adequate rate recovery, PGE will have to choose between making cuts that will reduce the level of service or undermine the financial strength of the utility. The overall impact of either alternative will be harmful to PGE and our customers. Cutting programs and activities that will harm service quality and reliability will have a direct impact on our customers. Reductions in our financial strength will make financing our system development more difficult (especially in these times of economic uncertainty) and more costly, which will increase rates in the long run.

This opening brief is organized as follows:

- Section 1 addresses the central remaining disputed items in this docket (CUB's 1% reduction in PGE's revenue requirement request, and adjustments to FTEs, wages and salaries, incentives, and loadings);
- Section 2 addresses distribution O&M and customer service issues;
- Section 3 addresses plant and generation O&M;
- Section 4 discusses compensation-related issues;
- Section 5 focuses on A&G expenses still in dispute;
- Section 6 analyzes the remaining tax-related items; and

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- Section 7 sets forth PGE's position with respect to pricing issues (Staff's seasonal pricing proposal, low income issues, and decoupling).

I. CENTRAL UNRESOLVED ISSUES

A. THE COMMISSION SHOULD REJECT CUB'S PROPOSAL TO CUT 1% OF PGE'S ENTIRE REVENUE REQUIREMENT

CUB continues to request that the Commission cut 1% from PGE's entire revenue requirement, based on CUB's argument that PGE's O&M expenses are too high. This proposed cut is not linked to any specific O&M cost that CUB believes to be excessive. Rather, the cut is across the board, based on CUB's generalized suspicion that PGE has some imprudent costs somewhere.

The questionable premise behind CUB's request is that, because the parties cannot find enough specific O&M reductions to satisfy CUB, the Commission should simply lop off 1% of PGE's entire budget. The fact that the parties cannot easily identify reductions in PGE's O&M request logically suggests that PGE's request is generally appropriate. If PGE truly lacked a culture of cost control, as CUB claims, the parties in this proceeding should have had little trouble finding discretionary programs that PGE could cut without compromising service quality and reliability. (PGE/2200, Piro/5.) But CUB asks the Commission to conclude that, because it is difficult to find significant discretionary programs to cut in PGE's request, there must therefore be more waste in the budget, which can only be addressed through across-the-board cuts. There is simply no logical or factual basis for this approach. PGE is a business that closely manages its costs. As this proceeding shows, PGE has few, if any, opportunities to reduce costs without making difficult tradeoffs in the service, safety, and reliability that PGE's customers and the public expect.

1. CUB's proposal understates the magnitude of the proposed reduction

First, it should be noted that CUB's proposed cut is greater than it first appears. CUB is complaining about the parties' failures to find easy cuts in PGE's O&M request. CUB's

solution, however, is to make a 1% cut across PGE's entire revenue requirement. Power costs account for more than half of PGE's revenue requirement. (PGE/2200, Piro/6.) Other large parts of PGE's revenue requirement such as cost of capital, depreciation and amortization, and taxes and fees (except property taxes), have either been settled or are undisputed. CUB's concern is O&M expenses, which account for a small portion of this request and only about 20% of PGE's total revenue requirement. (*Id.*) A 1% overall reduction of PGE's entire revenue requirement would represent roughly a 5% reduction in O&M. (*Id.*) Such a significant cut is arbitrary and without foundation in this record. Further, given that most O&M costs are for operation and maintenance of generation plants and transmission and distribution systems, this across-the-board decrease could have significant impacts on the reliability and regulatory compliance and safety of PGE's facilities. (*Id.*)

2. **The difficulty of making discretionary cuts shows the prudence of PGE's O&M budget**

As discussed above, CUB's central complaint is that the parties to this proceeding have found it difficult to identify easy, safe cuts to PGE's O&M request. CUB argues from this that because specific cuts are hard to find, a large general cut is therefore appropriate. This does not follow. The lack of easy, specific O&M cuts speaks to the overall prudence of PGE's operations. Logically, the fact that the parties cannot identify easy cuts should not be taken as evidence of systemic wastefulness in PGE's operations. If anything, it is the opposite. There is no logical or evidentiary support for CUB's chain-saw approach.

Further, Staff's comparison of PGE's rates and A&G costs do not fairly measure PGE's costs. Staff compares PGE's rates and A&G costs to those of its peers. (Staff/800, Owings/33.) The comparison is plainly not a fair one. Staff simply fails to consider significant differences between the peer utilities to which it compares PGE. For example, Staff Exhibit 815 measures A&G costs as a percentage of plant-in-service. But PGE purchases a much higher percentage of its power on the wholesale market and therefore has significantly lower plant-in-

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service than its peer group. As a result, PGE's A&G costs as a percentage of plant-in-service are higher than its peer group. This is not because PGE is less efficient or has fewer cost controls in place, but simply because it has less plant-in-service. In fact, PGE's A&G costs per total electric customers are typically lower than other utilities, and PGE's net plant per total electric customers are significantly lower than other utilities. (PGE Exhibits 2201, 2202.) Similarly, Staff Exhibits 816 and 817 compare PGE's rates with utilities such as Idaho Power & PacifiCorp which have significantly different resource mixes and, consequently, lower power costs than PGE. Drawing any broad conclusions about A&G or O&M costs based on overall rates is speculative at best. Power costs, not A&G or O&M costs, are the primary drivers of retail utility rates, and provide the primary explanation for differences in those rates. (PGE/2200, Piro/8.)

Staff has suggested a benchmarking study as an alternative to CUB's across-the-board 1% reduction. PGE would not oppose a rigorous benchmarking effort. However, all parties should understand that meaningful benchmarking requires substantial commitments of resources and time. Definitive results take months of work and require cooperation with a number of other utilities. The costs of rigorous benchmarking are not insignificant, and such costs would ultimately be borne by customers. Nevertheless, if Staff and CUB believe that the cost of benchmarking is prudent, justified, and should be included in rates, PGE would be pleased to participate in such an effort. (*Id.*)

PGE previously participated in a rigorous benchmarking study approximately 10 years ago. This was a fairly expensive study that found PGE to be a top performer in many areas, and also provided some benefit by identifying areas in which PGE could improve. Instead of conducting additional expensive benchmarking tests, PGE has pursued internal self-improvement efforts, as well as participating in conferences with other utilities to exchange ideas for best practices and gains in efficiency. (*Id.*) These efforts demonstrate PGE's continued commitment to efficiency and improvement in its operations and management.

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3. **CUB's proposal is not consistent with Oregon law**

CUB is essentially asking the Commission to determine fair, just and reasonable rates by examining test period costs and then making a further adjustment. This does not, on its face, result in fair, just and reasonable rates. Indeed, the Commission has expressly declined invitations to make further reductions after it has established fair, just and reasonable rates. UE 115, Order No. 01-988 at 5 (November 20, 2001) ("Rates must be sufficient for the utility to maintain financial viability and the capability to fulfill its obligation to provide electricity to customers in its service territory. Accordingly, this Commission must allow a utility the opportunity to recover increased operating expenses that are prudently incurred. We cannot ignore the importance to ratepayers of maintaining the financial viability of the utility.")

B. WORKFORCE

1. **Staff's proposed FTE adjustment**

The wage and salary component of PGE's revenue requirement request is a function of the number of full-time equivalents ("FTEs") and the pay structure. (PGE/800, Barnett-Bell/5.) An FTE represents approximately 2,080 hours of work.[1] It does not represent employees or head count. Rather, it reflects the level of effort needed to perform PGE's regulated activities. (PGE/1400, Tooman-Tinker/6.)

PGE determines the number of FTEs for the test year based on the labor needed to provide reliable, safe, and efficient electricity service. Managers in each department of the company budget the number of labor hours required to accomplish their department's work. (*Id.*) The increase in FTEs from 2007 through the 2009 test year is driven by four factors: additional regulatory requirements, new generating plants (Port Westward and Biglow 1), growth in customer base, and efforts to reduce overtime. (*Id.*) For each of these four factors, PGE provided details in testimony explaining the need for the increase in FTEs. (PGE/1400, Tooman-Tinker/7.)

[1]For more detail on FTE calculations, see PGE Exhibit 2300, page 10, footnote 7.

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Our initial rate case filing was based on a forecasted 2,733 FTEs (not including non-exempt overtime). We subsequently included a number of adjustments reducing the number of forecasted FTEs to 2,706. The table below summarizes the adjustments.

Table 2
Adjustments to 2009 FTEs

Original 2009 FTEs	2,733
Removed four FTEs associated with PGE's heat pump program so it is not included in rates	-4
Removed 20 distribution FTEs as unfilled positions (offsetting credit included)	-20
Removed 10 customer service representative FTEs as unfilled positions (offsetting credit included)	-10
Added seven FTEs to meet additional FERC/NERC/WECC compliance requirements	+7
Adjusted 2009 FTEs	2,706

(PGE/1400, Tooman-Tinker/10.) The principal change in PGE's 2009 FTE request is based upon the removal of 30 FTEs (20 distribution FTEs and 10 customer service representative FTEs), which reflects the average number of unfilled positions. (PGE/1400, Tooman-Tinker/14-15.)

Staff proposes a reduction of 98 FTEs from PGE's request based on the following approach: Staff takes an estimate of actual 2007 FTEs, escalates it by an arbitrary growth rate, and then compares it to PGE's initial FTE request. Staff then converts this reduction in FTEs into a dollar amount reduction by applying an average wage plus loadings for payroll related expenses. Finally, Staff allocates the adjustment between capital and expense.

