Portland General Electric Company
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Douglas C. Tingey
Assistant General Counsel

October 1, 2008

Via Messenger

Oregon Public Utility Commission
Attention: Filing Center
550 Capitol Street NE, #215
PO Box 2148
Salem OR 97308-2148

Re: UE 197

Attention Filing Center:

Enclosed for filing in UE 197 are an original and five copies of :

Sursurrebuttal Testimony of Portland General Electric Company:

- **(PGE/2200, 2201-2205/Piro/Policy);**
- **(PGE/2300, 2301-2310/Tooman-Tinker/Revenue Requirement);**
- **(PGE/2400, 2401-2405/Barnett-Bell/Compensation);**
- **(PGE/2500, 2501/Hawke/Distribution/Customer Service);**
- **(PGE/2600, 2601, 2602C/Quennoz/Generation);**
- **(PGE/2700, 2701, 2702C, 2703C, 2704C, 2705-2707/Piro-Tooman/A&G);**
- **(PGE/2800, 2801/Kuns-Cody-Lynn/Pricing); and**
- **(PGE/2900/Cavanagh/Decoupling).**

Also enclosed are an original and three copies of:

- **Workpapers.**

Included are confidential and non-confidential portions. The confidential portion is in separately sealed envelopes and subject to protective order 08-133. Please do not to post on the OPUC website.

An extra copy of this cover letter is enclosed. Please date stamp the extra copy and return it to me in the envelope provided.

Thank you in advance for your assistance.

Sincerely,

DOUGLAS C. TINGEY

DCT:cbm
Enclosures
cc: Service List-UE 197

CERTIFICATE OF SERVICE

I hereby certify that I have this day caused **SURSURREBUTTAL TESTIMONY OF PORTLAND GENERAL ELECTRIC COMPANY** to be served by electronic mail to those parties whose email addresses appear on the attached service list and by method specified, postage prepaid and properly addressed, to those parties on the attached service list who have not waived paper service from OPUC Docket No. UE 197.

Dated at Portland, Oregon, this 1st day of October, 2008.

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SERVICE LIST - OPUC DOCKET # UE 197

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I. Introduction

Q. What is your name and position with PGE?

A. My name is James J. Piro. I am the Executive Vice President and Chief Financial Officer for PGE. My qualifications appear in PGE Exhibit 100, Section VIII. I previously sponsored PGE Exhibits 100 and 1300.

Q. What is the purpose of your sursurrebuttal testimony?

A. The purpose of my testimony is to address the policy issues raised by other parties in their surrebuttal testimony. I also address apparent misunderstandings or mischaracterizations of PGE's operations and practices. Finally, I introduce other PGE testimony that addresses the remaining unresolved issues in this proceeding.

Q. How is your testimony organized?

A. In this section, I introduce the remaining PGE testimony. In Section II, I discuss PGE's cost-control measures. In Section III, I respond to CUB's proposal for a one percent discretionary cost reduction adjustment to PGE's test year revenue requirement. Finally, in Section IV, I discuss various proposals for recovery of 2009 plant O&M costs, which will be higher than in recent years because of unusually extensive planned maintenance outages at three plants.

Q. What other sursurrebuttal testimony is PGE submitting?

A. PGE has the following seven additional exhibits:

- Exhibit 2300 – Revenue Requirements
- Exhibit 2400 – Compensation
- Exhibit 2500 – Transmission and Distribution O&M and Customer Service
- Exhibit 2600 – Generation O&M

- Exhibit 2700 – A & G
- Exhibit 2800 – Pricing
- Exhibit 2900 – Decoupling.

II. Cost Control

Q. Is CUB's suggestion that PGE has done nothing since the rate case filing to control and reduce costs accurate (CUB/200, Jenks/2)?

A. No. In the August 5th partial stipulation with Staff, PGE agreed to reduce its request by $5.7 million in costs unrelated to return on equity. In our rebuttal testimony, we agreed to further reductions of $16.2 million. Far from doing nothing since filing this rate case, we have actively considered ways to reduce our request. Most important, we have, in fact, agreed to reduce our request substantially.

Q. CUB expresses concern that the reductions PGE has agreed to reflect Staff's positions and not CUB's or ICNU's (CUB/200, Jenks/4). Is that a valid ratemaking concern?

A. No. We do not understand the basis of CUB's stated position that the party sponsoring an adjustment or proposal is somehow relevant. Reductions in costs lower rates, no matter the source of the suggestions or recommendations. In fact, there are three categories of cost reductions, which are reflected in these adjustments:

- Costs updated based on more recent information (e.g., removing FTEs related to FERC 890-A).
- Requests reduced after discussions with other parties (e.g., research and development costs).
- Actual costs to be incurred but for which PGE is not requesting recovery (e.g., officer incentives). These reductions are based on prior Commission policy but are important for SB 408 impacts. Consequently, PGE would like Commission recognition for these costs in PGE's SB 408 ratios so that customers do not receive

tax benefits from utility costs for which they are not responsible (see PGE Exhibit 2300, Section IV, part B).

Q. Does CUB add anything new in its surrebuttal testimony regarding cost cutting measures that impact the 2009 test year?

A. No, not really. PGE has fully responded to CUB's request to identify cost saving measures that PGE has put in place that impact the 2009 test year. PGE's opening testimony provided examples of such measures. In rebuttal testimony, PGE identified additional examples including AMI and other examples described in UE 180. In many cases, cost savings have no doubt occurred and are part of our test year forecast, but no formal study has been conducted to individually document and quantify the cost savings.

Most important, we identified in our rebuttal testimony a series of examples of cost controls throughout our operations. These include system investments, stringent review of all capital expenditures, generation improvements, higher-efficiency generation, construction costs, health insurance costs, automated outage reporting system, system security, and many other savings (PGE Exhibit 1300, page 15). CUB does not dispute that we have put these cost control measures in place, that we use them every day in our operations, and that they reduce our costs although the precise level of savings has not been quantified at this time. With these examples of our strong culture of cost control undisputed, there is simply no basis for CUB's claim that "PGE shows little effort to control costs" (CUB/200, Jenks/3).

Q. Is CUB's reasoning circular in this regard?

A. Yes. They assume there are discretionary programs included in PGE's request that can be cut without harm to service quality and reliability. When we do not offer to cut systems and programs that are integral to reliable service, CUB claims we are making "no effort" to identify discretionary programs. Ironically, the inability of parties to find many discretionary programs to cut helps to prove PGE's position and undermine CUB's. If we truly lacked a culture of cost control as CUB claims, we and the other parties in this proceeding would have little trouble finding discretionary programs that we could cut without compromising service quality and reliability. We and others in this docket have been unable to identify significant discretionary programs because we in fact have a strong commitment to cost control. We are a business that closely manages our costs. We have few, if any, opportunities to reduce costs without making difficult tradeoffs between the service, safety, and reliability that our customers and the public expect and requirements for fiscal management. There are no easy programs to cut, which shows that we try all the time, not just since filing this rate case, to reduce our costs and efficiently offer service to our customers.

III. Discretionary Cost Reduction Proposal

Q. Has CUB changed its position regarding its proposed blanket reduction of 1% from PGE's revenue requirement request?

A. No. CUB continues to claim that a 1% reduction in PGE's entire revenue requirement (approximately $17 million reduction) is justified in light of "PGE's lack of rigorous financial analysis and the Company's lack of aggressive cost management" (CUB/200, Jenks/41).

Q. Is CUB's proposal reasonable?

A. No. As we've shown above, we have aggressive cost management so there is no basis for imposing CUB's arbitrary reduction. Let me try to put CUB's recommendation into perspective. The vast majority of PGE's revenue requirement is power costs, accounting for more than half of PGE's revenue requirement. Other substantial parts of PGE's revenue requirement such as cost of capital, depreciation and amortization, and all taxes and fees (with the exception of property taxes) have either been settled or are undisputed. Given that CUB's concern is O&M expenses, which account for a small portion of the request and only about 20% of our total revenue requirement, it is arbitrary and without foundation to use the overall revenue requirement as a basis for a proposed reduction in O&M expenses. In other words, a 1% overall reduction is an almost 5% reduction in O&M. Given that most of these costs are for operation and maintenance of our generation plants and transmission and distribution systems, such a decrease could have significant impacts on reliability and safety.

Q. Can you give another illustration of the magnitude of CUB's proposal?

A. Yes. The level of cost reduction is equal to approximately 150 to 200 full time equivalent employees or approximately 5.5% to 7.5% of PGE's workforce. If the Commission adopted

CUB's proposal, PGE would be required to make the difficult tradeoffs described above between: 1) eliminating many positions, which would severely impact service to customers, or 2) undermining our attempts to maintain the financial health of the company as we seek to access equity and debt markets to fund needed investment in system replacement and upgrades, cost-effective new renewable resources, and environmental mitigation projects. CUB's proposal could increase rates in the long-term by compromising PGE's ability to access capital markets on reasonable and competitive terms.

Q. CUB claims that PGE's failure to identify more discretionary projects is a reason to impose the 1% reduction (CUB/200, Jenks/32). Does that make sense?

A. No. As we pointed out before, the parties' (including CUB's) inability to find discretionary projects is evidence of our strong cost control culture and the harm to essential programs and systems that CUB's adjustment would impose.

