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BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UE 197

In the Matter of	)	REPLY BRIEF OF
	)	THE CITIZENS' UTILITY BOARD
PORTLAND GENERAL ELECTRIC,	)	OF OREGON
	)	
Request for a general rate revision.	)	

I. INTRODUCTION.

PGE's Opening Brief is proof positive once again that PGE is not a business that closely manages its costs. In several places in the Brief, PGE states that the Parties are using wrong numbers for their calculations – numbers which PGE provided to the parties. Can a business that repeatedly provides erroneous cost-related-numbers to State regulators appropriately claim to be a business that "closely manages its costs"?

PGE would like the Commission to think that PGE is a business that closely manages its costs. And so, PGE is couching the limited concessions it is proposing in its Opening Brief as being PGE's original and independent ideas; this is not an accurate rendition of the history of this case. In fact, none of the cost reductions that PGE is now accepting (proposing) are reductions that PGE voluntarily and independently proposed.

The reductions are all reductions demanded by other parties after examining PGE's original revenue request.

But more concerning is the fact that in its brief, on at least two occasions, PGE attributes resolutions/concessions to parties who have not agreed to make any such resolution/concession. Much as PGE may wish the facts were different PGE's wishes must not be allowed to taint the facts.

For all of the above reasons, CUB now replies to PGE's Opening Brief.

II. ANALYSIS.

1. IS PGE A BUSINESS THAT CLOSELY MANAGES ITS COSTS?[1] HOW SHOULD THE COMMISSION DETERMINE THE PRUDENCE OF PGE'S COSTS?

PGE states that the parties' challenges to its figures 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.[2]

PGE is wrong. In its Opening Brief CUB set forth the standard of review[3] and then took aim directly at programs such as the Boardman Simulator, Generation Excellence, the Customer Focus Initiative, employee and officer incentives programs, employee discount

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[1] PGE's Opening Brief at page 5 and page 20.
[2] PGE's Opening Brief at page 2.
[3] CUB began its Opening Brief by setting out the standard of review:

> A review of UE 115, Order No. 01-777, demonstrates that PGE has the burden to show that proposed rates are just and reasonable. That means the utility must show that the components that make up the costs in the proposed test year are reasonably likely to occur and are prudent. The test year is representative of prudent business activity going forward. General non-power costs are part of the test year. PGE's general non-power

programs, and unnecessary helicopter flight hours, all as examples of activities not needed for PGE's regulated programs and as examples of costs imprudently budgeted.

As noted in CUB's Opening Brief, the Commission must examine prudence based on existing circumstances and what the Company knew or should have known when it made its decision on each program cost.[4] The Commission may remove imprudent costs or make adjustments to the test year for events that are not expected to reoccur or for known future changes.[5]

CUB's investigation and analysis of the programs listed above shows that notwithstanding ample knowledge to demonstrate that the investigated program costs were imprudent, and the programs not necessary to the provision of electricity (PGE's regulated operations), PGE nonetheless carried on with the listed programs. These imprudent decisions were, and are, the basis for the recommendations made by CUB in its Opening Brief and reiterated here in CUB's Reply Brief.

2. PGE MIS-STATES THE ISSUES REMAINING TO BE RESOLVED AND INCORRECTLY ATTRIBUTES CONCESSIONS TO CERTAIN PARTIES THAT THOSE PARTIES HAVE NOT AGREED TO MAKE.

PGE mis-states the remaining issues when it states on page 2 of its Opening Brief, "[o]f the three main drivers for this rate case (power costs, O&M and A&G expenses, and

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costs may well need to be adjusted to reflect prudent and reasonable business practices and economic considerations going forward.

[4] CUB Opening Brief at pages 9-10 citing to RE US West Communications, Inc., OPUC Docket Nos. UT 125 and UT 80, Order No. 00-191 at 15 (Apr. 14, 2000).

capital additions), all but the O&M and A&G costs have been settled." CUB and PGE have not settled all the capital costs – see for example the costs of the Tualatin Call Center upgrade/replacement of the fitness equipment and the costs of the Boardman Simulator.