Staff's approach should be rejected outright. Staff has failed to contest or dispute PGE's support in testimony explaining the basis for each incremental FTE identified in the case. (PGE/2300, Tooman-Tinker/10.) Staff's formulaic approach makes no attempt to evaluate the basis for the individual positions proposed or the obligations PGE must satisfy.

Nor does Staff's approach comply with standard ratemaking principles, which require that a utility's forecast for the test year must consider and include known and measurable changes that are expected to persist. *American Can Co. v. Lobdel*, 55 Or App 451, 454-55

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(1982) ("When a future test year is used, the data is drawn from budget figures and financial models of the utility. Abnormal events of the past are therefore excluded and all known future changes are included.") Staff fails to consider known and measurable changes that support PGE's request for incremental FTEs. The 2009 forecast for FTEs is not about historic numbers that can be mechanically increased without regard to real world requirements. It is about the resources needed to provide safe, reliable power and meet all of PGE's regulatory and compliance requirements. (PGE/1400, Tooman-Tinker/7.)

Aside from ignoring real-world obligations and requirements, Staff's approach is based on several mistaken assumptions. First, Staff claims PGE is requesting 130 new FTEs but this ignores PGE's agreed-to reduction of 27 FTEs, reflected in Table 2 above, from PGE's initial request. (PGE/1400, Tooman-Tinker/10.) The appropriate comparison for adjustment purposes is PGE's current proposal, not our initial proposal. Otherwise, Staff's adjustment effectively double counts the agreed-to reduction of 27 FTEs. (PGE/2300, Tooman-Tinker/14.)

Second, Staff's claim that PGE is requesting 130 new FTEs also fails to recognize that 16 of the new FTEs are related to the Biglow Canyon Wind Project and Port Westward that have already been approved in rates through the Commission orders in UE 180 and UE 188 (Orders No. 07-015 and 07-573.) (*Id. at* 7.) These FTEs are new for the 2009 test year because Port Westward did not become operational until June 2007 and Biglow did not become operational until December 2007. These two factors reduce PGE's incremental FTE request in this docket from 130 to 87 FTEs. Thus, the appropriate number is 87 FTEs, not Staff's 130.

Third, Staff's adjustment starts with the wrong baseline figure for actual 2007 FTEs. Staff adjustment assumes actual 2007 FTEs of 2,560, a figure PGE has corrected on several occasions throughout this proceeding. (PGE/1400, Tooman-Tinker 8; PGE/2300, Tooman-Tinker/10-11.) The correct actual FTE figure for 2007 is 2,612. This is the figure contained in PGE's 2007 Results of Operations Report. (PGE/1400, Tooman-Tinker/8.)

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The difference between the two figures is that Staff's 2,560 FTE figure ignores overtime for exempt employees. If two employees work 20 hours of overtime a week to cover three positions, Staff's proposed figure would count only two FTEs even though there is clearly work for three employees. PGE's approach takes into account overtime hours and appropriately represents the amount of work and effort needed for PGE's regulated operations. (PGE's approach is called "with conversion;" the approach that ignores overtime hours is called "without conversion hours").

Use of "conversion hours" is more accurate because it focuses on the amount of work and effort required for PGE's regulated operations. If there is a temporary vacancy in 2007 and existing employees work overtime to cover that position, there should be no increase in the number of FTEs in 2009 when the position is filled. The level of work has not changed between 2007 and 2009; PGE has simply filled a position that was temporarily unfilled in 2007. PGE's approach using "conversion hours" would appropriately reflect no increase in FTEs in this example; Staff's would not.

Moreover, Staff's use of "without conversion hours" for the 2007 baseline is inconsistent with its own position. Throughout its testimony, Staff relies on FTEs calculated using conversion hours. For example, the escalation rate it uses (1.45%) is based upon 2,612 FTEs in 2007, which uses conversion hours.

With these adjustments noted above (actual 2007 FTEs of 2,612, removal of the 27 FTEs PGE agreed to remove, and recognition that 16 FTEs for Port Westward and Biglow have already been approved), Staff's method would result in an adjustment of 18 FTEs. We do not support Staff's approach. However, if done correctly, Staff's approach should yield a reduction to PGE's costs of $2 million. (PGE/1400, Tooman-Tinker/10.)

PGE's sursurrebuttal testimony offered another alternative to Staff's adjustment, one which avoids the controversy surrounding "conversion hours." Under this alternative, PGE

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starts with 2008 actual FTEs of 2,710 (January through August) and escalates that number through 2009 by Staff's escalation rate of 1.45%. Actual 2008 FTEs are without conversion hours. This alternative would result in an adjustment of 37 FTEs and a $4.2 million reduction in PGE's costs. (PGE/2300, Tooman-Tinker/15.)

2. ICNU-Cub workforce, wages and salary, and payroll-related adjustments

A. FTEs

ICNU-CUB's proposed FTE adjustment is based on an unprincipled application of its own model. Ms. Blumenthal uses a model that is substantially similar to Staff's. She begins with actual 2007 FTEs and then applies an escalation factor to derive 2009 test year FTEs. However, Ms. Blumenthal's mathematical approach ignores known and measurable changes that are expected to persist. Ms. Blumenthal's approach should be rejected for the same reason as Staff's similar method.

In surrebuttal testimony, ICNU-CUB accepted 2,612 FTEs as the appropriate starting point for the 2007 actual baseline. (ICNU-CUB/111, Blumenthal/7.) By updating this figure in Ms. Blumenthal's original model from reply testimony, we calculate test year FTEs of 2,698, or just 8 fewer FTEs than PGE's current request. (PGE/2300, Tooman-Tinker/ 17.)

Ms. Blumenthal is able to derive a greater adjustment amount in surrebuttal testimony by modifying her original model and by using a plug figure as an escalation rate. Her original model, updated to reflect 2007 FTEs of 2,612 which Ms. Blumenthal accepts, yielded an escalation rate of 1.64%. (PGE Exhibit 2307.) In surrebuttal testimony, Ms. Blumenthal used a "plug" escalation rate of 1% instead. Ms. Blumenthal offers no explanation or support for this change in the escalation rate. It bears no relationship to the historic growth rates in the tables accompanying Ms. Blumenthal's testimony. It does not have any foundation in the record. Simply putting an assumed number into a spreadsheet should not be the basis of an adjustment.

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B. Payroll-related adjustment

As discussed more fully below, there appears to be a misunderstanding regarding the use and application of payroll loadings. The costs these loadings represent (payroll taxes, employee benefits, incentives and employee support) are not included in this case through application of the loadings rate. Instead, they are directly forecasted. Loadings are then a derivative of these costs and not vice versa. (Hearing Trans. at 48.) The loading rate is used for two purposes. First, they are used to allocate between capital and O&M. Second, they are used in this case to estimate the impact on costs of removing FTEs from PGE's request when making FTE and adjustments in the case.[2]

ICNU-CUB mistakenly claims that the portion of the costs attributed to the employee support loading should be excluded. Loadings are used to allocate payroll costs to capital projects and non-regulatory activities. When labor is allocated to such projects or activities, wages and salaries are only part of the total cost of such labor. Loadings are used to allocate the full labor costs associated with such work. (PGE/1400, Tooman-Tinker/10.) Loadings include employee benefits, payroll taxes, incentives and employee support. The total loadings rate for the 2009 test year is 48.5%. (*Id.*)

The employee support portion of loading represents the cost of administering PGE's compensation program, equal opportunity and employees relations, employee training and development and Human Resources administration. (*Id. at* 18.) The department has been in existence for a very long time and its costs were approved in UE 180 (Commission Order No. 07-015):

> In addition, PGE's current loadings and allocation methodology have been in existence for many years and the OPUC staff have not only audited them, but did not identify any issues associated with the Employee Support loading. Finally, the Employee Support loading is also included in the Allocation and Loading Manual that PGE provides annually with its Affiliated Interest

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[2] As discussed by Mr. Tooman at the hearing, we traditionally use fully loaded labor rates to estimate the impact on costs caused by reductions in FTEs, this approach tends to overstate the cost savings of FTE reductions. (Hearing Transcript at 41.)

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> Report in accordance with OAR 860-027-0048(6). In short, these costs have been fully justified.

(*Id. at* 17-18.)

Indeed, Ms. Blumenthal acknowledges she has no basis for excluding such costs from PGE's revenue requirement. Rather, she objects to including the cost as part of the payroll loading rate. (ICNU-CUB/111, Blumenthal/9-10.) However, Ms. Blumenthal removes employee support as part of the loading without adding back the expense as part of PGE's revenue requirement. The net effect of this approach is to disallow expenses for which Ms. Blumenthal concedes there is no basis for disallowance.

Ms. Blumenthal appears to base her objection to employee support on the misunderstanding discussed above regarding the function of loadings. She complains that "there is no information to indicate that these costs vary directly with payroll." (*Id. at* 8.) PGE does not claim, and the revenue requirement request is not based on the assumption that, the cost of employee support varies with payroll. Ms. Blumenthal appears to believe that the loadings rate drives PGE's revenue requirement request. In fact, the only use for loadings is to allocate costs to capital projects and unregulated activities, and as an estimate of the cost impact of reducing FTEs in this rate case. (PGE/2300, Tooman-Tinker/19.)

C. Wages and Salary

PGE's pay structure is determined by the relevant markets in which PGE competes for qualified and skilled labor. (PGE/800, Barnett-Bell/6.) PGE routinely compares our wages and salaries to what other comparable companies pay to ensure that PGE offers compensation at competitive market rates.

> In 2007, we compared 19 hourly non-union and 57 salaried non-officer positions with the market. The study showed that PGE's wage and salary structure is highly correlated with the market and that the correlation has increased since 2005.

