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Public Utility Commission of Oregon
Administrative Hearing Division

November 4, 2008

Via Electronic and U.S. Mail

Public Utility Commission
Attn: Filing Center
550 Capitol St. NE #215
P.O. Box 2148
Salem, OR 97308-2148

Re: In the Matter of PORTLAND GENERAL ELECTRIC COMPANY's Request for a General Rate Revision
Docket No. UE 197

Dear Filing Center:

Enclosed for filing please find the original and five (5) copies of the Reply Brief of the Industrial Customers of Northwest Utilities in the above-referenced docket.

Thank you for your assistance. If you have any questions, please do not hesitate to contact our office.

Sincerely yours,

Ruth A. Miller

Enclosures

cc: Service List

BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UE 197

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NOV 07 2008

Public Utility Commission of Oregon
Administrative Hearing Division

In the Matter of	)	
	)	
	)	
PORTLAND GENERAL ELECTRIC	)	
COMPANY	)	**REPLY BRIEF OF THE**
	)	**INDUSTRIAL CUSTOMERS OF**
	)	**NORTHWEST UTILITIES**
Request for a general rate revision	)	
	)	

November 4, 2008

TABLE OF CONTENTS

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I. INTRODUCTION

PGE's Opening Brief fails to persuasively refute the arguments and adjustments raised by CUB, ICNU and Staff. PGE seems to believe that the fact that a majority of PGE's rate increase is driven by power costs somehow relieves it from responsibility for controlling its other costs. As ICNU noted in its Opening Brief, the rate increase proposed in this case will only exacerbate PGE's already high rates. The Commission should require PGE to control its costs in one area where it does have an ability to manage its costs: wages, salaries, benefits and incentives. Given the fact that the combined adjustments of ICNU, Staff and CUB exceed the non-power cost portion of PGE's total requested increase in revenue requirement, the Commission should simply deny the request and allow only a rate increase related to power costs. Finally, PGE argues that the employee discount should remain in place because it has been there for 40 years. Longevity is not a good basis to continue a poor public policy choice.

II. ARGUMENT

In its Opening Brief, PGE makes several criticisms of ICNU's position in this case; however, PGE's points are either inaccurate or not supported by the record.

A. PGE's Speculative Budget Numbers Do Not Reflect Known and Measurable Changes

PGE argues that Ms. Blumenthal's mathematical approach to calculating FTEs based on historic escalation rates ignores known and measurable changes. PGE Opening Brief ("PGE Brief") at 12. According to PGE, its testimony demonstrates the need for specific additional employees. PGE Brief at 8. PGE's claims are not supported by the record.

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According to PGE, "[t]he 2008 budget was created through a company-wide, bottom-up budget process." ICNU-CUB/103, Blumenthal/1. PGE's budget is not part of the record. In order for cost changes to be known and measureable, they must be reasonably likely to occur. There is no assurance that PGE's actual costs will equal its budget. In fact, PGE has consistently been high in forecasting its growth in FTE's in the past. ICNU Opening Brief ("ICNU Brief") at 12-13. PGE must show that its proposed costs are reasonable and necessary and that its proposed changes from historical costs are known and measurable. PGE has not demonstrated that its proposed salaries and wages meet these criteria. The Commission should adopt Ms. Blumenthal's approach of applying reasonable escalation factors to historic results of operations, instead of an unsupported and speculative budget. Allowing rate increases based on budget numbers is a legally flawed approach to ratemaking.

B. Ms. Blumenthal Supported Her Use of a One Percent FTE Escalation Factor

According to PGE, Ms. Blumenthal's Surrebuttal testimony uses a "plug" FTE escalation rate of one percent, without any explanation or support. PGE Brief at 12. This is incorrect. First, PGE apparently doesn't understand Ms. Blumenthal's computation. There is no "plug" figure in any surrebuttal calculations. The one percent (actually 1.046%) that PGE points to is from Ms. Blumenthal's workpapers. It is PGE's average percent increase in FTEs from 2004 to 2007, excluding officers. She added a 1 to the 1.046% in the calculation to increase the actual 2007 number of FTEs. It represents 100% for the actual 2007 amount, plus the 1.046% increase. There is no "plug" figure.

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Second, the historic number of FTEs she used includes overtime FTEs. This became apparent when the Company corrected the FTEs for 2007. As a result, her total recommended payroll includes overtime FTE's plus the $11 million in overtime. Her adjusted payroll number is, therefore, more than generous.