PGE also incorrectly attributes to CUB the idea of decoupling over time. CUB adamantly opposes such a proposal. In fact, at page 51 of its Opening Brief, CUB specifically recommended that PGE's request for decoupling be rejected.

PGE then states: "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 . . ." This is not what CUB stated. CUB did not state that it was difficult to find discretionary programs to cut; CUB stated that it looked at only a few programs and found waste in each program it looked at. Furthermore, CUB stated that there was no one large item that was solely responsible for the unjust and unreasonable request for revenue, but that there was instead an apparent multitude of smaller items that were each unjustifiably and unreasonably inflating the revenue request.[6]

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[5] RE PGE, OPUC Docket No. UF 3518, Order No. 80-021 at 24 (Jan. 14, 1980).

[6] CUB Opening Brief at page 42.

> Because CUB could not identify any individually large cost increase drivers within this case, CUB examined some of the small individual items that result in increases. It is the sum of many of these small individual items that adds up to the large increase in this case. Since CUB does not have the staff or budget to comprehensively examine all of the programs that exhibit increasing costs, CUB identified a handful of programs to examine in detail. What CUB found in every case, was a program that was of little value or

3. WHAT ARE THE ISSUES REMAINING TO BE RESOLVED AS FAR AS CUB IS CONCERNED?

A. Capital Costs Related to the Tualatin Call Center and the Boardman Simulator.

PGE claims in its Opening Brief that all capital costs have been settled. This is not correct. The capital costs for the Tualatin Call Center exercise equipment and the capital costs for the Boardman Simulator remain to be resolved. CUB noted the Tualatin Call Center exercise equipment costs in its Opening Brief when discussing why its request for a 1% discretionary cost reduction was appropriate.[7] CUB also addressed the Boardman Simulator capital costs in its Opening Brief and will not do so again now, other than to note that PGE has failed to meet its burden of proof and has not, therefore, demonstrated that the capital costs for the Boardman Simulator and Tualatin Call Center exercise equipment were prudently incurred costs necessary to the provision of electricity.[8]

B. FTE Counts, Wages, Salaries, Incentives and Employee Discounts

contained inflated costs.

[7] CUB Opening Brief at pages 45-46

In CUB's Surrebuttal Testimony CUB discussed the Company's capital expenditures. CUB Exhibit 216 shows the Company's list of capital expenditures for 2009. Of the 211 projects listed for 2009, PGE identifies a single one as discretionary. That one was an upgrade/replacement of the fitness equipment in the Tualatin Call Center. PGE management believes that none of the other 210 projects are discretionary

[8] CUB's Opening Brief pages 22-25.

i. *FTE Counts*

CUB has already addressed the issue of FTE counts in its Opening Brief and will not do so again now, other than to note that if Staff and ICNU-CUB can use different theories/models and yet come up with almost the same FTE number, then Staff and ICNU-CUB's proposals must be extremely reasonable. CUB relies on the Testimony of its expert witness and the Opening Brief filed by ICNU in this regard. PGE has failed to carry its burden to prove that the proposed FTE adjustments are prudent costs necessary to the provision of electricity.

ii. *Payroll related adjustments*

PGE states that ICNU-CUB claims that a portion of the costs attributed to the employee support loading should be excluded. ICNU-CUB's concern here related only to the double counting of certain individuals. Ms. Blumenthal allowed the expenses by taking them out of loading and adding them back into the employee count. CUB recommends that the Commission do the same. CUB relies on the testimony of its expert witness and the Opening Brief filed by ICNU in this regard.

PGE has failed to prove that its methodology for making payroll adjustments will lead to the setting of just and reasonable rates.

iii. *Wages and Salaries*

One of the main points of contention in this arena is what should constitute "the market" for PGE's calculations. Should the market be national, local or some place in between? CUB relies on the testimony of its expert witness and the Opening Brief filed by ICNU in this regard and writes separately only to note that PGE cites to ERI's Salary Increase Survey. Review of the ERI website reveals that ERI itself states that "ERI's Salary Increase Survey is forecasting slightly higher rates than World At Work and others…" CUB asks the Administrative Law Judge to take judicial notice of both the ERI website and the World At Work website in determining the appropriate cost adjustment.[9] Another bone of contention is whether ICNU-CUB and Staff ignored historical events that affected PGE's wages and salaries in making its calculations. Given that ICNU-CUB's consultant looked at data from the years 2004 through 2007, and Staff looked at data from 2003 through 2008, it is clear that PGE's claim of historical information denial is erroneous. While it may be true that PGE's staff were under-compensated at some point in time, it is clear from the evidence in this proceeding that that is no longer the situation in which PGE's employees, officers and directors find themselves.