(*Id.*)

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PGE reviewed market surveys and Bureau of Labor statistics when forecasting the wage escalation factor used to develop the 2009 test year. PGE forecasts a 4.5% annual increase in annual non-bargaining wages and salaries. (*Id. at* 6.) Preliminary surveys from the Economic Research Institute indicate that projected escalation rates for 2009 are in the mid-4% range, in alignment with PGE's forecast in this docket. (PGE/2400, Barnett-Bell/6.)

ICNU-CUB proposes to escalate PGE's wages and salaries at 0% for officers, 2% for exempt and union employees, and 3% for hourly employees. ICNU-CUB's methodology should be rejected for several reasons. First, it selectively excludes certain historic escalations in PGE's wages and salaries because "they are unusual when compared with other years". (ICNU-CUB/100, Blumenthal/9.) However, ICNU-CUB selectively apply this criteria. In years when wage and salary increases were lower than average, ICNU-CUB do not remove such data; however, when escalations are greater than average, they exclude such variances. (PGE/2400, Barnett-Bell/4.) ICNU-CUB seek to cherry-pick PGE's historical changes in wages and salary in a result-driven and arbitrary manner.

Second, ICNU-CUB ignore historical events that affected PGE's wages and salaries. For example, PGE did not provide merit increases in 2003, which served to lower wages and salaries in both 2003 and 2004. (PGE/2400, Barnett-Bell/5.) In addition, compensation for officers was below market when PGE was part of the Enron bankruptcy estate. (Hearing transcript at 22.) Indeed, PGE retained an outside, independent third-party expert to review its officer compensation. That outside review determined that PGE's officers were well below market. As a result, officer compensation was increased when PGE became publicly owned in 2006. (*Id. at 22-23.*) ICNU-CUB's approach ignores these factors.

C. INCENTIVES

Incentive compensation is an important part of PGE's total compensation. As with wages and salaries, PGE's strategy is to provide incentive levels that attract, retain and

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motivate employees. PGE monitors the employment market and best practices with respect to incentive compensation. PGE's incentives costs are slightly below market. (PGE/2400, Barnett-Bell/10.) Although incentives are just one part of PGE's total compensation, "incentive compensation allows PGE to remain competitive in the labor market while encouraging employee performance and productivity. PGE's incentive programs align compensation costs with shared customer and company goals to reduce power costs, improve customer satisfaction and preserve PGE's financial stability." (PGE/800, Barnett-Bell/8.)

The Corporate Incentive Plan ("CIP"), Annual Cash Incentive ("ACI"), and Notable Achievement Awards ("Notables") for PGE employees (excluding officers) remain in dispute in this case. PGE has removed from our request all incentive compensation for officers. (PGE/1400, Tooman-Tinker/5.)

PGE's current cash incentive programs (ACI and CIP) have been structured to closely align incentive compensation with benefits to customers. (PGE/800, Barnett-Bell/9; PGE/1500, Barnett-Bell/9.) The incentive programs are based on the following four factors:

Objective	Weight
Overall Customer Satisfaction	20%
Power Distribution Quality and Reliability	20%
Generation Plant Availability	30%
Financial Strength	30%

PGE/1500, Barnett-Bell/10.

These four objectives provide direct benefit to our customers:

- Overall Customer Satisfaction: This factor ties incentives directly to customer benefits.
- Power Distribution Quality and Reliability: This goal links incentive compensation to providing high quality and reliable power to our customers, resulting in fewer outages and shorter outage durations.

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- Generation Plan Availability: Plant availability directly impacts power costs through forced outage rates. As a result, power costs are lower than they would otherwise be.
- Financial Strength: Strong fiscal management reduces customers' rates by providing access to capital markets at competitive rates. Financial strength can reduce customer rates through lower borrowing costs, resulting in a lower cost of capital.

(PGE/800, Barnett-Bell/9; PGE/1500, Barnett-Bell/10.)

PGE's 2009 forecast for Notables is $200,000 ($114,000 less than 2007). (PGE/800, Barnett-Bell/11.) Notables rewards extraordinary effort and serves to motivate PGE employees. (PGE/1500, Barnett-Bell/11.) This program is not tied to the company's financial performance or profitability. (*Id.*)

The Commission's policy is to allow incentive plans in rates if such plans are designed to benefit shareholders and ratepayers. (PGE/1500, Barnett-Bell/13, citing Order No. 97-171 at 76.) PGE's incentive plan clearly meets that standard. The plans closely align compensation with benefits to customers.

Staff proposes to disallow 50% of non-officer (i) ACI, (ii) CIP and (iii) Notables. The cost impact of this adjustment would be $5.6 million. (PGE/2400, Barnett-Bell/2.) Staff's disallowance is based on a misunderstanding of PGE's incentive plan and the Commission's policy with respect to such plans. Staff's position that incentive plans "based on the financial performance of the utility" must be disallowed has no application in this case. PGE's incentive plans are not focused on shareholder benefits or divorced from our customers' interests. Rather, the incentive plans are designed specifically to ensure that incentive payments dovetail with customer benefits. As such, PGE's incentive plans in this case bear no resemblance to the officer compensation plans that were reduced in Order No. 87-406 because the Commission found that

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Oregon ratepayers contributed only a portion of Pacific Northwest Bell's total operations. Moreover, recent Commission orders offer no support for Staff's arbitrary 50% disallowance. In UE 115 (Order No. 01-777), the Commission allowed 85% of PGE's non-officer incentives. (PGE Ex. 2402.) In UE 180 (Order No. 07-015), the Commission allowed 75% of PGE's non-officer incentives. (PGE Ex. 2403.)[3]

Finally, Staff's entire methodology with respect to incentives is unreliable and arbitrary. For example, in Staff Exhibit 809, Staff applies an adjustment of 92% to officer ACI and officer/non-officer CIP. This contradicts Staff's own testimony, which sought "removal of the entire amount of officer ACI and officer stock incentives." (Staff/800, Owings/19.) Staff also uses a depreciation adjustment of approximately 3.4%, for which it provides no support whatsoever. When asked for support in a data request, Staff provided none. (PGE/2400, Barnett-Bell/8.)

Staff overstates the amount of the officer Stock Incentive Plan ("SIP") in PGE's request and, therefore, misstates the impact of its removal. The correct amount of officer SIP in PGE's original request was $1.7 million, not $2.8 million, as Staff claims. (PGE/2400, Barnett-Bell/7.) No further adjustment to officer SIP should be made given that PGE has removed this entire amount from our request.

D. ICNU-CUB'S LOADING ADJUSTMENT

ICNU-CUB's witness makes her adjustments to PGE's revenue requirement for incentives and employee support through an adjustment to PGE's loadings. (ICNU-CUB/100, Blumenthal/2.) Ms. Blumenthal's loading rate of 39.4% excludes all incentives and employee support from PGE's loading rate of 48.5%. Ms. Blumenthal applies the two loading rates to total labor cost (PGE's labor cost times 48.5% and ICNU-CUB's calculated labor costs times 39.4%). She calculates her adjustment amount based on the difference between these two amounts after

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[3] If 75% of non-officer incentives were allowed, this would result in a revenue requirement adjustment of approximately $2.1 million. (PGE/2400, Barnett-Bell/10.)

adding back to ICNU-CUB's calculated total the portion of non-officer incentives ICNU-CUB does not dispute. (ICNU-CUB Exhibit 113 at 2.)

As discussed above, ICNU-CUB's proposed disallowance of incentives and employee support should be rejected as a threshold matter (*see* Sections I.B.2.B and I.C above). Even if these adjustments are adopted, the method Ms. Blumenthal uses to determine the adjustment amounts related to such disallowances is methodologically unsound and substantially overstates the amount of such adjustments. Ms. Blumenthal's approach fundamentally overstates the amount for incentives and employee support contained in PGE's revenue requirement request by applying the loadings rate to total labor costs when the components of the loading rate do not, in fact, apply to PGE's total labor base. (PGE/1400, Tooman-Tinker/16-17; Hearing Transcript (Oct. 10, 2008) at 41.) To give just one example, the incentives component of the loading rate should apply only to straight-time labor that excludes (1) all overtime labor, (2) all hourly labor at PGE's generating plants because they have their own incentive plans, and (3) all paid-time-off labor. (PGE/1400, Tooman-Tinker/17.) Ms. Blumenthal's flawed approach serves to overstate the loading-related costs included in PGE's request by approximately $14 million. (Hearing Transcript at 41.)

Ms. Blumenthal's approach represents a fundamental misunderstanding regarding the function of the loadings rate and how payroll-related costs are included in PGE's revenue requirement. PGE first forecasts the payroll-related costs included in our revenue requirement request. As mentioned above, payroll-related costs include four items: payroll taxes, benefits, incentives, and employee support. These costs apply to most, but not all, of PGE's labor base. (Hearing Transcript at 34 and 48.) Once PGE determines the overall level of its payroll-related costs and the applicable portion of its labor base to which these costs apply, PGE then determines the loading rate based on these factors. PGE then uses that loading rate to allocate payroll-related expenses to capital jobs and non-regulated activities. The loading rate is,

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therefore, a rate that is calculated after costs are determined. It is *not* a driver of revenue requirement costs. Accordingly, any adjustments to incentives or employee support items should be made directly to PGE's revenue requirement request and should not be made indirectly through PGE's loading rate as Ms. Blumenthal suggests.