Q. Staff compares PGE's rates and A&G costs to its peers (Staff/800, Owings/33). Do Staff's exhibits provide a fair measure of PGE's costs?

A. Absolutely not. Staff fails to consider significant differences between the utilities to which PGE is compared. For example, Staff Exhibit 815 measures A&G costs as a percentage of plant-in-service. PGE purchases a higher percentage of its power on the wholesale market and has significantly less plant-in-service than its peer group. As a result, PGE's A&G costs as a percentage of plant-in-service is higher than its peer group, not because PGE is less efficient or has fewer cost controls in place but rather because it has less plant-in-service. For additional information, see PGE Exhibits 2201 and 2202, which are graphs that show:

1) PGE's A&G costs per total electric customers are typically lower than other utilities, and 2) PGE's net plant per total electric customers are significantly lower than other utilities.[1]

Similarly, Staff Exhibits 816 and 817 compare PGE's rates with utilities such as Idaho Power and PacifiCorp, which have significantly different resource mixes and, consequently, lower power costs. Drawing any 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 when it comes to differences in utility retail rates.

Q. Staff mentions a benchmarking study as one alternative to CUB's 1% reduction adjustment. What is your view concerning Staff's proposal?

A. We would not be opposed to a rigorous benchmarking effort. However, meaningful benchmarking requires a substantial commitment of resources and time. Definitive results will take months of considerable work and require cooperation among a number of other utilities. Further, the cost of robust benchmarking is not insignificant. 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, we would be pleased to pursue this alternative further.

Q. Has PGE participated in any such benchmarking studies in the past?

A. Yes. PGE participated in a rigorous benchmarking study approximately 10 years ago. This was a fairly costly study that found PGE to be a top performer in many areas and also provided some benefit in identifying areas for improvement. In lieu of more recent benchmarking, PGE has focused on process and self-improvement. Part of this effort involves attending industry conferences coordinated by organizations such as the Edison

[1] PGE Exhibits 2201 and 2202 are part of PGE's response to OPUC Data Request No. 444, Attachment 444-A, which Staff used to create Staff Exhibit 815.

Electric Institute, the Western Energy Institute, PGE's vendors, etc. These conferences consist of significant interaction with other utilities to exchange ideas for new practices and techniques for implementation.

Q. Does CUB raise any other issues in this docket?

A. Yes. In CUB's direct testimony and surrebuttal testimony they raise numerous issues regarding PGE's advanced metering infrastructure (AMI) program. Although CUB makes numerous incorrect statements regarding AMI, I will not respond further because AMI is not a component of, or relevant to, this docket.

IV. Plant O&M Costs

Q. What is Staff's position on the recovery of "above average" test year O&M costs at PGE's Beaver, Boardman, and Colstrip generating plants?

A. Staff considers $6.8 million to be the measure of forecasted "above average" O&M costs for these plants in 2009. However, Staff proposes that PGE be allowed to collect only one-tenth of this amount, or $0.7 million, in the 2009 test year revenue requirement, and opposes creation of a regulatory asset to ensure collection of the remaining amount over an extended period of time (Staff/1000, Durrenberger/5-6). Collection of one-tenth of the $6.8 million would result in a revenue requirement decrease of approximately $6.1 million.

Q. With what part of Staff's proposal does PGE agree?

A. We agree with the $6.8 million figure as a measure of "above average" O&M costs for Beaver, Boardman, and Colstrip in 2009.

Q. Would Staff's proposal really ensure full recovery of the $6.8 million?

A. No. Even if this amount is included as an adder to rates for ten years, PGE would only receive the <u>nominal</u> amount over the ten-year period. In a net present value sense, PGE would receive only $4.9 million, which is approximately 72% of true cost. PGE Exhibit 2203 shows this calculation. Further, based on PGE's research, the likely accounting treatment that would follow – if the Commission approved 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.

Q. Has PGE proposed a structure that would assure full (net present value) recovery of the $6.8 million over time?

A. Yes. In rebuttal testimony, we proposed a five-year regulatory asset structure (PGE/1800, Quennoz/18-19). This proposal would reduce the test year revenue requirement by spreading costs over time, but also ensure PGE's full cost recovery. This proposal translates into a decrease of approximately $5.5 million in O&M costs and an increase of approximately $6.2 million in rate base for purposes of calculating the test year revenue requirement effect, which is then an overall reduction in revenue requirements of approximately $5.0 million.

Q. Why did you propose a five-year, rather than a ten-year, structure?

A. As stated in rebuttal testimony, we selected five years because it 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, Lines 6-7). Staff does not give any compelling basis for selection of a ten-year period.[2] We believe five years better balances the objectives stated in our rebuttal testimony.

Q. If a ten-year regulatory asset structure were established, what would the test year revenue requirement be?

A. A ten-year regulatory asset structure would translate into a decrease of approximately $6.2 million in O&M costs and an increase of approximately $6.5 million in rate base for purposes of calculating the test year revenue requirement effect, which is then a reduction of approximately $5.6 million. PGE Exhibit 2204 shows the calculations for the revenue requirement elements for both the five and ten-year regulatory asset structures.

Q. Please summarize the conclusions you make in this Section.

[2] Staff's Response to PGE Data Request No. 053 states the "Staff took the position that rates should anticipate these kinds of extra costs with a regularity of every ten years or about one third of the way through what could be considered the typical depreciable life of the equipment." This response is PGE Exhibit 2205.

A. Staff's proposal would not allow PGE to recover the $6.8 million in "above average" test year O&M costs for three plants. This is primarily because even if there is a guarantee of recovery over ten years (by being included as an adder to future rate cases), Staff's proposal does not consider the time value of money.

PGE recommends the five-year regulatory asset structure discussed in our rebuttal testimony (PGE/1800, Quennoz/18-19). This structure ensures recovery of the forecasted test year O&M costs with appropriate consideration of the time value of money. A ten-year regulatory asset structure, while less desirable from PGE's point of view, would also ensure cost recovery with appropriate consideration of the time value of money.

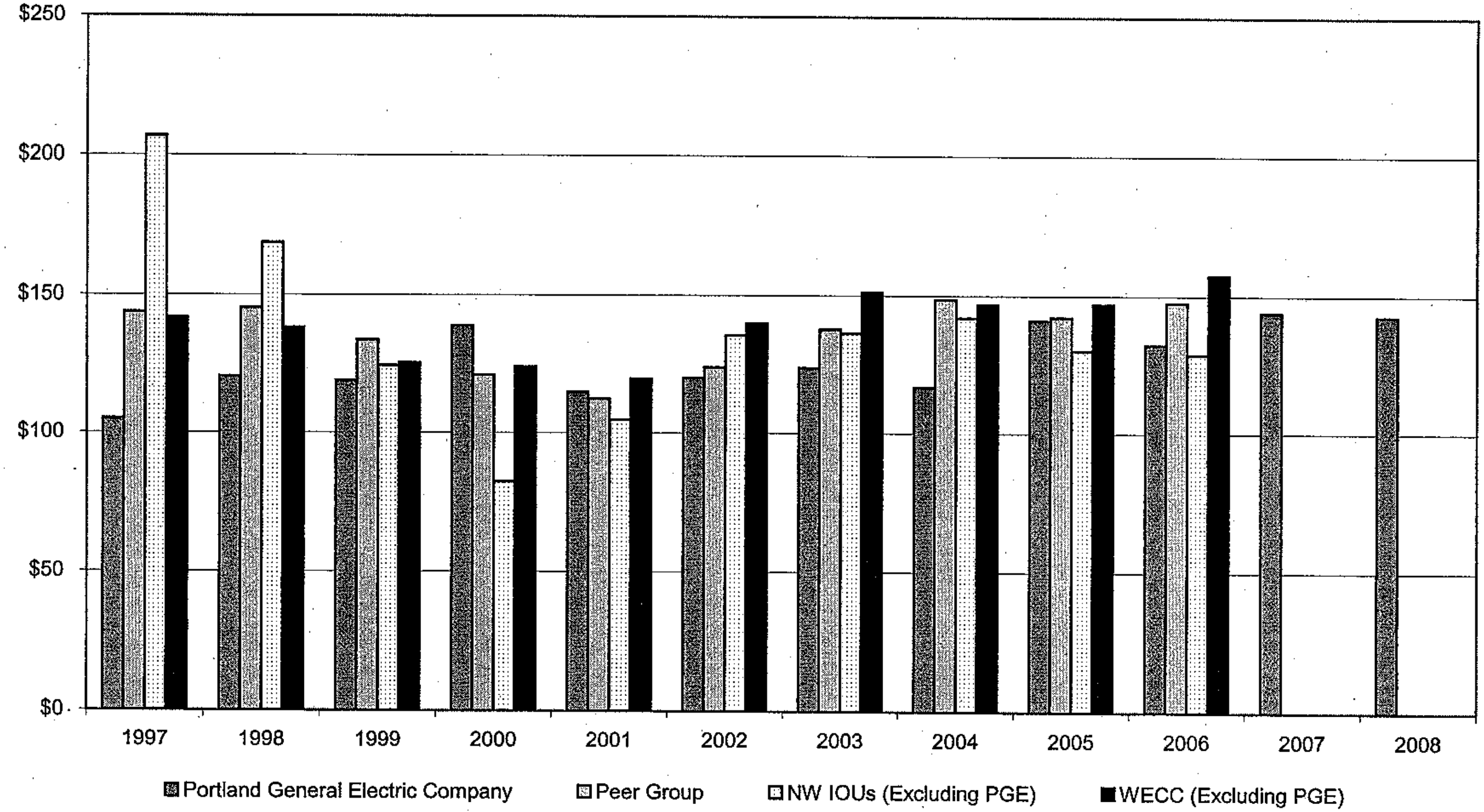
Q. Does this conclude your testimony?