PGE has failed to prove that its methodology for calculating wage and salary adjustments will lead to the setting of just and reasonable rates.

iv. Incentives

PGE states in its Opening Brief that the Commission's policy is to allow incentive plans in rates if such plans are designed to benefit shareholders and ratepayers. PGE then

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[9] http://www.ERIeri.com and http://www.worldatwork.org.

cites to Order No. 97-171 at 76 as the basis for its statement. Review of Order No. 97-171 is edifying. In that matter (UT 125), US West Communications Inc. (USWC) was also claiming that certain incentives for employees should be paid for by ratepayers. The Commission determined that USWC first must show that its base salaries and bonuses were within a reasonable range compared to the market before it would consider the payment of the incentives by ratepayers. The Commission also noted that even proof of reasonable salaries and bonuses would not necessitate that ratepayers should be the ones to pay for the incentives, as "only expenditures necessary for furnishing utility service should be reflected in rates." The Commission then found that incentives based on earnings, financial performance, stock prices etc. should not be paid for by ratepayers but could be paid for by shareholders.

In the pending matter, PGE has not shown that its salaries and incentive programs are reasonable. Unreasonable wages, salaries and incentive programs are not necessary expenditures for furnishing utility services and should not be reflected in utility rates.

CUB also notes that PGE attempts, when decrying the Staff proposal for a 50% disallowance, to rely on UE 115 (Order No. 01-777) and UE 180 (Order No. 07-015). PGE attempts to use these orders to bolster its claim for non-officer incentives (PGE has stated its intent to give up on its request for officer incentives),[10] the argument being that the Commission has not denied its request for incentives before, so why should it do so

[10] UE 197 PGE Opening Brief at page 16 citing to PGE/1400 Tooman-Tinker/5.

now.

UE 115 (Order No. 01-777) was an order representing compromises between the parties in which the Commission accepted Stipulations that the parties had already agreed upon. But those Stipulations specifically state at App B that they are not to be considered precedent for any subsequent proceeding. Revenue Requirement Stipulations are generally the result of a lot of horse trading, and PGE may well have made other concessions that affect the level of incentives in that docket.

At this time, in this matter, PGE has not been willing, or able, to get parties to agree to a set of adjustments that includes a just and reasonable number so the incentives, full payment of which is clearly not in the ratepayers' interests at this time, remain on the table as a disputed issue. CUB repeats the call in its Opening Brief to allow only a 50/50 split between shareholders and ratepayers for the non-officer incentive compensation program costs.

PGE continues to attack ICNU-CUB's loading adjustment as it relates to incentives and employee support. CUB stands by its prior arguments in this regard.

PGE has failed to prove that its methodology around incentive programs is appropriate and that the incentive program costs which it is budgeted to incur are prudent costs that are necessary for the provision of electricity. As such, the inclusion of these costs will not lead to the setting of just and reasonable rates.

v. Employee Discounts

CUB's prior investigation and analysis of the Employee Discounts shows that notwithstanding ample knowledge to demonstrate that the Employee Discount costs are imprudent, and the program not necessary to the provision of electricity (PGE's regulated operations), PGE nonetheless intends to carry on with the program. This imprudent decision is the basis for the recommendations made by CUB in its Opening Brief, and CUB's prior arguments and recommendations are reiterated here in CUB's Reply Brief.

CUB writes here to add only that CUB fails to understand why PGE would argue that if the Employee Discount is removed it will have to institute another program in its place which will be more expensive. Why does PGE need to implement another program when its employees are extremely well paid? It seems to CUB that this is another sign that PGE is not a company that closely manages its costs.

PGE has failed to prove that the cost of employee discounts is a prudent cost necessary to the provision of electricity whose inclusion in the rate setting calculation will lead to the setting of just and reasonable rates.