II. DISTRIBUTION O&M AND CUSTOMER SERVICE

1. The Commission should reject Staff's proposal to reduce PGE's tree-trimming costs

Staff proposes to reduce PGE's tree-trimming expenses by approximately $1.3 million in the 2009 test year. This proposed reduction is based on two misunderstandings. First, PGE's response to OPUC Data Request 428 erroneously stated that PGE expected to trim 4,500 line miles in 2008 and 2009. This estimate was a result of an erroneous double-counting of "carryover" miles to be trimmed. Carryover miles represent miles that were scheduled for trimming in the previous year but were not completed and therefore are carried over and trimmed in the next year. (PGE/2500, Hawke/7.) PGE Exhibit 2501 corrects this double-counting and sets out actual estimated line miles trimmed between 2004 and 2007, with projections for 2008 and 2009. With that correction, PGE's estimates of line miles to be trimmed in 2009 are in line with actual miles trimmed in recent years.

The second misunderstanding involves the way that carryover miles are counted. PGE erroneously stated in our response to OPUC Data Request 428 that it had reported the number of actual miles trimmed between 2004 and 2007 to Staff in its Service Quality Measurements ("SQMs"). In fact, however, the SQMs do not count carryover miles, and thus understate the number of actual line miles trimmed in a given year. (PGE/2500, Hawke/7.) The accurate measurement for 2004 to 2007, including both the SQMs and carryover miles, is set out in PGE Exhibit 2501.

With those two corrections, PGE's estimated line miles trimmed in 2009 is in line with actual miles trimmed in the last three years. PGE's $12.3 million budget for tree trimming

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represents an increase of approximately 6.2% per year since 2007, which is nearly identical to the escalation rate used by Staff. (Staff/900, Ball/21.) Staff's recommended reduction is based on misunderstandings caused by PGE's initial responses to OPUC Data Request 428. When those responses are corrected, as in PGE Exhibit 2501, the rationale for the proposed $1.3 million reduction disappears. In fact, a $1.3 million reduction in PGE's tree-trimming budget would result in PGE not being able to trim approximately 550 miles of lines otherwise scheduled to be trimmed in 2009. (PGE/2500, Hawke/8.) This would increase the possibility of tree contacts in violation of OAR 860-024-0016, with corresponding increases in the likelihood that PGE will not meet required SQMs. PGE's initial request of approximately $12.3 tree-trimming expenses in 2009 is valid and is based on actual work that will need to be done in 2009 to meet the SQMs.

2. PGE accepts Staff's proposed reduction for Arc Flash Mitigation

PGE accepts Staff's proposed reduction of $271,000 in PGE's expenses for Arc Flash Mitigation.

3. PGE proposes to reduce underground FITNES costs by $900,000 based on a change from a four-year cycle to a ten-year cycle

Staff initially proposed a reduction in FITNES program costs of $900,000 based upon the 2007 early completion of underground FITNES. In surrebuttal testimony, Staff recognized that that reduction was not representative of ongoing costs for the program and proposed a revised reduction of approximately $312,000. (PGE/2500, Hawke/8.)

PGE can achieve significantly greater cost reductions than those recommended by Staff if the Commission will change underground FITNES from a four-year to a ten-year cycle. A ten-year cycle is standard for other electric utilities in Oregon, and the Commission should adopt that standard for PGE. If the Commission approves a switch to a ten-year cycle, then this would decrease the 2009 costs of the underground equipment-related portion of PGE's FITNES program by $900,000 in 2009. (*Id.*) No party has opposed this change in testimony. PGE fully

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supports this change and requests that the Commission find that a ten-year cycle is appropriate and thus reduce PGE's underground FITNES costs by $900,000 in 2009.

4. The Commission should reject Staff's proposed reduction to the porcelain insulator replacement project

Staff proposes to reduce PGE's forecasted cost of approximately $684,000 for the porcelain insulator replacement project by approximately $288,000. This would place PGE's funding for this project for 2009 significantly below levels for 2006 and 2007 ($791,894 and $525,789, respectively). (PGE/2500, Hawke/3.)

Staff's proposed reduction is based on an incorrect assumption about how PGE staffs the porcelain insulator replacement project. Staff states that because PGE used some independent contractors on the project in 2007, and PGE will again do so in 2009, the project's budget should be reduced to reflect corresponding savings in PGE's labor expense. (Staff/900, Ball/17.) The problem with this argument is that PGE will not actually have lower labor expenses. PGE expects our labor force to be fully deployed in 2009, either on this project or on others. (PGE/2500, Hawke/2.) This is not a case where PGE will replace employees with contract laborers and thereby achieve a savings in our overall labor costs. Rather, it is a case where PGE will hire additional independent contractors in addition to our existing labor force to be able to meet our 2009 goals. Accordingly, there are no labor savings associated with using contractors on this job. There are only costs. Those costs are in PGE's proposed budget for this project for 2009, and eliminating them will have the direct result that there will be insufficient workers to complete the distribution work scheduled on this project for 2009. (*Id.*)

Staff's proposed reduction is based on the incorrect assumption that because PGE proposes to use contractors for some of this work, it must also be proposing to eliminate an equivalent amount of its labor force, thus saving labor costs. As this assumption is incorrect, the justification for the proposed reduction is not valid. PGE respectfully requests that the

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Commission grant the full amount of the proposed request for the porcelain insulators replacement project.

5. **The Commission should reject Staff's proposal to deduct locating costs**

OPUC Staff proposes to deduct approximately $271,000 from locating costs for the 2009 test year. Staff bases this adjustment on incorrect assumptions, with the result that their proposal does not provide for a reasonable projection of location costs for 2009.

Staff bases their analysis on PGE's response to Data Request No. 183, in which Staff asks specifically for non-labor costs only. (PGE/2500, Hawke/4.) As a result, Staff's analysis does not consider PGE's total costs for locating. PGE's locating expenses should reflect some portion of PGE labor, because there are areas of PGE's service territory where accurate location of facilities requires a high level of expertise and cannot be performed by contract labor. In addition, when PGE has an underground facility outage, specially trained linemen locate PGE's facilities and use equipment to pinpoint exactly where the fault has occurred on the line. Again, this is work that cannot adequately be performed by contract employees. When labor costs are properly considered in this request, most of the asserted justification for Staff's proposed reduction disappears. (*Id.*)

Further, as discussed in PGE's surrebuttal testimony (PGE/2500, Hawke/5-6), it now appears that PGE's projection for location expenses may be significantly too low for 2009. PGE believes that the implementation of the "811 Call Before You Dig" campaign and the Verizon fiber optic installation have significantly increased the number of locate requests. PGE now projects that it will receive approximately 156,280 locate requests for 2009, far higher than the 135,620 initially projected, which are the basis of the 2009 test year forecast. PGE's locate function is demand-driven and mandated by Oregon state law. PGE's forecast request is based on an estimate that appears in hindsight to be significantly too low. Underfunding location expenses which PGE is legally required to incur would significantly penalize shareholders or

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decrease needed funding in other areas. Accordingly, PGE's expected costs associated with location requests should not be reduced.

6. The Commission should reject CUB's proposal to remove costs of the Customer Focus Initiative

CUB proposes to disallow the entire program cost of approximately $300,000 for PGE's Customer Focus Initiative. CUB's argument is that the Customer Focus Initiative should be disallowed because it is not focused on short-term cost efficiency or minimization of customer rates. (CUB/100, Jenks/24-26.)

The Customer Focus Initiative is designed to foster sustainable, long-term improvements in reliability, service, and cost efficiency throughout PGE's operations. (PGE/2500, Hawke/13.) Although increases in cost efficiency are part of the justification for the modest $300,000 cost of this initiative, they are not the entire focus, and should not be the entire focus of the Commission's analysis. Rather, the purpose of the Customer Focus Initiative is to enhance service and reliability across PGE's operations, to create customer benefits both in terms of short-term efficiencies and long-term improvements in service. (*Id.*) CUB's argument focuses on one benefit of the Customer Focus Initiative only, and therefore understates the customer benefits that PGE believes will be achieved through this Initiative. The Customer Focus Initiative is a well-thought-out, modest program that will yield cost efficiencies and improvements in reliability and customer service over the long term, with the result that customers will receive better service at a better price.

7. The Commission should reject CUB's proposed reduction in helicopter fuel costs

The outstanding issue in this case related to the helicopter is the number of hours of operation. The difference in revenue requirement between CUB's and PGE's positions is about $16,000. Frankly, this amount does not rise to the level that will affect rates. Therefore, PGE will concede this issue while continuing to believe that our position is appropriate.

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III. PLANT AND GENERATION O&M

1. The Commission should reject CUB's proposal to remove all Generation Excellence costs

CUB argues that the Commission should not allow PGE to recover any costs related to the Generation Excellence program, because no formal cost-benefit analysis of Generation Excellence has been performed. (CUB/200, Jenks/19.)

PGE thoroughly responded to CUB's argument about Generation Excellence in our rebuttal testimony. (PGE/1800, Quennoz/2-6.) Generation Excellence is an umbrella initiative that centralizes several programs focused on plant safety and reliability. PGE is in a transitional period in which the pool of talented, highly-qualified personnel is thinning due to the recent or imminent retirement of experienced engineers and power plant employees. The Generation Excellence initiative is designed to keep PGE's generating plants operating consistently and safely during this transition period. The cost of the initiative is small, and customers will benefit through improved reliability, consistent plant operations, and a smoother transition as highly qualified and trained employees retire.

As discussed in Mr. Quennoz's testimony, PGE developed Generation Excellence through extensive process and criteria, using a Delphi panel of senior plant managers. *(Id.)* PGE considered financial analyses and other criteria to enhance training and safety programs at PGE's generation facilities. CUB's entire objection is that PGE did not perform a traditional cost-benefit analysis in developing the Generation Excellence initiative. But there is no invariable requirement of such a formal analysis, especially in circumstances where the benefits of a program are obvious.