C. Exempt Overtime Hours Should Not Be Converted to FTE's

PGE continues to argue that exempt over time hours should be converted into employees for purposes of calculating costs. PGE Brief at 11. PGE states that "[u]se of conversion hours is more accurate because it focuses on the amount of work and effort required for PGE's regulated operations." Id. PGE has it all wrong; its rates are set based on costs rather than the effort involved. It is pure speculation that exempt overtime will be converted into actual employees.

D. PGE has Created a Confusing Record Regarding the Loading Rate and Employee Support Costs

PGE states that the costs of payroll taxes, employee benefits, incentives and employee support are directly forecasted. PGE Brief at 13. According to PGE, loading rates are used to allocate costs between capital and O & M and to estimate FTE costs. Id. at 13-14. Loading rates are not used to derive revenue requirements or set rates. Id. The loading rate is a rate calculated after costs are determined, and it is not a driver of revenue requirement costs. Id. ICNU's witness calculated a loading rate based on historical information that can be used to project future costs that vary with labor. ICNU then applied the load rate to its recommended payroll amount.

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PGE also argues that Ms. Blumenthal says that she does not have a basis for excluding employee support costs: "Ms. Blumenthal removes employee support as part of the loading rate 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." PGE Brief at 14.

The employee support costs are already included in PGE's A&G, which is part of the revenue requirement. PGE/500, Piro-Tooman/2, Table 1. ICNU does not recommend that these be removed from A&G. ICNU simply excluded these costs from the loading rate for calculating benefits and payroll taxes applicable to overall wages. If PGE did not use the loading rate for calculating its revenue requirement, as it claims, then it shouldn't care that ICNU used a modified loading rate to calculate its adjustment. It should be irrelevant. Again, ICNU has not suggested that employee support costs be excluded from the revenue requirement.

E. ICNU Did Not "Cherry Pick"

PGE accuses ICNU-CUB of "cherry picking" historical data by excluding years when wage increases were higher but including years when they were lower. PGE Brief at 15. That is incorrect. ICNU excluded no years in the surrebuttal calculations. Actual data for 2004-2007 was used for all employees but officers. No changes were recommended for officers who are already overpaid.

PGE states that officer salary increases were well below the market when PGE was part of the Enron bankruptcy estate. PGE Brief at 15. As a result, PGE claims that the higher increases of the last few years were justified to bring PGE officer's up to market. Id.

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PGE states that its 6% increase in officer salaries is reasonable because it commissioned a study that showed that PGE officer salaries were below market. Id. The opinion of paid consultants that PGE's officers need to be paid more is not convincing. The Washington Utilities and Transportation Commission recently observed:

> In recent years we have witnessed increasing attention to, and criticism of excessive levels of executive compensation and bloated severance packages. This criticism has come in part from prominent members of the business community who have served on corporate boards. Moreover, the appropriate oversight committees of Congress have begun to investigate executive compensation policies and the role executive pay consultants play. Therefore, we are inclined to be wary of studies by consultants that potentially are self-serving and may not provide objective information that is useful to us.[1/]

WUTC v. PacifiCorp, Docket No. UE-061546, Order No. 8, June 21, 2007, ¶ 174. The OPUC should be equally wary of such information and disregard it as biased and self-serving.

F. ICNU corrected its Loading Rate Calculation in its Opening Brief

PGE argues that Ms. Blumenthal's adjustments for incentives is overstated because she applies the loading rate for incentives to the total labor costs, when the components of the loading rate do not in fact apply to PGE's total labor base. PGE Brief at 19. PGE claims that the application of the incentive and employee support loading rate to total labor costs overstates the adjustment by $14 million. Id. ICNU acknowledges that its original calculations were applied to the wrong base; however, ICNU corrected its error by recalculating the amount in its Opening Brief. ICNU Brief at 19. The adjustment was not overstated by $14 million.

1/ The Commission quoted the following axiom in support of its position: "Whose bread I eat, whose song I sing." WUTC v. PacifiCorp, Docket No. UE-061546, Order No. 8, June 21, 2007, footnote 116.

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G. The Commission Should Reject Staff's Proposed Rate Design Changes

Staff's Brief fails to respond to the objections to its rate design proposals raised by ICNU and PGE. First, there is a greater difference between winter and spring/fall costs than there is between summer and winter. ICNU/205, Rosenberg/2, lines 22-24. By addressing only a part of the problem (and not the worst part at that), Staff's proposal is arbitrary. Second, Staff errs in focusing only on marginal energy prices and ignoring peak loads. As a result, it is inappropriate to address the concerns that Staff identifies through the piecemeal approach that it advocates. A better approach would be to address the impact of seasonal cost variations on both cost allocation and rate design in a separate proceeding.