C. Distribution O&M and Customer Service

i. The Customer Focus Initiative

CUB's prior investigation and analysis of the Customer Focus Initiative shows that notwithstanding ample knowledge to demonstrate that the investigated program costs were imprudent, and the program not necessary to the provision of electricity (PGE's regulated operations), PGE nonetheless carried on with the program. This imprudent decision was the basis for the recommendations made by CUB in its Opening Brief and CUB's prior arguments and recommendations are reiterated here in CUB's Reply Brief.

PGE has failed to prove that the Customer Focus Initiative is a prudent cost necessary to the provision of electricity whose inclusion in rate setting calculations will lead to the setting of just and reasonable rates.

ii. Helicopter Fuel Costs.

CUB's prior investigation and analysis of the helicopter fuel costs shows that notwithstanding ample knowledge to demonstrate that the fuel costs were imprudent, and not necessary to the provision of electricity (PGE's regulated operations), PGE nonetheless carried on with the proposed purchase. This imprudent decision was the basis for the recommendations made by CUB in its Opening Brief and CUB's prior arguments and recommendations are reiterated here in CUB's Reply Brief. It appears that PGE now agrees to the removal of the fuel costs from the revenue request. But it also appears that PGE still does not recognize customers' desire that PGE seek only prudent costs in its revenue request. PGE may think that its $16,000 number (not a number CUB agrees with – CUB's number is $26,000 because CUB projects 175 hours whereas PGE projects 205 hours) is not worth fighting about, or working to subtract from this or another project, but the cumulative effect is great. PGE fails to recognize the cumulative effect that each of the programmatic over-charges has on the rates charged to customers.

D. Plant and Generation O&M.

i. Generation Excellence

CUB's prior investigation and analysis of the Generation Excellence Program shows that notwithstanding ample knowledge to demonstrate that the investigated program costs were imprudent, and the program not necessary to the provision of electricity (PGE's regulated operations), PGE nonetheless carried on with the program. This imprudent decision was the basis for the recommendations made by CUB in its Opening Brief and CUB's prior arguments and recommendations are reiterated here in CUB's Reply Brief.

PGE has failed to prove that Generation Excellence program costs are prudent costs necessary to the provision of electricity whose inclusion in rate-setting calculations will lead to the setting of just and reasonable rates.

ii. The Boardman Simulator

CUB's prior investigation and analysis of the Boardman Simulator shows that notwithstanding ample knowledge to demonstrate that the Simulator program costs were imprudent, and the program not necessary to the provision of electricity (PGE's regulated operations), PGE nonetheless carried on with the program. This imprudent decision was the basis for the recommendations made by CUB in its Opening Brief, and CUB's prior arguments and recommendations are reiterated here in CUB's Reply Brief.

E. Seasonal Pricing

PGE is correct in stating that CUB opposes Staff's current seasonal pricing proposal. The Commission has also opposed such requests in the past. See for example, UE 167 (Order No. 05-871) where the Commission stated:

> In addition to mixed price signals and their effect on encouraging conservation, we are particularly concerned about the effect of new weighted summer rates on customers. At oral argument, the company was asked about the impact this rate design may have on different groups of residential customers. The company had no response or supporting data. Without more evidence in the record regarding the impact of higher summer rates on Oregon customers, we conclude that the proposed block rate design for residential customers is not just and reasonable and should not be approved.

CUB opposes the implementation of seasonal pricing in Oregon without further study. ICNU, CUB, PGE and Fred Meyer Stores entered into a Stipulation regarding Rate Spread and Rate Design Issues, which provides for a follow-on proceeding to address these issues. CUB encourages the Commission to review these issues in the follow-on proceeding and not to adopt Staff's proposal without further review.

F. CUB's Recommendation for a 1% Discretionary Reduction/Staff's Recommendation for a Benchmarking Study

i. CUB's Recommendation for a 1% Reduction

While addressing Staff's proposed reductions for miscellaneous changes, PGE noted that certain discretionary costs were "part of PGE's overall business culture" – this seems to be the nub of the problem. PGE's overall business culture has become self -sustaining without regard to cost to customers. PGE states that everyone does this; therefore, we should be allowed to do it too. It compares itself not only to other utilities but also to the business world in general. But this is a poor argument when one is discussing a service that can not be obtained from any other source. In other parts of the business world, customers can vote with their feet by shopping elsewhere. Unless a PGE customer can afford to move his or her house, to a non-PGE service area, the utility customer has no such choice.