Continued training of skilled personnel at PGE's generation facilities is crucial and will benefit customers through decreased outages and improved service. (PGE/2600, Quennoz/4.) Plant performance at PGE's generation facilities also benefits customers by reducing PGE's utilization of volatile power markets, thereby maintaining net variable power

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costs at as low a level as possible. CUB proposes a short-sighted approach that would limit PGE's ability to maintain operational readiness and safety at our plants. The costs of Generation Excellence should be included in PGE's revenue requirement.

2. The Commission should reject CUB's proposed removal of costs for Revision II of the Boardman Simulator

CUB argues that PGE should not recover the $1.0 million of additional costs for Revision II of the Boardman Simulator project because there was no formal cost-benefit analysis to support them. (CUB/100, Jenks/18.) The purpose of the Boardman Simulator, and of the revisions to the Simulator, is to comprehensively and cost-effectively give plant operators the skills and experience essential to safely and efficiently operate modern power plants. (PGE/2600, Quennoz/6.) As was the case with the original version and subsequent revisions of the Simulator proposal, PGE's rationale for this program has always been reliability. PGE performed an economic valuation for the original version of the project profile and updated that valuation for the first revision in order to understand what economic benefits, in addition to reliability, would be obtained from the simulator. (*Id.*) However, the underlying purpose of the Simulator was always reliability.

Simulator training at Boardman is more important than ever. Costs of outages are higher now than they were in the past. Further, equipment is becoming more sophisticated over time. Previously, PGE has sent employees to off-site simulator training during planned maintenance outages, with the result that operators received training only once every two years. In light of new and more sophisticated plant equipment, PGE believes that reliable plant operation requires quarterly training. PGE will be able to perform this training on-site with the Simulator. A control room Simulator provides practical experience in diagnosing problems and following off-normal and emergency procedures at the plant, providing benefits to customers through safe operation of a valuable asset. (PGE/1800, Quennoz/8.) PGE has committed to increased reliability as a result of the upgraded Simulator, even though the Simulator program

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was targeted to maintain the high level of existing operations in light of increasing power prices. In the UE 198 Stipulation, PGE agreed to effectively lower Boardman's 2009 forced outage rate in MONET to reflect better operations associated with the first $1.5 million in Simulator costs. As of the September 26, 2008 filing, this amounts to a customer benefit of approximately $319,000. (PGE/2600, Quennoz/8.)

PGE believes that the entire cost of the Boardman Simulator is necessary and critical to maximize its value of the plant. The entire cost of the Simulator should be included in PGE's 2009 test year revenue requirement.

3. O&M Costs for Beaver, Boardman and Colstrip Plants

Both Staff and PGE recognize that prudent utility operations require above average O&M costs for PGE's Beaver, Boardman, and Colstrip generating plants in the test year 2009. (PGE/2200, Piro/10.) Both PGE and Staff agree on the amount of "above average" O&M costs for these plants in 2009 ($6.8 million). However, Staff proposes that PGE recover only one-tenth of this amount or $0.7 million in the 2009 test year, and it opposes the creation of regulatory assets to insure collection of all of PGE's prudently incurred costs.

Staff's proposed treatment of the above average O&M costs is fundamentally flawed. By permitting PGE to recover only the nominal value of its prudently incurred costs over a ten-year period, Staff would affectively disallow a substantial portion of these costs without any basis.

> In a present value sense, PGE would receive only $4.9 million, which is approximately 72% of true costs. Further, based on PGE's research, the likely accounting treatment that would follow - - if the Commission approves Staff's proposal - - would be an impaired regulatory asset (*i.e.,* an asset booked at a discount from the $6.8 million of authorized revenues over 10 years) and an associated adverse earnings impact in 2009.

(PGE/2200, Piro/10.)

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PGE proposes a five-year regulatory asset structure. (*Id. at* 11.) This would reduce PGE's test-year revenue requirement by spreading such costs over time, but also ensure PGE's full recovery of our prudently incurred costs. PGE's proposal results in a decrease of $5.5 million in O&M costs and an increase of approximately $6.2 million in rate base, reducing revenue requirement by approximately $5.0 million. The five-year recovery period balances "Staff's objective that base rates be lower with the desire to recover costs over a reasonable period of time." (PGE/1800, Quennoz/18.)

The Commission should adopt PGE's proposed treatment for O&M costs associated with Beaver, Boardman and Colstrip generating plants. That proposal strikes an appropriate balance between the desire to mitigate rate increases with the recognition that PGE should recover its prudently incurred costs. Staff's proposal is inadequate in that it fails to consider the time value of money and insures that PGE will not recover its true costs. While PGE recommends a five-year regulatory asset structure, it is willing to support a 10-year regulatory structure so long as it is permitted to recover the time value of costs incurred in the test year.

IV. COMPENSATION RELATED

1. The Commission should reject Staff's proposed reduction to medical and dental benefits

Staff proposes to remove $532,674 from PGE's request for medical and dental benefits. As discussed in PGE's surrebuttal testimony (PGE/2400, Barnett-Bell/12), Staff's proposed reduction is based on three misunderstandings. First, Staff used incorrect dollar amounts for the 2007 baseline for active and non-active union medical and dental benefits. The correct figure is found at PGE Exhibit 1500, p. 15, which identifies the amounts that PGE booked in 2007 as expenses, $1,199,155 for union retirees and $9,235,367 for active union employees. These are the correct figures and should be the basis for the Commission's calculation. (PGE/2400, Barnett-Bell/12.)

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Second, Staff's proposed escalation rate of 8.5% is too low. Active union medical and dental costs are a negotiated benefit and are managed by a Taft-Hartley trust. PGE anticipates that these costs will increase at a rate similar to the increase for non-union medical and dental benefit costs, or approximately 10% annually. (PGE/1500, Barnett-Bell/15-16.)

Finally, Staff incorrectly concludes that escalation of 2009 test year medical and dental benefits should only be applied to 10 months of the year, rather than 12 months year. But, as PGE explained in our response to OPUC Data Request 419, PGE Exhibit 2404, PGE's union agreement requires it to make contributions above and beyond the fixed annual contribution if the "trust determines that there are not sufficient funds to ensure the viability of benefits for active employees covered by the collective bargaining agreement." Irrespective of the timing of a new collective bargaining agreement, medical and dental costs for active union employees are expected to rise 10% annually from the 2007 actual expense, and PGE will be responsible under its union agreement to make contributions to account for that increase throughout all of 2009.

When those misunderstandings in Staff testimony are corrected, the justification for Staff's proposed reduction disappears. A table setting out the appropriate adjustments and full requirement is set out at PGE/2400, Barnett-Bell/13. No reduction is appropriate, and PGE should be granted the full amount of this request.

2. **Other benefits**

The dollar differences in this category remain fairly minor when compared to the revenue requirement for compensation. Nevertheless, Staff proposes to disallow approximately

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one-third of these benefits. The table below describes PGE's current position and Staff's proposed adjustments which total approximately $250,000:

Expense	2009 PGE Update	Staff	Staff Proposed Adjustments
Occupational Health	$253,360	$224,434	($28,926)
Ergonomics and IAM	$75,297	$34, 251	($41,046)
Occupational Fitness	$47,976	$47,976	($0)
Recreation Program	$25,825	$0	($25,825)
Health Club Partial Reimbursement	$100,000	$65,000	($35,000)
Commuter Program	$25,101	$25,101	$0
Service Awards	$225,000	$112,500	($112,500)
Retiree Activities	$13,200	$0	($13,200)
Executive Financial Planning	$0	$0	$0
Other	$0	$0	$0
	$765,759	**$509,262**	**($256,497)**

PGE's testimony in support of these items can be found at PGE/800, Barnett-Bell/12-17; PGE/1500, Barnett-Bell/20-24; and PGE/2400, Barnett-Bell/14-16. We highlight below a few important examples:

- Occupational Health. PGE's wellness programs and offerings include improved wellness profiles for health assessment, work site wellness grants and targeted programs that address known PGE health risks. In 2009, PGE will further expand its targeted programs in obesity, diabetes, hypertension, fitness for an aging work force and more. (PGE/2400, Barnett-Bell/14.) Studies show that the return on such investments in wellness and occupational health programs can be as much as 300%. (*Id. at* 15.) The benefits from PGE's investment in wellness and occupation health are expected to mitigate PGE's health care costs, as well as improve employee productivity. (*Id. at* 15.)
- Service Awards. These awards are not merit-based, as Staff contends. Rather, service awards recognize employees for length of service with the

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company. This type of award enhances retention goals and mitigates the cost of turnover. (PGE/1500, Barnett-Bell/23.) Such awards are common in the utility industry as well as government. (PGE/2400, Barnett-Bell/16.)

3. Employee Discounts

As part of PGE's total compensation, it offers an employee discount. This benefit is a low-cost part of PGE's total compensation package that helps it to complete for qualified workers in a labor market where its direct competitors (PacifiCorp and Northwest Natural) offer a similar discount. (PGE/2400, Barnett-Bell/18.) The impact of the employee discount is less than $0.9 million in 2009. (PGE/1500, Barnett-Bell/27.) The employee discount has long been an important part of PGE's compensation. In fact, it has offered the discount for over 40 years. (PGE/1500, Barnett-Bell/26.) Not only do other utilities in the Pacific Northwest offer such employee discounts, the benefit is common in other industries where employers routinely offer a discount for their goods or services. (*Id.*)

The employee discount provides a cost-effective benefit for PGE. Replacement of the employee discount with an equivalent benefit would be more costly given the "gross up" necessary for federal and state taxes, social security and Medicare. In fact, for current employees, the cost of such a benefit would be almost twice the cost of the employee discount. The following table illustrates this impact (PGE/1500, Barnett-Bell/27):

Active Employee Discount Gross-Up

	2009
Employee Discount	$598,832
divided by	
Gross-up Factor	58.35%
results in	
Wages and salaries	**$1,026,2765**

(PGE/1500, Barnett-Bell/27.)