A. Yes.

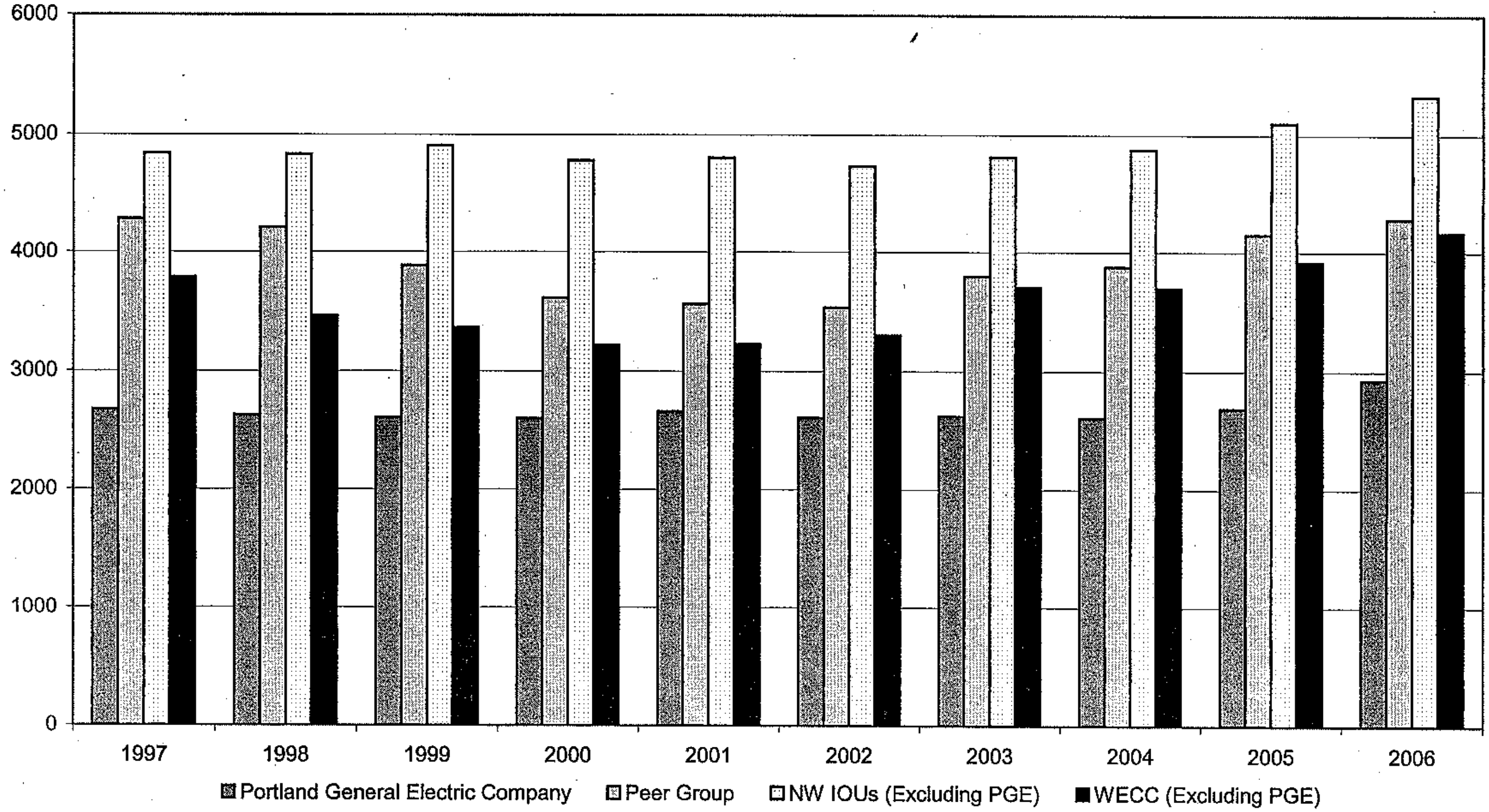
List of Exhibits

PGE Exhibit	Description
2201	Graph – A&G per Total Electric Customers
2202	Graph – Net Plant-In-Service per Total Electric Customers
2203	Net Present Value of 10-Year Repayment Period
2204	Effects on Test Year Revenue Requirement Elements of 5- and 10-Year Regulatory Asset Structures
2205	Copy of Staff's Response to PGE Data Request No. 053

A&G / Total Electric Customers
- PGE vs Peer Group, NW Utilities, WECC -



Total Net Plant-in-Service / Total Electric Customers
- PGE vs Peer Group, NW Utilities, WECC -



Net Present Value of Ten-Year Collection

Discount Rate: 8.33%
(Stipulated Cost of Capital)

Year	Amount	2009 Value	
2009	$ 684,492	$ 684,492	
2010	$ 684,492	$ 631,835	
2011	$ 684,492	$ 583,229	
2012	$ 684,492	$ 538,362	
2013	$ 684,492	$ 496,946	
2014	$ 684,492	$ 458,717	
2015	$ 684,492	$ 423,428	
2016	$ 684,492	$ 390,854	
2017	$ 684,492	$ 360,786	
2018	$ 684,492	$ 333,032	
Sum:	$ 6,844,920	$ 4,901,680	0

Regulatory Asset Structure (Related to Higher than Average Plant O&M Costs)

Over Five Years

Date		Balance		Average Balance For Year	Year
1/1/2009	$	6,844,920			
12/31/2009	$	5,475,936	$	6,160,428	2009
12/31/2010	$	4,106,952	$	4,791,444	2010
12/31/2011	$	2,737,968	$	3,422,460	2011
12/31/2012	$	1,368,984	$	2,053,476	2012
12/31/2013	$	-	$	684,492	2013

Effects on 2009 Test Year Revenue Requirement Elements (with Five-Year Reg. Asset Structure)

O&M Expense:	$	(5,475,936)
Rate Base:	$	6,160,428

Over Ten Years

Date		Balance		Average Balance For Year	Year
1/1/2009	$	6,844,920			
12/31/2009	$	6,160,428	$	6,502,674	2009
12/31/2010	$	5,475,936	$	5,818,182	2010
12/31/2011	$	4,791,444	$	5,133,690	2011
12/31/2012	$	4,106,952	$	4,449,198	2012
12/31/2013	$	3,422,460	$	3,764,706	2013
12/31/2014	$	2,737,968	$	3,080,214	2014
12/31/2015	$	2,053,476	$	2,395,722	2015
12/31/2016	$	1,368,984	$	1,711,230	2016
12/31/2017	$	684,492	$	1,026,738	2017
12/31/2018	$	-	$	342,246	2018

Effects on 2009 Test Year Revenue Requirement Elements (with Ten-Year Reg. Asset Structure)

O&M Expense:	$	(6,160,428)
Rate Base:	$	6,502,674

September 24, 2008

TO: Patrick G. Hager
Manager, Regulatory Affairs

FROM: Judy Johnson
Program Manager, Rates and Regulation

OREGON PUBLIC UTILITY COMMISSION
UE 197
PGE's Sixth Set of Data Requests to OPUC – DR Nos. 052-060
Dated September 17, 2008 – Due September 24, 2008
Question No. 053

Request:

53. Staff/1000, Durrenberger/6 states that "I estimate that the excess costs expected for the 2009 test year will reoccur again with the regularity of about once in every ten years". Please provide all supporting documentation for this estimation.

Response:

There is no documentation supporting the contention that the excess maintenance costs reoccur every ten years. In fact, based on the company response to Staff Data Requests 159, 160 and 312 the specific tasks that were planned that caused the extra maintenance costs in Boardman and Colstrip in the 2009 test year were unique and, up till now, non-recurring. Furthermore the excess Beaver costs, according to testimony at PGE/ 400 Quennoz-Lobdell/11-12 represented a one time cost also. Staff took the position in Surrebuttal that they agree with the company that these plants have periodic maintenance needs that are more lengthy and costly than the routine annual maintenance and that customer rates should cover these types of legitimate expenses. Since the Staff Data Request 160 response seemed to indicate that similar excess costs had not occurred in these plants within the last five years, and absent any evidence presented by the company on how often to expect these plants to need the extra maintenance, Staff took the position that rates should anticipate these kinds of extra costs with a regularity of every ten years or about one third of the way through what could be considered the typical depreciable life of the equipment.

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I. Introduction

Q. What are your names and positions with PGE?

A. My name is Alex Tooman. I am a project manager for PGE. I am responsible, along with Mr. Tinker, for the development of PGE's revenue requirement forecast. In addition, my areas of responsibility include results of operations reporting, power cost filings, and other regulatory analyses.

My name is Jay Tinker. I am also a project manager for PGE. My areas of responsibility include revenue requirement and other regulatory analyses.

Our qualifications appear in PGE Exhibit 200, Section IX. We previously testified in this docket sponsoring PGE Exhibits 200 and 1400.