Instead of trying to come up with real cost-cutting measures, PGE trots out the same old tired list of supposed cost cutting initiatives. Even assuming the validity of the list – at least one of the items cited is one that PGE and CUB have previously agreed is not relevant to the test year period (AMI)[11] – the total saved still amounts to less than $1 million. And specifics about the claimed initiatives are not provided.

PGE also points to the previously entered into Stipulations and claims that these were cost savings initiated by PGE, but this is not true. The August Stipulation involved PGE's acceptance of Staff recommendations. The October Stipulation related to rate design which will now be taken up in a separate docket. The Sursurrebuttal cost-savings included PGE's acceptance of a number of Staff proposed adjustments, its agreement with CUB's proposal that the helicopter should be removed from rates, and its agreement with the ICNU-CUB proposal that officer incentives should be excluded. And the concessions offered in its Opening Brief are likewise the result of the other parties' demands.

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[11] CUB Opening Brief at page 37.

PGE further alleges that "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."[12] CUB did not state that it was difficult to find discretionary programs to cut; CUB stated that it looked at only a few programs and found waste in each program it looked at.[13] What CUB found was that there was no one large item that was solely responsible for the unjust and unreasonable request for revenue but that there was instead an apparent multitude of smaller items that were each unjustifiably and unreasonably inflating the revenue request.

PGE next states that CUB's "solution. . . is to make a 1% cut across PGE's entire revenue requirement."[14] This is not what CUB is requesting. What CUB is requesting, and should have stated more artfully, is that it would be "reasonable for the Commission to impose a 1% budget-wide reduction **ON THE PARTS OF THE CASE THAT CUB HAS NOT YET SETTLED** in order to account for the inflated and unjustified costs in [all] **THOSE** parts of the Company's budget."[15] "CUB is proposing a 1% revenue

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[12] PGE Opening Brief at page 5 [emphasis added].
[13] CUB Opening Brief at page 42.

> Because CUB could not identify any individually large cost increase drivers within this case, CUB examined some of the small individual items that result in increases. It is the sum of many of these small individual items that adds up to the large increase in this case. Since CUB does not have the staff or budget to comprehensively examine all of the programs that exhibit increasing costs, CUB identified a handful of programs to examine in detail. What CUB found in every case, was a program that was of little value or contained inflated costs.

[14] PGE Opening Brief at page 6.
[15] CUB Opening Brief at page 44.

requirement reduction or approximately $17 million. PGE can apply this reduction to whatever parts of the organization it wants."[16]

Finally, PGE alleges that "CUB's proposal is not consistent with Oregon law." This is a strong statement made without citation to any relevant case law, order, or statute. The only citation provided by PGE is to UE 115, Order No. 01-988 at 5 (November 20, 2001). Review of that order, in its entirety, shows that PGE's argument is wholly inapplicable to the facts and procedural position of the case at hand.

Order No. 01-988 related to a request for reconsideration seeking further reduction of the revenue requirement that had already been set and that already included a discretionary reduction of the kind CUB is seeking in this matter. And yes, in that circumstance, where the Commission determined that it had already set a fair, just and reasonable rate – including a discretionary revenue request reduction such as that sought by CUB in this matter ─ the Commission declined to make further reductions.

Here the Commission has not yet determined the fair, just and reasonable rate to be set and CUB is perfectly justified, and legally permitted, to request that the Commission make a 1% ($17 million) revenue reduction in all areas of the case that have not been settled by Stipulation to which CUB is a party. As the Commission said in UE 115; Order No. 01-777 at page 11:

> PGE has failed . . . to establish that it has made every reasonable effort to reduce . . . discretionary Customer Service costs to help offset its spiraling

[16] CUB Opening Brief at page 45.