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Eliminating the employee discount would adversely impact PGE employees and retirees, who have given service to PGE in exchange for the discount as part of their compensation package. In addition, the employee discount does not insulate PGE employees from the impact of rate increases or prevent them from receiving appropriate price signals. (PGE/1500, Barnett-Bell/27-28.) A 5% rate increase for all customers is a 5% increase for PGE employees as well. Both PGE employees and the public will be motivated by such a price change to alter consumption through conversation or energy-efficiency measures. Finally, the revenue requirement impact of the employee discount is minimal. The actual expense of the program is less than 1% of total Administration and General expenses. (PGE/1500, Barnett-Bell/29-30.)

V. A&G

1. The Commission should modify Staff's proposed reduction related to insurance premiums

Staff recommends removing approximately $1.83 million from PGE's projected 2009 insurance premium costs and another $1.75 million from uninsured losses. PGE does not dispute Staff's adjustment for uninsured losses and accepts the $1.75 million adjustment. However, PGE does not agree with Staff's adjustment for insurance premiums. Throughout this section, PGE discusses insurance expenditures and losses. Those amounts must then be allocated between capital and O&M currently at 45.5% and 54.5%, respectively. (PGE/2700, Piro-Tooman/2.)

Staff proposes five downward adjustments of PGE's insurance premium costs. First, Staff proposes to exclude 50% of Directors and Officers ("D&O") supplemental liability insurance. PGE does not agree that there should be any adjustment for the D&O policies. PGE has explained in detail why D&O insurance is a necessary and prudent cost of the electric utility business. (PGE/1900, Piro-Tooman/16.) Adequate levels of D&O coverage mitigate the risks that directors and officers are subject to as a result of their positions managing the utility. This

insurance also protects PGE's balance sheets from losses incurred due to frivolous lawsuits against directors and/or officers in the normal course of business. Adequate levels of insurance will cover prudent legal costs to defend a director and/or officer. This allows PGE executives to focus on their primary duties of running the utility for the benefit of customers. Further, in today's litigious and competitive society, adequate D&O insurance is a necessity for hiring and retaining competent directors and officers. D&O insurance covers executives for lawsuits directly related to the performance of their duties for the benefit of customers. D&O insurance should be treated as a normal cost of doing business.

Second, Staff's proposed reduction does not address all the policies that should probably be included, or excluded, from PGE's request. First, Staff's proposed reduction includes one policy, with an annual premium of $3,333 that PGE has already agreed to withdraw from this rate case. *See* PGE's Second Supplemental Response to OPUC Data Request No. 066, provided as PGE Exhibit 2701.

Staff's proposal also improperly excludes four insurance policies:

2. **Operational risk policy for Biglow Canyon 1**

This operational risk policy was included in PGE's initial filing of UE 197. Staff incorrectly states that this is a new policy not included in the original UE 197 filing. (Staff/900, Ball/11.) But this operational risk policy for Biglow Canyon 1 was included as part of the UE 197 property insurance total of $2,778,647; it simply was not individually identified or itemized. Staff's argument is not that this policy is unnecessary, but rather that it was excluded from the 2009 test year. In fact, the policy was included, but even if it were not, the policy is a prudent cost that should be recovered. (PGE/2700, Piro-Tooman/5.)

PGE initially, and inadvertently, failed to include this policy in its response to OPUC Data Request No. 066. PGE discovered the error and promptly provided an updated response to Staff on August 28, 2008. (PGE Exhibit 2702C.) This policy was included in PGE's

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initial filing and therefore should be included here. Since the costs of Biglow Canyon 1 were approved by the Commission in UE 188, the cost of this policy is currently in rates, and should continue to be in 2009.

3. **Self-insured workers' compensation bonds**

PGE's premiums associated with self-insured workers' compensation bonds were listed and provided to Staff in PGE's response to OPUC Data Request No. 285. (PGE Exhibit 2705.) The premium for these two bonds is $34,638. The bonds are required by the Workers' Compensation Division as a security deposit to meet PGE's workers' compensation obligations. (PGE/2700, Piro-Tooman/6.) The amount of the bonds is determined by the State. The bonds should be included in Staff's analysis because they are a cost that PGE will incur in 2009 and that was included in PGE's initial filings. See also PGE's Third Supplemental Response to OPUC Data Request No. 066, PGE Exhibit 2701, 2703C.

4. **Western Interconnection Electric System ("WIES")**

The WIES policy has a premium of $23,467 and various miscellaneous bonds totaling $6,424. These premiums and term sheets were provided in PGE's Third Supplemental Response to OPUC Data Request No. 066. (PGE Exhibit 2701, 2703C.) The policy and bonds were included in PGE's initial filing of UE 197, and should properly be included here. (PGE/2700, Piro-Tooman/7.)

5. **Surplus line taxes for miscellaneous policies**

PGE submitted invoices that included surplus line taxes for certain policies that had not been provided to Staff with the original term sheets. The surplus line taxes are an expense that PGE will incur in 2009 related to certain of its insurance policies. (*Id.*) These surplus line taxes were inadvertently not included in PGE's original response to OPUC Data Request No. 066, but were provided to Staff in PGE's Third Supplemental Response to OPUC

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Data Request No. 066. (PGE Exhibit 2701, 2703C.) These are expenses that were also included in PGE's initial filing of UE 197, and should be included in this filing.

Next, Staff improperly fails to take into account escalations of property insurance policies that will occur in 2009. Staff requested the current term sheets in effect for those policies, and PGE provided them. However, there was no adjustment in those term sheets for the escalation that will occur in 2009 when the policies are renewed. (PGE/2700, Piro-Tooman/8.) PGE provided a worksheet, attachment 066(3-E) in its Third Supplemental Response to OPUC Data Request No. 066. (PGE Exhibit 2704C.) This worksheet provides the calculation for the escalation rate. An escalation rate of 9.4% was used based on the increase in asset value of the properties insured. That 9.4% was applied to half of calendar year 2009, because the current policies expire on July 1, 2009. This escalation totals $110,586 and will cover the cost PGE will incur in the second half of 2009 due to escalations in the renewal of property insurance policies. Staff does not analyze this supplemental response or worksheet in its surrebuttal testimony, and apparently has not considered this escalation in its recommendation. Because these are costs that PGE will incur in 2009, they should be included.

Next, PGE included a policyholder credit of $170,000 in its initial filing, because at the time we believed we were likely to receive such a credit. (PGE/2700, Piro-Tooman/8.) However, market conditions have changed dramatically, as described in PGE's Supplemental Response to OPUC Data Request 70. (PGE Exhibit 2706.) PGE's updated response explains why PGE no longer believes it will receive a policy credit - catastrophic losses have increased significantly in 2008 compared to the previous 10 years. PGE believes that this trend will adversely affect insurer financial results and diminish the possibility of PGE's property insurer declaring a policyholder credit in 2009. Staff does not address this updated recommendation in its surrebuttal testimony.

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Finally, Staff proposes to adjust the total amounts of insurance downward by 1.79% as an adjustment for premium coverage of both utility and non-utility property. (Staff/900, Ball/13.) PGE believes that there should be an adjustment to the portion of insurance premiums that cover non-utility aspects of PGE's operations, but disagrees with Staff's 1.79% allocation factor as applied to all insurance policies. (PGE/2700, Piro-Tooman/9.) PGE believes that the allocation factor should only apply to certain categories of policies where, in fact, non-utility activity may be covered. It should not be applied to every policy. For example, property insurance policies cover only utility-related activity, with the exception of approximately $25,000 that PGE has assigned for non-regulated activity at PGE's offices. (PGE/2700, Piro-Tooman/10.) Since that amount has already been removed from the test year forecast, there is no need to apply the downward allocation factor to any of PGE's property insurance.

By contrast, PGE's workers' compensation and general liability insurance do cover some non-utility activity and therefore an allocation factor should be applied. The remainder of the policies (Biglow Canyon 1, T&D, fiduciary, D&O, nuclear, auto, and aviation) would not be related to any non-utility activity so no adjustment should be applied to those categories of policies. (*Id.*)

After differentiating between policies that have a non-utility component and those that do not, PGE recommends a downward adjustment applied only to policies covering non-utility activity. Both PGE's liability and workers' compensation policies cover aspects of PGE's operations that relate to non-regulatory services (*e.g.*, distribution services). Distribution services make up 17% of total non-regulatory accounts, and therefore PGE recommends applying 17% of Staff's proposed 1.79% allocation factor for an adjustment specifically to liability and workers' compensation insurance policies. This results in a downward adjustment of $6,377 to overall insurance, as described in PGE's testimony. (*Id.*)

In total, PGE recommends that the Commission allow $8,549,902 for insurance policies. This would result in a downward adjustment of $439,815 in insurance expenditures from the original filed case, which should be allocated 45.5% to capital at 54.5% to O&M. The adjustments addressed here are all reasonable costs that PGE expects to incur in 2009. These costs are part of the original rate case and should be part of this analysis. (*See* PGE Exhibit 2707.)