Q. What is the purpose of your testimony?

A. The purpose of our testimony is to address the remaining issues related to PGE's revenue requirement and to respond to other parties surrebuttal testimony on those issues. As with PGE's rebuttal testimony, these are topics that do not relate to specific functional areas (e.g., taxes) or are broader in scope than can be covered in individual functional areas (e.g., overall employment level).

Q. What is PGE's revised revenue requirement increase request in UE 197/UE 198?

A. PGE's revised revenue requirement increase is $160.7 million, or about 10.1% overall. Table 1 below summarizes the changes to PGE's requested revenue requirement increase since our direct filing.

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[1]	$ ---	$0.8 million	$0.8 million
June Stipulation. Effect	$ ---	$(13.6) million	$(13.6) million
Sept. Stipulation Effect	$ ---	$(13.1) million	$(13.1) million
Sept 26 NVPC/Load Effect[2]	$55.8 million	$3.2 million	$59.0 million
NVPC Stipulation Effect	$(4.7) million	$ ---	$(4.7) million
Add'l Reductions per PGE Sursurrebuttal Testimony	$ ---	$(13.7) million	$(13.7 million)
Net Rev. Req. Increase	$104.1 million	$56.6 million	$160.7 million

Q. Are there other rate changes expected to be effective on January 1, 2009?

A. Yes. We expect to implement a credit to customers as part of our power cost adjustment mechanism as well as eliminate or modify several amortizations under our Schedule 105. We are still reviewing the effect of BPA's recent Record of Decision but it may result in a small additional credit to residential and farm customers. The net impact of our request in this docket plus these other changes is an increase of approximately 8.4% to cost of service customers.

Q. How is your testimony organized?

A. In the next section, we present PGE's revenue requirement for the 2009 test year as currently proposed, including the effects of two filed stipulations and a third stipulation currently in progress, recent power cost updates, and the proposals described in PGE's

[1] Original Errata filing requested a $1.3 million in additional revenue requirement. PGE subsequently agreed with Staff to reduce this amount to reflect the use of a 5.120% state tax rate.
[2] The load effect includes the impact of load changes on NVPC as well as the associated impact on revenues.

sursurrebuttal testimony. We then discuss the overall increase in employment as presented in this rate case and we address the proposed adjustment to PGE's employee related costs. Finally, we address issues concerning PGE's property taxes for the 2009 test year as well as PGE's proposal to modify SB 408 ratios for the effects of certain costs not included in the 2009 revenue requirement.

II. Revenue Requirement Summary

Q. What is the purpose of this section of testimony?

A. We summarize PGE's revenue requirement including the impact of stipulations on power costs and two stipulations regarding certain revenue requirement issues. In addition, the revenue requirement reflects the most recent update of power costs for 2009, as filed on September 26, 2008. Finally, we update PGE's filed revenue requirement to reflect changes supported in PGE's sursurrebuttal testimony.

Q. Have all of the stipulations reflected in PGE's proposed revenue requirement been filed with the OPUC?

A. No. To date, stipulations have been filed with the OPUC regarding power costs (filed in July 2008) and a partial revenue requirement stipulation (filed in August 2008). At a settlement conference on September 22, 2008, PGE, Staff, CUB, and ICNU entered into a verbal agreement regarding certain revenue requirement issues in this case. Currently, a draft of the stipulation is circulating among the parties. The parties intend to file the stipulation with the Commission as soon as possible. We believe we have accurately reflected the terms agreed to as part of our updated revenue requirement in this filing.

Q. Which revenue requirement issues are subject to the verbal agreement among the parties?

A. The verbal agreement reflects terms regarding the following revenue requirement issues: R&D Expenditures (S-2), Capital Expenditures (S-5),[3] WECC/Transmission Planning/Flow Mitigation (S-10), NERC/RCM Program Costs/Misc. (S-13), Uncollectible accounts (S-16), and Energy Audits (S-19).

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[3] The S-5 adjustment removes the selective water withdrawal (SWW) project from the 2009 test year. Per the agreement, the SWW project will be the subject of a separate docket to be initiated on or before October 31, 2008.

Q. What is the combined revenue requirement effect of the agreement?

A. The agreement results in a reduction to PGE's filed revenue requirement of $13.1 million.

Q. What is PGE's revised revenue requirement for the 2009 test year?

A. PGE's revised revenue requirement is $1,748 million for 2009, as shown in PGE Exhibit 2301. This revenue requirement will allow PGE an opportunity to earn a 10.1% ROE on a 50% equity capital structure, with an overall cost of capital of 8.334%, as agreed in the August 5, 2008 partial revenue requirement stipulation.

Q. What is the overall revenue requirement increase relative to 2009 revenues at current prices?

A. The revenue requirement is $160.7 million above 2009 revenues at current prices, and would result in an overall rate increase of approximately 10.1%.

Q. What is the composition of the increase in revenue requirement between power costs and all other costs?

A. The $160.7 million increase in revenue requirement consists of $104.1 million of additional revenues due to higher unit power costs and $56.6 million due to all other costs.

Q. What is PGE's most recent forecast for power costs for 2009?

A. PGE's most recent forecast for power costs is $859.8 million, as filed on September 26, 2008.

Q. Does this forecast reflect the stipulation in UE 198 regarding power costs?

A. Yes. The power cost forecast is net of the impact of the stipulation on power costs that reduced the forecast by approximately $5 million.

Q. Does PGE plan to file additional updates to the forecast of power costs?

A. Yes. The remaining schedule in the rate case requires updates to be filed on November 3 and November 14.

Q. Does PGE propose changes to its originally filed revenue requirement, aside from stipulated and updated items?

A. Yes. PGE proposes additional reductions to its originally filed revenue requirement on certain unsettled revenue requirement issues.

Q. Please summarize the adjustments to PGE's filed case supported in your sursurrebuttal testimony.

A. Table 2 below summarizes the $13.7 million of revenue requirement adjustments to our initial filing that are supported in PGE's sursurrebuttal testimony, along with references to the supporting sursurrebuttal testimony describing the basis of the adjustment.

Table 2 (Revenue Requirement Adjustments to Unsettled Issues)

Item	Issue No.	Approx Rev. Req. Impact	Reference
Remove FERC 890A FTEs	S-3	$(0.8) million	PGE Exhibit 2300
Remove Officer Incentives	S-4	$(3.6) million	PGE Exhibit 2400
Remove Director Compensation	S-9	$(0.3) million	PGE Exhibit 2400
Remove Other Benefits	S-9	$(0.2) million	PGE Exhibit 2400
Adjust Insurance	S-9	$(0.3) million	PGE Exhibit 2700
Adjust Uninsured Losses	S-9	$(1.1) million	PGE Exhibit 2700
Adjust Arc Flash Mitigation Costs	S-9	$(0.3) million	PGE Exhibit 2500
Adjust FITNES Costs	S-9	$(0.9) million	PGE Exhibit 2500
Recover Plant O&M over 5 yrs.	S-11	$(5.0) million	PGE Exhibit 2200
Adjust Property Taxes	S-14	$(1.0) million	PGE Exhibit 2300
Remove Helicopter Capital Costs	CUB-4	$(0.2) million	PGE Exhibit 2500
Totals		**$(13.7) million**	

Q. The above revenue requirement reductions differ from the adjustments discussed in the remainder of this testimony as well as PGE's other witnesses. Why is this so?

A. The remaining testimony discusses adjustments to expenditures, some of which have expense and capital components. We calculate their effect on revenue requirements including the impact on revenue sensitive costs in PGE Exhibit 2301.

III. Overall FTEs

Q. Have PGE and other parties resolved the issues regarding overall employment or employee related costs?

A. No. The OPUC Staff ("Staff") and ICNU-CUB have updated their analyses as presented in their surrebuttal testimony but still propose adjustments related to these costs that PGE believes are excessive and not justified. The following table summarizes each party's position.

Table 3 (Summary of Parties' Positions on FTEs)

	Staff Current	Staff Corrected[4]	ICNU-CUB	PGE
2007 Actuals				
Straight time with no conversion hours[5]	2,560			
Straight time with conversion hours[6]		2,612	2,612	2,612
Effective escalation rates	1.45%	1.45%	0.99%	1.78%
Proposed straight-time FTEs	2,635	2,688	2,664	2,706
Non-exempt overtime FTEs (not disputed)	94	94	94	94
Total proposed 2009 FTEs	2,729	2,782	2,758	2,800
2009 FTEs as stated in testimony				
Unadjusted 2009 FTEs	2,733			
Adjusted 2009 FTEs		2,706	2,706	2,706
Non-exempt overtime FTEs (not disputed)	94	94	94	94
Total 2009 FTEs	2,827	2,800	2,800	2,800
Proposed workforce adjustment	**(98)**	**(18)**	**(42)**	**-**

[4] Staff's current position corrected by PGE as described in Section III, part A, below.
[5] Assumes a 40-hour work week.
[6] Assumes all hours necessary to complete required work with the exception of paid overtime for non-exempt employees. Conversion hours represent additional exempt hours – converted to FTEs – that are necessary to complete required work.

As with previous PGE and other parties' testimony, the discussion that follows will primarily address straight-time FTEs because FTEs representing paid overtime for non-exempt employees were not raised as an issue in this docket.

A. Staff Adjustment

<u>Summary</u>

Q. Please summarize Staff's proposed FTE adjustment.

A. Based on Staff's adjustments to their initial analysis, they now propose a workforce reduction of 98 full time equivalent (FTE) positions from PGE's 2009 test year forecast. This compares to a 121 FTE reduction proposed in Staff's direct testimony.