> power costs. We acknowledge that such reductions require difficult choices. Nonetheless, given the increasing wholesale power costs and PGE's reliance on that market to meet customer load, we believe that PGE must consider the rate impact on customers and critically examine whether some of these proposed expenditures should be delayed or simply not made at this time.
>
> For these reasons, we agree that the stipulated Customer Service costs should be further reduced. . . .Adjusting CUB's proposal, we conclude that PGE's Customer Service costs forecast for the 2002 test year should be reduced by an additional $3.5 million above and beyond the adjustments contained in the stipulation. We decline to identify particular program areas that may be susceptible to reassessment or to impose specific cost reductions. These discretionary costs are best managed by the company.

Given all of the above, CUB bases its $17 million revenue reduction request **FOR THOSE PARTS OF THE CASE THAT CUB HAS NOT YET SETTLED** upon the fact that PGE still does not understand the need to closely monitor its expenses and to independently seek cost-savings for its customers. It is hoped that if the Commission forces PGE to closely study its programs that PGE itself will learn how to spot cost effective programs versus boondoggles.

ii. PGE's adoption of the Staff Recommendation for a benchmarking study.

PGE states that Staff has suggested a benchmarking study as an alternative to CUB's 1% reduction request. In her Surrebuttal Testimony, Ms. Owings stated:

> CUB proposes a $17 million overall revenue requirement reduction for cost containment. Staff recommends the Commission adopt CUB's proposed adjustment, or alternatively, require PGE to demonstrate through *rigorous benchmarking studies* that its current operations have no optional cost containment options.[17]

[17] Staff/800 Owings/34 [emphasis added].

Ms. Owings recommendation for *"rigorous benchmarking studies"* was based upon her prior Testimony that PGE had performed, and provided copies of, its own benchmarking studies to Staff for review; Staff found those studies to be deficient.

PGE now states that it would not oppose a rigorous benchmarking effort if Staff and CUB believe the cost of benchmarking is *prudent, justified and should be included in the rates*.[18] CUB would only support the concept of benchmarking if it can be assured that the PUC will get to select the auditing entity and that the cost of the benchmarking will be shared 50/50 by the customers and investors.

To bolster its credibility in this regard, PGE cites a ten-year-old benchmarking study. The ten-year-old study, besides not being relevant to the current proceeding, is also not in the current record and cannot now be relied upon by counsel. In addition to the above, PGE has gone through two sets of management since the time of the cited order; the way the company was run under the first management group is not indicative of how the company is run today.

We note for the record that Staff continues to support CUB's $17 million revenue requirement reduction and that no Party but PGE now seems to be seeking to have such studies performed.[19] PGE's proposal for a benchmarking study should be rejected.

G. Decoupling

[18] PGE Opening Brief at page 7 [emphasis added].
[19] Staff Opening Brief at page 2 lines 14-15.

As noted above, PGE incorrectly attributes to CUB the idea of decoupling over time. CUB adamantly opposes such a proposal. In fact, at page 51 of its Opening Brief CUB specifically recommended that PGE's request for decoupling be rejected. CUB noted that although in past years it had supported decoupling for electric and gas utilities with the hope that any disincentive to pursue energy efficiency would be removed, CUB's experience since then has showed that energy efficiency programs were cut even with decoupling. CUB further noted that if decoupling were to take place, then the customer should receive something in return now – more conservation programs. PGE still offers no new conservation programs. PGE offers only costs and risks now, and wants time to develop possible future programs. Future unsubstantiated promises should not be rewarded with decoupling now – especially given PGE's track record with decoupling in the past – see citation to Order No. 02-634 that follows below. CUB is inclined to agree with CAPO where it refers to PGE's decoupling proposal as "[t]he poorly designed and unsupported rate stabilization mechanism advanced in the guise of a 'decoupling' proposal."[20]

The decoupling programs that CUB supported (that did not have pre-set energy efficiency programs) were in the 1990s. Later requests for decoupling have been treated with a great deal more skepticism, in part due to PGE's prior cutting of energy efficiency programs when previously granted decoupling:

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[20] CAPO Opening Brief at page 2.