6. The Commission should reject Staff's proposed reductions for miscellaneous charges

Staff proposes to reduce PGE's request by approximately $710,000 through the deduction of various miscellaneous costs. Some of these costs are very small, but PGE must respond because Staff, although agreeing in general terms that the Commission should not micromanage PGE's operations, nevertheless urged these minor deductions.

Most of the proposed reductions, totaling $568,000, relate to what Staff has characterized as catering, gifts, promotional items, and civic activities. (PGE/2700, Piro-Tooman/12.) PGE believes that these costs are work-related, and represent items such as lunch meetings and minor gratuities in lieu of cash bonuses to employees who perform significant amounts of unpaid overtime for major projects. They also represent ordinary business items such as retirement gifts for longtime employees, sympathy gifts to employees' families, holiday activities, and team-building days for employees. Although these are discretionary costs, they are ordinary expenses for businesses in every sector that seek to motivate and reward quality employees. They are part of PGE's overall business culture, and allow PGE to attract and retain qualified workers, who provide valuable and necessary services to customers. These minor discretionary expenses are fully justified as a reasonable cost of doing business. (*Id.*)

The remaining deductions proposed by Staff, totaling approximately $140,000, fall into three categories. First, Staff proposes to remove $50,000 from PGE's 2009 forecast for forest service costs. In fact, these costs are part of PGE's FERC licensing requirements.

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(PGE/2700, Piro-Tooman/13.) Nowhere in Staff's testimony does Staff claim that these costs are not prudent and legitimate. Staff's entire argument is that they believe these costs are misclassified as A&G expenses. This is not a basis for disallowance of these costs.

Staff's second proposed adjustment is to remove $66,000 in legal costs in PGE's proposed 2009 budget. (*Id.*) The asserted basis for this reduction is that PGE spent approximately $66,000 on legal costs relating to California energy contract refunds in 2007, but will not have to deal with that issue in 2009 because the matter is resolved. This is an incomplete and artificial way to view PGE's legal budget. The budget as a whole is relatively flat between 2007 and 2009. Of course, some specific items of expenses in 2007 will not be present in 2009 because particular cases have been resolved. But by the same token, new cases have been filed and new issues have arisen. Simply cherry-picking one 2007 case and arguing that PGE's budget should be reduced because that case is over answers only half the question. What remains to be asked is whether PGE has other projected 2009 legal expenses that were not present in 2007 but that are equal to or greater than the amount spent on the California refund matter. As discussed in PGE's testimony, PGE's overall legal budget reasonably reflects PGE's projected legal expenses for 2009, and therefore should be approved. The fact that PGE is no longer paying legal expenses related to cases resolved in prior years does not mean that PGE's legal budget for current cases is somehow unreasonable.

Finally, Staff proposes to deduct costs related to annual rentals for storage of certain underground materials and equipment. These costs relate to one of PGE's line-crew centers, and the lease allows PGE to fully utilize that facility. (PGE/2700, Piro-Tooman/14.) Again, Staff does not claim that these expenses are imprudent, but only that they somehow represent double-counting. In fact, PGE incurred these costs in 2007, is doing so again in 2008, and will again in 2009. These are not one-time costs incurred in a single year, but payments that

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recur annually. Accordingly, there is no basis to claim that these are double-counting in the 2009 forecast.

For the reasons stated, PGE respectfully requests that the Commission reject Staff's proposed $708,000 for miscellaneous costs.

VI. TAXES

A. PROPERTY TAX

PGE's initial request with respect to 2009 Oregon/Montana property tax expense in this case was $36.9 million. (PGE/2300, Tooman-Tinker/20.) In rebuttal testimony, PGE modified its request to reduce the forecast level of property tax expense by $1 million. (PGE/1400, Tooman-Tinker/24.) For its revised analysis, PGE began with its 2007 actual property tax expense. (*Id.*) Because Port Westward will enjoy a tax holiday in the test year, 2009, PGE then removed $1.2 million of actual property tax in 2007 for Port Westward. Next, PGE compared this adjusted 2007 actual property tax expense to rate base as reported in PGE's Results of Operation for 2007. This yielded a ratio of 1.59% for the incurred level of property tax expense adjusted for Port Westward relative to the assets in rate base at the time. (*Id.*) PGE then applied this ratio to its forecast test year rate base without Biglow I. The outcome is a measure of 2009 test year property tax expense, before inclusion of Biglow I. PGE added $2 million to reflect the reduced Biglow I property tax permitted by the Strategic Investment Program under which PGE expects to pay $2 million in property tax in 2009, saving about 50% of what it otherwise would have paid for 2009. This method results in a 2009 test year figure of $36 million, or approximately $1 million less than PGE's original request.

The Commission should approve this approach. It forecasts PGE's 2009 property tax expense based upon 2007 actual property tax expense. It appropriately accounts for savings related to Port Westward and Biglow I. Furthermore, the ratio derived with this method can be

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used to reflect adjustments the Commission may make to PGE's forecasts of additions to rate base.

In surrebuttal testimony, Staff proposed a revenue requirement figure of $34 million for Oregon/Montana property tax expense. Staff's proposed $2 million adjustment to PGE's revised request of $36 million is based on two ill-founded adjustments. First, Staff suggests that the property taxes should be considered a function of plant-in-service, net of depreciation, rather than as a function of overall rate base. (PGE/2300, Tooman-Tinker/20.) This is wrong. In fact, property taxes are dependent on all of the assets of the company, including regulatory assets and liabilities, materials and fuel. (*Id. at* 21.) The Oregon Department of Revenue uses several methods to arrive at an assessed value which determines PGE's property tax expense. One such approach examines the capitalized income of the company. "Since PGE's income is a function of our entire rate base, it follows that property taxes are also a function of all the elements of rate base as well." (*Id.*)

Second, the level of property tax expense proposed by Staff is sufficient only if one assumes the following: (1) tax rates do not increase at all from 2007 to 2009; and (2) there is no increase in assessed value due to capital additions after January 1, 2008. Neither of these assumptions is reasonable. (*Id. at* 21-22.) PGE projects over $191 million in net capital additions by the end of the test year, 2009. These additions increase the assessed value to which the effective property tax rate is applied. Even assuming that property tax rates remain at their 2007 average levels in Oregon, these capital additions would increase the Oregon property tax expense in 2009 by $1.1 million. The property tax expense in Montana would similarly rise by approximately $.1 million. (*Id. at* 23.)

B. SB 408 RATIO ADJUSTMENT

SB 408 requires the Commission to establish certain ratios in general ratemaking proceedings, which are used to determine "taxes collected" from ratepayers for the purpose of the

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SB 408 true-up of "taxes paid" to "taxes collected." We believe the Commission should consider the impact of disallowed costs in determining the tax rate and margin ratio for SB 408 purposes. "To do otherwise would effectively allow customers to receive tax benefits from utility costs for which customers are not responsible." (PGE/1400, Tooman-Tinker/30.) In particular, the margin ratio should be adjusted to include expenses PGE is either contractually required to incur or for costs that are likely to be incurred, but which costs have been disallowed for ratemaking purposes. This is only fair. If customers are not responsible for paying the underlying expense because of a ratemaking disallowance, they should not be permitted to receive the tax benefit from that expense through SB 408. PGE is not asking the Commission to reverse the effects of its disallowances. Rather, we are asking the Commission to recognize that certain utility expenses will not be recovered and, therefore, should not give rise to a tax benefit for customers. (*Id. at* 31.)

VII. PRICING

A. SEASONAL PRICING

Staff proposes seasonal energy pricing for all of PGE's major non-residential rate schedules so that energy prices are higher in the months of July through September. Furthermore, Staff also proposes a third, higher-priced energy block for Schedule 7 Residential Service during these summer months. Finally, Staff proposes a third super-peak energy price block for Schedule 89 in the summer months. (PGE/2800, Kuns-Cody-Lynn/3.) In support of its seasonal pricing proposal, Staff stated as follows: "Staff chose to limit their seasonal recommendation to the season with (1) the highest prices, the summer, and (2) where the price signal can be viewed as the most meaningful, i.e., as relevant to the installation of central air conditioning, which is at the root of the regional load peak and high prices." (Staff/1200, Compton/4.)

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PGE opposes such seasonal pricing for three reasons. First, the central premise of the Staff proposal is false. The highest wholesale power market prices do not occur in the summer. (PGE/2800, Kuns-Cody-Lynn/4.) PGE examined the monthly mid-Columbia market price data for the years 2003-2007. That study revealed that the highest average seasonal prices, both on-peak and off-peak, occurred in the fourth quarter of the year, not in the summer. The average fourth quarter wholesale prices were 10.5% higher than in the summer months. For 2007, the most recently completed calendar year, average wholesale prices were more than 15% higher in the fourth quarter than in the summer. This historical data will likely continue into the future. A more recent 2009 market price projection shows that higher overall market prices are expected to prevail in the fourth quarter rather than in the summer. In short, both the historical and forecasted data are inconsistent with both Staff's proposal and its fundamental assumption that higher prices prevail in the summer. (PGE/2800, Kuns-Cody-Lynn/4.)

Second, Staff's proposal will impose undue administrative and practical burdens. For commercial and industrial customers, seasonal pricing would add considerable complexity for Schedule 128 Short-Term Transition Adjustment. Staff's proposal could cause PGE to resort to monthly Schedule 128 transition adjustments, with certain customers having as many 36 different annual transition adjustments (12 months x 3 peak periods). (PGE/2000, Kuns-Cody-Lynn/4.) For residential customers, PGE is concerned about the impact of Staff's proposal on Schedule 7 Time of Use ("TOU") pricing. One utility (Pacific Power Oregon) with three separate energy pricing blocks and a TOU rate had to resort to negative off-peak energy pricing in order to not inappropriately entice customers to the TOU option. (PGE/2800, Kuns-Cody-Lynn/7.) Such negative energy prices send the wrong price signal to customers and should be avoided. Finally, Staff's proposal would require PGE to reprogram its billing system, conduct more billing maintenance and testing, train and prepare for more customer calls and divert critical resources from the AMI project. (*Id. at* 5.)