Q. Do you accept Staff's revised proposal?

A. No. Although Staff has corrected certain components, PGE continues to believe Staff's approach is overly formulaic and, even now, results in the removal of more incremental FTEs than PGE is requesting in this docket. In addition, as we stated in rebuttal testimony, Staff makes no effort to evaluate the basis for the individual positions being proposed or the validity of the services or requirements PGE is trying to perform or meet with them.

Q. What was Staff's reply to PGE's comments regarding the evaluation of individual positions?

A. Staff indicated that they believe "that historical growth provides a strong indication of the employee levels PGE has needed from year to year. The company can always point to 'new' programs or new responsibilities in any given year; for this reason, 2008 and 2009 are hardly unique in this respect." (Staff/800, Owings/17.) Unfortunately, this represents a strictly backward-looking focus, which would only allow PGE recovery of an **historical**

average of "new" programs or new responsibilities. Because such programs and responsibilities tend to be cumulative and not offsetting, Staff's approach guarantees limited or no consideration for the recovery of prudent and/or necessary incremental labor costs for programs that are required to meet current and new regulatory requirements or new demands from customers.

Q. Did PGE provide information supporting the need for incremental positions from 2007 to 2009?

A. Yes. In both direct and rebuttal testimony, PGE described in detail the basis for each incremental FTE identified in the case.

<u>Number of FTEs</u>

Q. Staff expressed concerns regarding the FTE data that PGE provided. Please clarify PGE's position.

A. Staff raised two issues regarding FTE amounts provided by PGE: 2007 actuals and 2009 forecast. For 2007 actuals, PGE did provide more than one number, which was unfortunate but unavoidable. When PGE provided FTE detail in rate case format, it was based on hours per responsibility center (RC), which is the basis used when preparing a table with future years such as 2008 and 2009. When PGE later prepared historical FTE detail for its Results of Operations Report (ROO), it was based on a more precise calculation using hours by individual.[7] Consequently, PGE initially provided 2,597 as 2007 actuals in a listing with

[7] The ROO is prepared for a single historical year and FTEs are distinguished between hourly and salaried employees, who are paid on different cycles and have different numbers of total hours per year on which to derive FTEs. For budgeted or forecasted future years, FTEs are not distinguished by employee type but are derived by hours per RC. These are then divided by a single amount of yearly hours – the higher rate for salaried employees. This is not as precise as the calculation for the ROO and tends to understate actual FTEs compared to the ROO calculation. PGE has retained the simpler RC method for three reasons: 1) until now it has not created issues in FTE

2008 and 2009 data, which is lower than the 2,612 amount later provided based on the ROO. When it became available, we attempted to communicate that the ROO-based amount is the more accurate number to use.

Q. Did PGE provide any additional numbers regarding 2007 actuals?

A. Yes. PGE also provided 2,560 as 2007 actual FTEs. This differs from the 2,612 amount by 52 FTEs, which represents additional exempt hours – converted to FTEs – that are necessary to complete required work (i.e., FTE conversion hours).

Q. Which is the more correct number to use in aggregate FTE analyses?

A. PGE believes the 2,612 amount, which includes conversion hours, is more accurate. The witness for Industrial Customers for Northwest Utilities (ICNU) and Citizens' Utility Board (CUB) also adopted this number in her revised analysis for surrebuttal testimony (see ICNU-CUB/111, Blumenthal/7).

Q. Doesn't Staff's continued use of the 2,560 number (i.e., without conversion hours) misinterpret the relationship between 2007 actuals with conversion hours and the 2009 forecast?

A. Yes. The misinterpretation can be seen in the example provided at Staff/800, Owings/13-14. In this example, Staff explains that a certain amount of overtime is expected from exempt employees and that this overtime should not be converted to additional FTEs in a utility's budget.

Q. Does PGE budget in this fashion?

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analyses, 2) it has no effect on PGE's internal operations, and 3) actual FTEs are always updated when the ROO is completed. Based on these reasons, PGE believed there was no need to perform the programming change to the RC-based method, which would have to calculate the changing mix of hourly versus salaried employees for each RC on an actual basis and assume those ratios applied to future years.

A. No. PGE does not budget incremental FTEs or associated costs related to the hours described in Staff's example.

Q. Why, then, is the 2,612 FTE amount with conversion hours the correct number to use in aggregate FTE analyses?

A. It is the correct number to use because it also includes additional time related to covering for temporarily unfilled positions. For example, if a temporary vacancy occurs in 2007 and additional hours are incurred to cover that position during the vacancy, there will be no FTE increase when compared to the 2009 forecast. This is because the 2009 forecast will contain the *non-incremental* FTE who is expected to fill the position. Using Staff's approach, without conversion hours, this example would appear as an *increase* to FTEs, when in fact, there is none.

Q. Does this mean that the 2009 test year forecast includes recovery of all unfilled positions?

A. No. As PGE noted in rebuttal testimony (see PGE/1400, Tooman-Tinker/10 and 14-15, and PGE Exhibit 1405), PGE reduced its revenue requirement by approximately $2.0 million to reflect 30 FTEs that on average are unfilled.

Q. According to Table 3, Staff is using a different number as the FTEs included in PGE's 2009 forecast. Why is this?

A. Staff notes that PGE identified two amounts for straight-time FTEs in the 2009 forecast: 2,733 and 2,706; and Staff uses the higher of these two numbers. PGE did identify both numbers at different times and we believe we had explained the difference.

Q. What is the difference between them and which is correct?

A. The difference is that the higher amount of 2,733 does not include adjustments (primarily the 30 FTEs discussed above) made to the FTE count (and PGE's revenue requirement) that we included in work papers to PGE Exhibit 200 and PGE's Errata filing on April 3, 2008. PGE initially listed the 2,733 amount in direct testimony (PGE/800, Barnett-Bell) and work papers to PGE Exhibit 800. This represented the unadjusted FTEs as derived from PGE's database of actual and forecasted hours and corresponded to the unadjusted labor cost totals in the same exhibit and work papers. Unfortunately, we did not clearly identify those as unadjusted numbers in PGE Exhibit 800.[8]

Q. Did PGE communicate the FTE adjustments to other parties?

A. Yes. We provided a reconciliation of incremental FTEs during the proceeding's first workshop and followed this up by providing that reconciliation in PGE's response to CUB Data Request No. 035, Attachment 035-B (with specific references to testimony and work papers and included as Exhibit 2302). We also reconciled total 2009 FTEs in PGE Exhibit 1400, page 10, Table 4. In both instances, PGE's $2.0 million reduction for 30 unfilled FTE positions was included in the reconciliations.

Q. Did PGE note its adjustments in other ways?

A. Yes. As noted above, PGE Exhibit 1400, page 15 (and supporting PGE Exhibit 1405) described the $2.0 million to reflect 30 FTEs that on average are unfilled. Finally, in response to OPUC Data Request No. 445 (provided as Exhibit 2303), PGE provided detail regarding where the $2.0 million adjustment was specifically applied in PGE's revenue requirement work papers.

[8] Using the 2,706 amount does not distort Staff three-year wage and salary study. First, Staff did not propose a three-year wage and salary study in this docket. Second, Staff's testimony at Staff/800, Owings/12-13 describes only the adjustment on the FTE side of the equation but does not address adjustments to the wage and salary side of the equation.

Staff's Workforce Adjustment

Q. You stated above that you disagree with Staff's adjustment of 98 FTEs. Please explain why in more detail.

A. Staff applies an FTE growth rate to 2007 actual FTEs, based on straight-time hours with no conversion hours, and compares this to PGE's unadjusted FTE total for 2009. The unadjusted 2009 FTE amount should not be used because PGE has reduced its revenue requirement by the dollar amounts corresponding to all of its FTE adjustments as described in PGE Exhibit 1400, page 10, Table 4. **If the updated FTE number is not used, then the same reductions to PGE's revenue requirement are being made twice.** This would be inappropriate. Correcting for this double count reduces Staff's adjustment to 71 FTEs. Again, however, we do not agree with Staff's overall calculation.

Q. Does PGE propose any methods to correct Staff's calculations for 2009 FTEs?

A. Yes. PGE has identified two methods to correct Staff's approach. We described the first method in our rebuttal testimony, PGE Exhibit 1400 and include it in Table 3, above. Here, we update Staff's basic calculation for 2007 actual FTEs and adjusted 2009 forecasted FTEs. As in PGE's rebuttal testimony, Staff's revised adjustment would be approximately 18 FTEs.

Q. Please describe the second calculation to correct Staff's approach.

A. In this approach (summarized in PGE Exhibit 2304), PGE has calculated current FTEs from January through August 2008, which is 2,710. This amount includes non-exempt (paid) overtime but does not include conversion hours. Although PGE supports FTE analyses that include conversion hours in historical actuals, we have excluded it here because we realize that it is a disputed issue. We then escalate the 2008 to-date FTEs by the annual escalation factor used by Staff in their work papers (i.e., 1.45%). We also apply the escalation through all of 2009 so that comparisons with PGE's 2009 forecast represent "apples to apples." This produces an amount of potential FTEs for 2009 of 2,762. If we compare this amount to the 2,800 total FTEs in PGE forecasts for 2009, we have a difference of 37 FTEs. To this we multiply the average wage and apply the 48.5% loading rate to produce an adjustment of approximately $4.2 million, which would then be allocated between capital and O&M.