Staff's proposal also fails due to vagueness. Staff/504 contains rates; however, Staff says these numbers are merely "estimates and approximations." Staff Brief at 24, lines 18-19. Staff states that these "prices are subject to true-up based upon refinements in billing determinant estimates and revenue requirements adjustments." Id. at 24, lines 20-21. However, there is no methodology for determining what these adjustments should be. Should the Commission adopt Staff's proposal, it would be ordering PGE to adopt a super-peak summer rate for Schedule 89 customers, without any direction for calculating the actual rate.

Staff states that seasonal pricing is "common in our region;" however, Staff can point to no example in either Washington or Oregon where seasonal pricing has been implemented. Staff Brief at 21, lines 22-25. In fact, most of Staff's examples are from Nevada and California. Staff Cross Exhibit 3.

Staff's rate design proposal raises too many questions to be adopted without further analysis, and it is likely to result in too many unintended consequences. One example is

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the Schedule 128 transition adjustment. According to PGE, it may need to switch to a seasonal or monthly transition adjustment to reflect seasonal pricing. PGE/2000, Kuns-Cody-Lynn/4. Under PGE's current Schedule 128, it will publish a transition adjustment for calendar year 2009 on November 17, 2008. The transition adjustment will be a peak and off-peak rate for the entire year. As a result, it would not even be possible to implement seasonal pricing for the transition adjustment for 2009.

This raises an important issue: customer communication. PGE has had no opportunity to communicate with its customers regarding a new seasonal pricing regime, nor has it had time to develop the changes to its billing system that will be necessary. With new rates set to take effect on January 1, 2009, there is little opportunity to develop new rates, implement new billing mechanisms and explain to customers how the new rate structure will work.

Further, there has been no analysis of which customers would be impacted by the study or how they would be impacted. Likewise, there has been no analysis of how targeted customers would respond to seasonal pricing by changing consumption (assuming this is even possible). Staff says the purpose of the Schedule 89 summer super-peak rate is to "foster load shifting from super-peak to shoulder or off-peak periods." Staff Brief at 24, lines 17-18. How, for example, would a food processor that has significant summer cooling loads be able to shift its load? What impact would this change have on these customers? These questions should be studied before a completely new rate design is implemented. Norpac Foods is the last remaining food processor in the Willamette Valley. This proposal appears to be punitive toward this type of customer. Therefore, the best approach is the one advocated by ICNU, CUB and Staff. The

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Commission should open a docket in 2009 to consider both rate spread and rate design for PGE. A proposal such as Staff's is far from complete.

III. CONCLUSION

Staff, ICNU and CUB have identified the following adjustments to PGE's revenue requirement:

	Staff[2/]	ICNU	CUB
Payroll/Benefits	$8,891	$28,780	$28,780
Incentives	$6,963	$5,112	$5,112
A&G/O&M	$8,336		
Fixed Plant	$6,348		
Property Tax	$3,001		
Boardman Simulator			$100
Generation Excellence			$300
Customer Focus			$300
Helicopter			$26
1% Discretionary			$17,000
	$33,539	$33,892	$51,618

Assuming that the Commission adopted all of the proposed adjustments, except for Staff's duplicate payroll, benefits and incentives adjustments, the total reduction in the test year revenue requirement would be over $69 million. PGE's current request for an increase in its non-power cost revenue requirement is $56.6 million. PGE Brief at 1. This demonstrates that this has been a wholly unnecessary rate case. Note that PGE settled ROE at its current ROE level of 10.1%. Instead of wasting the time of Staff, intervenors and the Commission with this

2/ Dollars are in thousands.

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rate case, PGE should have relied on its power cost adjustment mechanisms for rate changes and focused its energy on controlling its costs.

Under the circumstances, the Commission should simply reject PGE's request for any increase in non-power cost revenue requirement, which would result in a disallowance of $56.6 million. Staff's brief reveals an astounding fact. PGE's proposed average non-officer cost per FTE for salary, benefits and incentives is $114,355. Staff Brief at 6. CUB is absolutely correct; the Commission should send PGE a strong message to cut its costs. Finally, PGE has the burden of proof in this case. It is has failed to support its bloated non-power cost numbers, or show that accepting such numbers would result in fair, just and reasonable rates.

Dated this 4th Day of November, 2008.

Respectfully Submitted,

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CERTIFICATE OF SERVICE

I HEREBY CERTIFY that I have this day served the foregoing Reply Brief of the Industrial Customers of Northwest Utilities upon the parties, on the service list, by causing the same to be deposited in the U.S. Mail, postage-prepaid, where paper service has not been waived.

Dated at Portland, Oregon, this 4th day of November, 2008.

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