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Third, all three customer groups participating in this proceeding (ICNU, CUB and CAPO) objected to Staff's seasonal pricing proposal.

In sum, PGE supports continuation of our current and proposed practice of having the same energy prices throughout the year. Staff's proposal is unwarranted and may prove harmful to customers with higher loads in the summer. Any attempt to implement changes in commercial and industrial energy prices should occur after implementation of AMI. PGE has agreed to support the opening of a docket in 2009 to discuss marginal cost, rate design and pricing issues. (PGE/2800, Kuns-Cody-Lynn/8.) That docket will provide an appropriate forum for customer groups and Staff to discuss the type of differential pricing, if any, they would like to see in the future. Our customers should help determine what type of differentiated energy pricing structure is adopted, if any. *See* UE 197 Stipulation by and among PGE, CUB, ICNU, and Kroger, dated October 8, 2008, ¶4.

B. Low-Income Issues

CAPO/OECA claims that PGE's proposed reconnection fees, field visit fees and late fees are unreasonable and represent an undue burden on low-income customers. CAPO/OECA seeks an exemption for low-income customers from reconnection, field visit and late fees. Finally, CAPO/OECA requests a rate freeze for residential customers' first block rate at UE 180 levels.

The assumptions supporting these proposals are unsound. PGE's credit-related charges (field visits and reconnection fees) are cost-based and designed to recover PGE's actual costs. PGE derives these fees using cost causation principles. (PGE/2800, Kuns-Cody-Lynn/12.) PGE derives these costs by building up the cost elements associated with each activity, taking into account the resources used for each function. This provides an accurate mechanism for determining the level of cost and directing cost recovery towards the causes of the costs. (*Id.*) Moreover, PGE has agreed to not increase these fees in this case. (*Id. at* 12-13.)

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Commission Staff testimony has verified that PGE's field services, late fees and reconnection fees are cost based. (Commission Staff/1100, Gorsuch/4.) Finally, CAPO/OECA's claim that revenues from residential reconnection fees are a "PGE profit center" is completely false. Test period revenues from reconnection field visit fees and late fees are part of "Other Revenues" that serve to reduce PGE's retail revenue requirement. (PGE/2800, Kuns-Cody-Lynn/13 ("by design, these activities are not profit centers").)

CAPO/OECA's proposal to exempt low-income customers from credit-related charges is similarly ill founded. Customers, regardless of income level, are provided with multiple opportunities to enter into arrangements on past due balances long before disconnection of service or the application of credit-related charges occurs. PGE offers significant assistance to low-income customers, as demonstrated in the record in this proceeding. (PGE/2000, Kuns-Cody-Lynn/32-33.) PGE seeks to work collaboratively with agencies and community partners to develop solutions, create efficiencies and permit existing resources to serve customers. Credit-related charges are governed by the Commission's Division 21 rules, which provide express rules for the imposition of such charges. (*Id. at* 38.) PGE supports Staff's recommendation that the issues raised by CAPO/OECA in this proceeding should be reviewed "in the context of an energy industry-wide investigation about the impact of utility policies regarding rate structures and fees on low-income customers." (Commission Staff/1100, Gorsuch/5.)

Finally, CAPO/OECA's recommendation to freeze the first block of residential rates at UE 180 levels should be rejected. As Staff and PGE have pointed out, the proposed rate freeze would benefit less than 10% of PGE's customers and impose a prohibitive transfer payment of approximately $13 million to customers who use more than 250 kwh per month. CAPO/OECA offers no evidence or support for the imposition of such a discriminatory and unwarranted transfer payment between groups of customers.

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C. Decoupling

PGE's decoupling proposal is a simple balancing account and rate adjustment process that diminishes the disincentives PGE faces when seeking to support and encourage energy efficiency programs. (PGE/100, Piro/20.) Like most utilities, PGE currently recovers most of its fixed costs through the rates it charges on a per-kilowatt-hour basis. (PGE/2100, Cavanagh/6.) A portion of the cost of every kwh represents PGE's fixed costs, while the rest of the charge per kwh reflects variable costs of producing that kilowatt hour. (*Id.*) The Commission sets rates based on load forecasts. If actual sales lag below the load forecasts, PGE will not recover its approved fixed cost revenue requirement. On the other hand, if loads are higher than expected, shareholders earn a windfall by recovering more than the approved revenue requirement amount. In either event, every reduction in energy sales from efficiency improvements results in a reduction in cost recovery, thereby reducing earnings. (*Id. at* 5-6.)

PGE's proposed decoupling mechanism is consistent with the decoupling structures the Commission and several other utility commissions throughout the country have reviewed and approved. (PGE/100, Piro/22.) It is a straightforward cost recovery "true-up" adjustment mechanism that removes the financial disincentive PGE experiences when it seeks to support and encourage energy efficiency measures. The decoupling mechanism, implemented through Schedule 123, applies to residential customers (Schedule 7), small non-residential customers (Schedule 32 and 532) and large non-residential customers with loads less than 1 MWa. The cost recovery true-up mechanism operates as follows:

1. In a general rate case, the Commission determines a monthly fixed cost to be recovered on a per-customer basis;

2. Each month the decoupling mechanism determines the dollar difference (positive or negative) between the actual dollar amounts received from customers through their energy charges for fixed costs and the monthly fixed cost on a per-customer basis the Commission has determined in the last rate case; and

3. The mechanism determines annually and applies on a going-forward basis an adjustment rate to applicable customers to either refund or collect the difference from step 2 above. (*Id. at* 20-21.) For large non-residential customers, a "fixed cost per customer" decoupling mechanism is not possible because these customers vary significantly in size and are served at different voltage levels. PGE identified two alternatives that could be used to reduce the disincentives for energy efficiency for this customer class. (*Id. at* 21.) The first alternative is a limited Lost Revenue Recovery ("LRR") mechanism for large non-residential customers with usage less than 1 MWa in the previous calendar year. (*Id.*) A second alternative is a load-based decoupling mechanism. Under such an approach, a baseline load amount would be determined for applicable customer classes by applying load growth estimates from the current IRP to test year loads of the last general rate case. (*Id.*) Any difference between this baseline and actual loads for a given year would be applied to a fixed cost per KWa rate determined in the rate case. That difference would be applied as an adjustment amount.

To illustrate the effectiveness of the true-up measure for PGE, Mr. Piro observed, without contradiction in the record, that "if PGE's residential customers reduce loads by just 0.5% per year, we estimate lost margins of approximately $2 million in the first year." (PGE/100, Piro/19.) Based on this estimate, every 1% reduction in residential electricity use on the company system would cut annual fixed-cost recovery totals by about $4 million. Given that energy efficiency measures may last 10 years or more, these one-year impacts do not begin to address the overall impact on PGE and its shareholders. (PGE/2100, Cavanagh/7.)

Oregon has ample experience with such decoupling mechanisms. The Commission first adopted decoupling in the mid-1990s. (*Id. at* 9.) The rate impacts of PacifiCorp's decoupling mechanism in the 1990s were extremely modest for all classes and resulted in adjustments in both directions. (*Id.*) The largest annual increase for any class was 1.9%; the largest annual reduction was 0.83%; and out of the total of 15 true-ups from 1999 to

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2001, seven resulted in rate reductions and eight resulted in rate increase. (*Id.*) More recently, the Commission adopted a decoupling mechanism for Northwest Natural Gas Company in 2002. Cascade Natural Gas secured its own decoupling mechanism in 2006.

Finally, PGE's proposed decoupling mechanism contains a number of safeguards to protect customers. First, to ensure that PGE continues to retain weather-related risk, the decoupling adjustment applies to weather-normalized actual loads. (PGE/100, Piro/19-20.) Second, any annual adjustment in rates caused by the decoupling mechanism will not exceed 2%. This provides a "circuit breaker," assuring customers that any rate impact will be relatively small. Second, PGE has agreed as a Commission condition of approval that it will file a new rate case within five years to allow for mid-course corrections in the mechanism and to review all relevant financial issues. (PGE/2100, Cavanagh/12.) Finally, PGE supports CUB's proposal that the Commission make clear that its willingness to renew the decoupling mechanism over time "will depend on PGE's ability to demonstrate increases in energy efficiency benefits delivered to its system in partnership with the Energy Trust and others." (*Id. at* 12-13.)

VIII. CONCLUSION

We respectfully request that the Commission issue a Final Order (i) approving PGE's rate request in this docket, (ii) approving the stipulations filed in this docket; (iii) approving PGE's proposed tariffs; (iv) approving a change in PGE's underground FITNES to a ten-year cycle; and (v) authorizing the creation of a regulatory asset for the above-average generation and plant O&M expenses identified herein and its recovery over a five-year amortization period.

DATED this 24th day of October, 2008.

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CERTIFICATE OF SERVICE

I hereby certify that on this day I served the foregoing **PORTLAND GENERAL ELECTRIC COMPANY'S OPENING BRIEF** by e-mail and/or mailing a copy thereof, to each party that has not waived paper service, in a sealed, first-class postage prepaid envelope, addressed to each party listed below and depositing in the US mail at Portland, Oregon.

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DATED this 24th day of October, 2008.

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By ______________________

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