> As discussed above, the Commission first considered decoupling over ten years ago as a means to make regulatory policy more compatible with least-cost planning. Several states . . . adopted various decoupling mechanisms. This Commission joined that list of states *by fully decoupling PGE's revenues and sales in the mid-1990s . . . .*
>
> *The popularity of decoupling mechanisms . . . has declined in recent years* . . . Uncertainties related to the restructuring of the electric industry caused California to eliminate revenue decoupling in 1998. Concerns that decoupling inappropriately shifted business risk to ratepayers led Maine and Washington to eliminate similar mechanisms. Washington also questioned the effectiveness of decoupling, finding no evidence that its mechanism provided a clear incentive for utilities to manage its acquisition of supply and demand-side resources at least cost. *Staff has raised similar concerns with regard to the decoupling mechanisms previously adopted in Oregon. Staff notes that PGE's and PacifiCorp's conservation activities actually decreased significantly while those companies were subject to decoupling mechanisms.*
>
> In addition, the regulatory landscape has changed dramatically since this Commission first embraced decoupling a decade ago. All six regulated energy utilities now have some mechanism in place to protect themselves from revenue volatility due to fluctuating power prices. This Commission has also adopted a number of regulatory mechanisms to provide incentives for utility DSM acquisition. These include investment cost recovery, lost margin recovery, incentive mechanisms such as SAVE, conservation bonding, and various accounting mechanisms to reduce risk associated with the amounts of DSM on utilities' accounting records. *While some jurisdictions are revisiting new forms of revenue cap mechanisms, some question the continued need for decoupling.*[21]

Programs, such as NW Natural's, that were granted partial decoupling in 2002 were successful in that regard only because, as the Commission stated, "the general public is advantaged by the public purposes funding that will be implemented through the settlement."[22] The public purposes funding implemented through the settlement was funding from residential and commercial customers with an effective date of October 1, 2002. The tariff funded a low-income bill payment assistance plan, a low-income weatherization program, and an enhanced energy efficiency program.[23] PGE's request for decoupling does not advantage the public by public purposes funding – it offers no new energy efficiency programs.

CUB recommends that the Commission reject PGE's request for decoupling.

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III. CONCLUSION

CUB's investigation and analysis of the program costs and capital costs listed above shows that, notwithstanding ample knowledge to demonstrate that the investigated

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[21] Order No. 02-634 at pages 7-8.
[22] Order No. 02-634 at page 9.
[23] Order No. 02-634 at page 4.

program costs were imprudent, and the programs not necessary to the provision of electricity (PGE's regulated operations), PGE nonetheless carried on with the listed program costs and capital costs. ICNU-CUB's analysis of the salary, wage, benefit and employee subsidy costs also shows signs of waste and excess within PGE. These imprudent decisions were, and are, the basis for the recommendations made by CUB in its Opening Brief and reiterated here in CUB's Reply Brief.

PGE's Opening Brief is proof positive once again that PGE is not a business that closely manages its costs. CUB respectfully requests that the Commission follow CUB's prior recommendations set forth in its Opening Brief, with the addition of CUB's request made herein to reject the Staff proposed Seasonal Pricing, and also with the exception of any new costs withdrawn by PGE in its Opening Brief. In closing, CUB asks the Commission to note its statement in UE 115; Order No. 01-777 at page 11 and to make a similar finding in this matter with commensurate revenue reductions:

> PGE has failed . . . to establish that it has made every reasonable effort to reduce . . . discretionary Customer Service costs to help offset its spiraling power costs. We acknowledge that such reductions require difficult choices. Nonetheless, given the increasing wholesale power costs and PGE's reliance on that market to meet customer load, we believe that PGE must consider the rate impact on customers and critically examine whether some of these proposed expenditures should be delayed or simply not made at this time.

Dated this 4th day of November, 2008.

Respectfully submitted,

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UE 197 – CERTIFICATE OF SERVICE

I hereby certify that, on this 4th day of November 2008, I served the foregoing REPLY BRIEF OF THE CITIZENS' UTILITY BOARD OF OREGON upon all parties of record in docket UE 197, as listed in the PUC Service List, by email and, where paper service is not waived, by U.S. mail, postage prepaid, and upon the Commission by email and by sending an original and 5 copies by U.S. mail, postage prepaid, to the Commission's Salem offices.

Respectfully submitted,

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