Q. Does PGE accept this as a reasonable adjustment?

A. No. But if the Commission were to accept this adjustment, it should be considered in light of the fact that many of the FTEs listed in PGE Exhibit 2302 represent necessary positions for regulatory requirements and cost savings. Even if certain of these positions are already filled, most would not represent full FTEs in the current total because they would have been in place for only a portion of the 2008 period.

Q. Can you provide some examples?

A. Yes. PGE provides the following examples as described in PGE Exhibits 500 and 1900:

- Seven FTEs to address significantly increasing FERC compliance requirements. PGE does not have the option to not meet these regulatory requirements.
- Five information technology FTEs whose efforts achieve outright savings for customers.
- Three biologist FTEs to meet FERC license requirements at PGE's hydro facilities.
- Four FTEs for Business Continuity and Emergency Management, whose importance the Commission has acknowledged as described in PGE Exhibit 2305.

B. ICNU-CUB adjustments

Q. What is ICNU-CUB's proposal regarding FTEs?

A. ICNU-CUB does not propose a specific workforce adjustment but rather calculates a revised FTE amount for 2009 from which they derive adjustments to wages and salaries and employee-related costs. We address their FTE calculations here along with the adjustment to payroll-related costs. PGE Exhibit 2400 addresses the wage and salary adjustment.

<u>FTEs</u>

Q. What is ICNU-CUB's calculated amount of FTEs for 2009?

A. ICNU-CUB calculate a 2009 level of FTEs to be 2,664, which compares to PGE's total of 2,706. We acknowledge and appreciate ICNU-CUB's revisions in their work papers that reflect PGE's actual FTEs in 2007 as being 2,612 rather than 2,560, and that reflect PGE's loading rates, but we disagree with the remainder of their calculations, as we describe below.

Q. What is your primary disagreement with ICNU-CUB's calculations?

A. Our primary disagreement with ICNU-CUB's calculations is that they update 2007 actual FTEs (as noted above) but then modify their analysis to include "plugged" or hard-wired numbers.

Q. Can you demonstrate this?

A. Yes. PGE Exhibit 2306 provides the FTE calculations from ICNU-CUB's work papers from direct testimony. In this case, 2007 FTEs are listed at 2,560 and the calculated 2009 FTEs are 2,591. In PGE Exhibit 2307, we take the same work paper and update 2007 actuals to equal 2,612 (which Ms. Blumenthal acknowledges in ICNU-CUB/111, Blumenthal/7, lines 11-13). By changing this one number, that work paper calculates 2009 FTEs as 2,698, which is very close to PGE's proposed total for 2009 of 2,706.

Q. How did ICNU-CUB modify their analysis?

A. PGE Exhibit 2308 provides this detail. It shows 2,612 FTEs for 2007, but then ICNU-CUB apply an arbitrarily low growth rate (highlighted) to calculate 2009 FTEs to be equal to 2,664. The low growth rate, however, is a plugged number that ICNU-CUB does not explain, and for which there is no relationship to the historical growth rates in the accompanying table. Consequently, PGE does not believe ICNU-CUB's FTE calculations are properly justified. As noted above, if PGE were to apply the 2,612 FTE amount (that ICNU-CUB accepts for 2007) into their work papers from reply testimony, we would calculate a 2009 FTE total of 2,698, which is very close to PGE's total of 2,706 (see PGE Exhibit 2307).

Q. What other issues does ICNU-CUB raise regarding FTEs?

A. ICNU-CUB reiterate their concern that PGE over-budgets FTEs and they provide Table 1 at ICNU-CUB/111, Blumenthal/5 to support their position.

Q. How do you respond?

A. We respond as we did in rebuttal testimony (PGE Exhibit 1400, pages 10 and 15) and in Section II, part A, above, that PGE has reduced its revenue requirement by approximately $2.0 million to reflect 30 FTEs that on average are unfilled. In fact, Table 1 at ICNU-CUB/111, Blumenthal/5 is based on PGE Exhibit 1405, which we use to justify the $2.0 million reduction.[9]

[9] Exhibit 1405 shows that on average PGE's budgeted FTEs exceed actual FTEs by just over 30, hence PGE's adjustment for $2.0 million and 30 FTEs.

Employee Related Costs

Q. What issues do you have with ICNU-CUB's calculations regarding employee-related costs?

A. This issue has not changed from ICNU-CUB's reply testimony, although ICNU-CUB did accept PGE's 48.5% rate for total loadings. In short, ICNU-CUB apply payroll loading rates to their calculated wage and salary amount to establish a total labor adjustment to PGE's 2009 forecast. In so doing, however, they arbitrarily exclude the loading for employee support and effectively eliminate all those costs from PGE's test year forecast.

Q. Why did ICNU-CUB exclude the employee support loading?

A. ICNU-CUB claim that PGE did not support their inclusion because we relied on previous rate cases, Staff audits, and annual submission of PGE's Cost Allocation Manual as justification. We disagree with ICNU-CUB's characterization because the above listed items represent a consistent, on-going review of these costs that has established overall approval of their inclusion in rates. For this rate case, we provided information regarding employee support in PGE Exhibit 1400, pages 18 through 19 and in PGE's response to OPUC Data Request No. 362 (provided as PGE Exhibit 2309).

Q. Does ICNU-CUB dismiss employee support costs as completely invalid?

A. No, quite the contrary. The ICNU-CUB witness states that "I have no argument with including these types of costs in rates. However, they should be adjusted separately, and not included in the payroll overhead loading rate." (ICNU-CUB/111, Blumenthal/9, line 23 through Blumenthal/10, line 2).

Q. Is this a reasonable approach?

A. No. On the one hand, ICNU-CUB agrees that these costs should be included in rates but then creates an adjustment based on loadings that removes them without any other way to include them in PGE's revenue requirement.

Q. What other reasons does ICNU-CUB provide for removing the employee support loading?

A. This can be summarized by Ms. Blumenthal, who makes the following two statements:

> "I remove these costs from the loading rate because PGE did not support their inclusion. That is, there is no information to indicate that these costs vary directly with payroll." (ICNU-CUB/111, Blumenthal/8)

> "There is no evidence which indicates that these costs vary directly with payroll." (ICNU-CUB/111, Blumenthal/9)

Q. Is variability with payroll the basis for PGE's loading methodology?

A. No. In fact, variability with payroll has nothing to do with loadings. As stated in PGE Exhibit 2309 (PGE's response to OPUC Data Request No. 362), "As these costs are applicable to employees working on capital projects and non-regulated activities, a percentage of the costs are allocated (through PGE's labor loading process) to capital ledgers and "below-the-line" ledgers based on labor." In short, loadings are used to allocate a portion of payroll-related costs to capital jobs and non-regulatory activities. They are not created to identify variable effects of changes to labor costs, which is what Ms. Blumenthal appears to have assumed. This erroneous assumption is not a reason on which to base a $21 million reduction to PGE's revenue requirement for prudently incurred costs.

IV. Tax Issues

A. Property Taxes

Q. Please summarize Staff's and PGE's suggested level of 2009 Oregon/Montana property tax expense in this case.

A. Table 4 below summarizes the positions of PGE and Staff regarding the authorized level of Oregon/Montana property tax expense throughout this case.

Table 4 (Suggested 2009 Property Taxes)

	PGE Initial	PGE Current	Staff Reply	Staff Surrebuttal
Oregon/Montana	$36.929 million	$35.951 million	$32.687 million	$34.046 million

PGE reduced its initially filed level of property tax expense by approximately $1.0 million based on a review of historical 2007 expense as a function of 2007 rate base. Further, we suggested that property taxes should be considered a function of assets and tax rates, rather than the original approach by Staff of escalating 2007 actuals by CPI.

Q. How did Staff respond to PGE's suggestions in surrebuttal testimony?

A. Staff reviewed PGE's approach to develop a reasonable estimate of 2009 property tax expense and suggested two adjustments (see Staff/1900, Ball/25-28). First, Staff suggests that property taxes are more appropriately considered as a function of plant in service, net of depreciation, rather than as a function of overall rate base. Staff suggests that property tax expense is not dependent on the other elements of rate base such as miscellaneous debits, fuel inventory, etc. Second, Staff proposed certain corrections to PGE's approach to remove Port Westward from the denominator for determining an appropriate property tax ratio. As a result of these adjustments applied to PGE's proposal, Staff arrives at their 2009 figure of $34.046 million. Staff further notes that this figure is very similar to a figure they would arrive at using their original methodology, once corrected for an error suggested by PGE in rebuttal testimony.

Q. Does PGE agree with Staff's first criticism, that property taxes are not dependent on certain rate base components aside from net plant in service?

A. No. Property taxes are in fact dependent on all of the assets of a company, including such items as regulatory assets and liabilities, materials and fuel inventory. For example, the Oregon Department of Revenue uses several methods to arrive at a centrally assessed value, including an approach that 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.

Q. Does PGE agree with Staff's second criticism, that PGE developed the 2007 ratio of property taxes incorrectly and applied it incorrectly to 2009?

A. When viewed in isolation, Staff's proposed adjustments to PGE's method seem reasonable. However, if we step back from the formula and consider the overall result, Staff's result does not allow for a reasonable estimate of property tax expense in 2009.

Q. Why?

A. We examined the reasonableness of the Staff's proposed $34.0 million authorized level of property tax expense for 2009 by estimating property taxes first with all inputs based on known actual amounts. Property taxes are ultimately a function of assessed values and tax rates. For assessed values, the most recent actual final assessments for Oregon and Montana are as of 1/1/2008. For property tax rates, the most recent known actual county tax rates relate to payments made in November 2007. Tax rates for November 2008 are dependent on several unknown factors, including bond measures recently passed by voters. We applied the 2007 actual average county tax rates to the actual county total assessed values at 1/1/2008 and arrived at a figure of $34.2 million, as shown in PGE Exhibit 2310. This figure removes the Port Westward related property taxes since the facility is subject to a tax holiday for 2009 and adjusts the Biglow 1 amount to reflect its treatment under the SIP.

Q. If the application of actual tax rates to actual assessed value yields $34.2 million of Oregon/Montana property taxes, why is Staff's suggested authorized level of $34.0 million unreasonable?

A. Staff's view is unreasonable because the test year is 2009, not 2007 or 2008. 2009 property tax expense is a function of both the assessed value at 1/1/2008 as well as the assessed value at 1/1/2009. Further, 2009 property tax expense is also a function of the tax rates applicable to PGE's property tax payment for November 2008 as well as the tax rates applicable to PGE's property tax payment in November 2009. In other words, Staff's suggested figure of $34.0 million provides <u>zero</u> allowance for increased tax rates over a two year period or increased assessed value due to capital additions after 1/1/2008.

Q. Does PGE project capital additions after January 1, 2008 as part of the development of rate base in this rate case?

A. Yes. Over the course of two years beginning January 1, 2008 through the end of the test year, December 31, 2009, we projected over $191 million of net additions (above estimated depreciation) to develop rate base as initially filed in this case. These additions create additional assessed values. Even under the assumption that property tax rates remain at their 2007 average levels in Oregon, these additions would lead to $1.1 million of additional Oregon property tax expense in 2009.

Q. Can higher assessments in Oregon lead to additional property taxes in Montana as well?

A. Yes. Because the state of Montana uses an allocation of total market value as an input into its determination of assessed value, improvements in Oregon can also lead to increased assessed value in Montana. For example, using the same projected $191 million of net additions, combined with the last actual market value allocation factor used by Montana as well as the actual 2007 average tax rate in Montana, an additional Montana property tax expense of $0.1 million would be expected for 2009.

Q. Are there any other reasons to factor in additional property tax expense for 2009 above and beyond amounts based on 2007 or 2008 actual inputs?

A. Yes. As part of an agreement entered into by PGE, Staff, CUB, and ICNU, PGE removed certain capital expenditures from the test year. PGE also removed associated property tax expense of approximately $1.0 million related to those 2009 additions. The agreement would allow PGE to file for the revenue requirement effect of the Selective Water Withdraw project, including associated property tax effects. However, we believe it is unreasonable to allow a base level of 2009 property tax expense of $34.0 million that doesn't allow for the effect of any additions on the one hand and then reduce estimated property taxes by $1.0 million for certain 2009 additions removed from the case on the other hand. At a minimum, the base level of property taxes should properly reflect the property tax effect of additions taken out for purposes of a settlement.

Q. What does PGE want the Commission to approve related to property taxes?

A. We request that the Commission adopt a base level of 2009 property tax expense of

$36.0 million, which after adjusting to remove the effects of certain capital additions on 2009 property taxes as a result of a settlement, yields $34.9 million of net 2009 property tax expense authorized in this rate case.

B. Rate Case Margin and Effective Tax Rate for SB 408 Purposes

Q. Did the parties respond to PGE's rebuttal testimony (PGE Exhibit 1400, Tooman-Tinker/30-31) regarding this issue?

A. No. Based on our review of the surrebuttal testimonies filed in this case, there was no response to PGE's rebuttal testimony on this topic.

Q. Do you continue to support adjusting the SB 408 ratios as suggested in your rebuttal testimony?

A. Yes. We continue to believe that the Commission should consider the impact of disallowed costs in determining the effective tax rate and margin for SB 408 purposes. To do otherwise would effectively allow customers to receive tax benefits from utility costs for which customers are not responsible.

Q. Have you calculated the ratios based on the updated revenue requirement supported in this sursurrebuttal testimony?

A. Yes. We have calculated a margin ratio of 14.57% and an effective tax rate of 25.24% pursuant to the methodology used to derive these ratios previously approved by the Commission and a margin ratio of 14.24% and an effective tax rate of 24.94% consistent with the adjustments for disallowed costs we supported in rebuttal testimony.

Q. Should these modified ratios also be updated pursuant to the Commission's final Orders in UE 197 and UE 198?

A. Yes. The ratios should be updated to reflect the final Commission approved revenue requirement in this case.

Q. Does this conclude your testimony?

A. Yes.

List of Exhibits

PGE Exhibit	Description
2301	Integrated Revenue Requirement
2302	PGE's response to CUB Data Request No. 035, Attachment 035-B
2303	PGE's response to OPUC Data Request No. 445
2304	Alternative approach to forecasting FTEs
2305	Letter from Staff regarding emergency management and business continuity
2306	ICNU-CUB FTE work papers from direct testimony
2307	ICNU-CUB FTE work papers from direct testimony updated by PGE for 2007 actuals
2308	Correct ICNU-CUB FTE work papers from surreubttal testimony
2309	PGE's response to OPUC Data Request No. 362
2310	Property taxes at actuals

Portland General Electric Company
2009 Revenue Requirement (Revised)
Dollars in $000s
Reflects PGE Sursurrebuttal, Sept 26 NVPC/Load Updates, net of NVPC Stip, and both Partial Rev Req Stips

	At UE 180 / UE 188 / UE 19 Rates	Adjustments to Filed Case	Adjusted 2009 Results	GRC Change for RROE	2009 Results at Resonable Return
	(1)	(2)	(3)	(4)	(5)
1 Sales to Consumers	1,586,821	922	1,587,743	160,709	1,748,452
2 Sales for Resale	-	-	-		-
3 Other Revenues	19,346	(455)	18,891		18,891
4 Total Operating Revenues	1,606,167	467	1,606,634	160,709	1,767,343
5 Net Variable Power Costs	806,699	53,150	859,849		859,849
6 Production O&M (excludes Trojan)	108,111	(5,536)	102,575		102,575
7 Trojan O&M	129	-	129		129
8 Transmission O&M	11,639	(1,628)	10,011		10,011
9 Distribution O&M	67,910	(883)	67,027		67,027
10 Customer & MBC O&M	65,412	(315)	65,097		65,097
11 Uncollectibles Expense	7,617	(789)	6,827	691	7,518
12 OPUC Fees	4,959	3	4,962	502	5,464
13 A&G, Ins/Bene., & Gen. Plant	115,107	(5,685)	109,422		109,422
14 Total Operating & Maintenance	1,187,584	38,316	1,225,900	1,193	1,227,093
15 Depreciation	176,327	(2,691)	173,636		173,636
16 Amortization	18,764	17	18,781		18,781
17 Property Tax	36,965	(2,028)	34,937		34,937
18 Payroll Tax	12,793	63	12,856		12,856
19 Other Taxes	1,411	-	1,411		1,411
20 Franchise Fees	39,893	23	39,916	4,040	43,956
21 Utility Income Tax	14,632	(9,891)	4,740	59,549	64,289
22 Total Operating Expenses & Taxes	1,488,367	23,809	1,512,176	64,782	1,576,958
23 **Utility Operating Income**	117,799	(23,342)	94,457	95,927	190,384
					190,384
24 **Average Rate Base**					
25 Avg. Gross Plant	5,173,287	(68,678)	5,104,609		5,104,609
26 Avg. Accum. Deprec. / Amort	(2,675,492)	554	(2,674,938)		(2,674,938)
27 Avg. Accum. Def Tax	(265,949)	(20,913)	(286,862)		(286,862)
28 Avg. Accum. Def ITC	(271)	-	(271)		(271)
29 **Avg. Net Utility Plant**	2,231,574	(89,037)	2,142,537	-	2,142,537
30 Misc. Deferred Debits	23,755	6,322	30,077		30,077
31 Operating Materials & Fuel	67,707	-	67,707		67,707
32 Misc. Deferred Credits	(37,755)	-	(37,755)		(37,755)
33 Working Cash	77,395	1,238	78,633	3,369	82,002
34 **Average Rate Base**	2,362,677	(81,477)	2,281,200	3,369	2,284,568
35 **Rate of Return**	4.986%		4.141%		8.334%
36 **Implied Return on Equity**	3.405%		1.714%		10.100%

Portland General Electric Company
2009 Revenue Requirement (Revised)
Dollars in $000s
Reflects PGE Sursurrebuttal, Sept 26 NVPC/Load Updates, net of NVPC Stip, and both Partial Rev Req Stips

	At UE 180 / UE 188 / UE 19: Rates	Adjustments to Filed Case	Adjusted 2009 Results	GRC Change for RROE	2009 Results at Resonable Return
	(1)	(2)	(3)	(4)	(5)
37 Effective Cost of Debt	6.567%	6.567%	6.567%	6.567%	6.567%
38 Effective Cost of Preferred	0.000%	0.000%	0.000%	0.000%	0.000%
39 Debt Share of Cap Structure	50.000%	50.000%	50.000%	50.000%	50.000%
40 Preferred Share of Cap Structure	0.000%	0.000%	0.000%	0.000%	0.000%
41 Weighted Cost of Debt	3.284%	3.284%	3.284%	3.284%	3.284%
42 Weighted Cost of Preferred	0.000%	0.000%	0.000%	0.000%	0.000%
43 Equity Share of Cap Structure	50.000%	50.000%	50.000%	50.000%	50.000%
44 State Tax Rate	5.120%	5.120%	5.120%	5.120%	5.120%
45 Federal Tax Rate	35.000%	35.000%	35.000%	35.000%	35.000%
46 Composite Tax Rate	38.328%	38.328%	38.328%	38.328%	38.328%
47 Bad Debt Rate	0.480%	0.430%	0.430%	0.430%	0.430%
48 Franchise Fee Rate	2.514%	2.514%	2.514%	2.514%	2.514%
49 Working Cash Factor	5.200%	5.200%	5.200%	5.200%	5.200%
50 Gross-Up Factor	1.621	1.621	1.621	1.621	1.621
51 ROE Target	10.100%	10.100%	10.100%	10.100%	10.100%
52 Grossed-Up COC	11.472%	11.472%	11.472%	11.472%	11.472%
53 OPUC Fee Rate	0.3125%	0.3125%	0.3125%	0.3125%	0.3125%
Utility Income Taxes					
54 Book Revenues	1,606,167	467	1,606,634	160,709	1,767,343
55 Book Expenses	1,473,735	33,700	1,507,436	5,233	1,512,669
56 Interest Deduction	77,578	(2,675)	74,903	111	75,014
57 Production Deduction	-	-	-		-
58 Permanent Ms	(13,234)	(4,751)	(17,985)	-	(17,985)
59 Deferred Ms	42,599	-	42,599	-	42,599
60 Taxable Income	25,488	(25,807)	(319)	155,365	155,046
61 Current State Tax	1,305	(1,321)	(16)	7,955	7,939
62 State Tax Credits	(2,084)	-	(2,084)	-	(2,084)
63 Net State Taxes	(779)	(1,321)	(2,100)	7,955	5,855
64 Federal Taxable Income	26,267	(24,486)	1,781	147,410	149,191
65 Current Federal Tax	9,193	(8,570)	623	51,593	52,217
66 Federal Tax Credits	(8,363)	-	(8,363)	-	(8,363)
67 ITC Amort	(1,456)	-	(1,456)	-	(1,456)
68 Deferred Taxes	16,036	-	16,036	-	16,036
69 Total Income Tax Expense	14,632	(9,891)	4,740	59,549	64,289
70 SB 408 Ratio - Net to Gross	8.35%		6.25%		14.57%
71 SB 408 Ratio - Effective Tax Rate	11.05%		4.78%		25.24%
72 Check SB 408 Calc	-		-		-
73 Regulated Net Income	40,221		19,554		115,371
74 Check Regulated NI					115,371

UE 197
Attachment 035-B

FTE Summary

Reconciliation of Incremental FTEs in UE 197 General rate Case

	FTEs		Exhibits	Staff DRs	CUB DRs	Other
			Sources			
Incremental FTEs per UE 197 Work Papers		130	800/5, Table 2		2, 3, 4	
FTE Adjustments:						
Heat pumps moved "below the line" (Outboard and Errata)	-4		200 WP and Errata			
Unfilled distribution (Outboard)	-20		200 WP		4	
Unfilled customer service (Outboard)	-10		200 WP		4	
FERC 890-A (Outboard)	7.5		400/15-16	103, 104, 167		
Remove FERC 890-A	-7.5					
Additional FERC/NERC/WECC compliance costs (Errata)	7	-27	500/24-25	103, 104		
Less annualized impact of previously authorized generating plants						
Port Westward - Partial year 2007 to full year 2009 (from 12 FTEs to 23 FTEs)	-11					UE 180, Order 07-015
Biglow Canyon	-5	-16		164		UE 188, Order 07-573
Adjusted Incremental FTEs		87				
Drivers of FTE Increase:						
System growth - distribution		12	600/9-10	177		
Customer growth - customer services (in line with customer growth)		14	700/4			
Business growth						
Legal	3		501	224		
Governmental Affairs	1		501	224		
Contract Services/Purchasing	1		501	224		
Human Resources	1		501	224		
Finance and Accounting	1		501	224		
Other A&G	2		501	224		
Customer services	1		-			
Generation project managers - Boardman emission controls, Biglow 2 and 3	3		400/19			
Generator simulator at Boardman	2		400/18			
Power Operations	1		400/15	165		
IT	5	21	500/20			
Cost savings and efficiency - IT (CIS and WebSphere)		7	500/20	101, 264, 271, 273		
Compliance						
FERC 890-A	7.5		400/15-16	103, 104, 167		
Remove FERC 890-A	-7.5					
Additional FERC/NERC/WECC compliance costs	7		500/24-25	103, 104		
Business Continuity and Emergency Management	4		500/13-14	103, 104, 172		
Environmental Services	3.5		501			
Transmission engineers	2	16.5	600/4	174		
Succession planning						
Transmission	1		600/4-5	175		
Boardman	1	2	400/18			
Generation Support						
Boardman Support	4		400/18	169		
Additional thermal, hydro, and wind generation support	11	15	400/18-19			
Total		87.5				

September 10, 2008

TO: Vikie Bailey-Goggins
Oregon Public Utility Commission

FROM: Randy Dahlgren
Director, Regulatory Policy & Affairs

PORTLAND GENERAL ELECTRIC
UE 197
PGE Response to OPUC Data Request
Dated August 28, 2008
Question No. 445

Request:

Please provide a hard copy and an electronic version in excel format of the document referred to as 200 WP where PGE has removed 20 Distribution FTE and 10 Customer Service FTE.

Response:

Please see work papers to PGE Exhibit 200 as follows:

File: "Exhibit support 201-209_Rev Req.xls"
Tab: "Distribution O&M Adj"
Column: "E"

This adjustment removed approximately $2.0 million from PGE's O&M costs representing 20 distribution and 10 customer service FTEs.

Current FTEs versus Forecasted

	FTEs through 8-31-08	Escalate to 2009	2009 FTE Forecast
Straight-time FTEs	2,594	2,644	2,706
Overt-Time FTEs	116	118	94
Total	2,710	2,762	2,800
Delta			37
Average Salary			75,764
Total Cost			2,803,994
Loading rate			48.5%
Total Plus Loadings			4,163,932
Allocate to O&M			2,987,621
Allocate to Capital			1,176,311

Oregon

Theodore R. Kulongoski, Governor

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

August 6, 2004

JAMES C MILLER
IDAHO POWER
PO BOX 70
BOISE ID 83707

DARRELL T GERRARD
PACIFICORP
825 NE MULTNOMAH SUITE 1600
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The August 2003 Northeast Blackout and 9/11 have brought considerable focus to the security of energy infrastructure all across the United States. Furthermore, increases in the frequency and impacts of cyber attacks have brought real threats to energy utilities on a daily basis. These incidents have led policy-makers in the energy sector to rethink the level of security protection needed. You and we are being asked tough questions about the vulnerability of and the level of protection needed by energy utilities and providers. In response, NERC and WECC have developed standards and guidelines to harden the security of the nation's electricity grid. We support their efforts to develop industry standards and best practices for security that make sound operational and business sense.

The Commission has directed staff to perform security reviews of regulated energy utility security on an annual basis. A member of staff will be contacting your company's security representative in the near future to arrange a meeting to review your company's activities in complying with the attached NERC and WECC standards. The sensitivity and confidentiality of such information will be respected. Our goal is to have a follow-up executive session with the Commissioners late this year on the security preparedness of Oregon's energy utilities.

In consideration of the above, the Commission has indicated it will consider rate relief for regulated utilities in carrying out prudent security programs and measures that are not already covered within existing rates. Obviously, your company will need to justify and support, as always, such applications for increased cost recovery.

If you have any questions about this letter or future activities, please feel free to contact Jerry Murray at (503) 378-6626.

Lee Sparling

Lee Sparling
Director
Utility Program

Attachment

\security electric utility ltr.doc

Portland General Electric
Docket UE 197

	Actual 200	Actual 200	Actual 200	Actual 200	Actual 200	Actual 2007			
Total FTEs	2,596	2,538	2,531	2,529	2,554	2,560	OPUC 203-B; OPUC 175, UE-180 of 2004 & 2005		
Growth year over year #		(58)	(7)	(2)	25	6			
Growth year over year %		(0.0223)	(0.0028)	(0.0008)	0.0099	0.0023			
							2004-2007	2003-2007	2002-2007
Avg annual growth last 2 years (2007 - 2005)						15.50	9.67	5.5	-7.2
Avg growth in FTEs 2005-2007 (%)						0.613%	0.382%		
2007actual FTEs (straight time)						2,560			
2 year average change in FTEs						0.61289%			
2008 estimated FTEs						2,575.69		1.01	
2009 estimated FTEs						2,591.48		1.230%	0.0061477

Portland General Electric
Docket UE 197

	Actual 2002	Actual 2003	Actual 2004	Actual 2005	Actual 2006	Actual 2007	2004-2007	2003-2007	2002-2007	
Total FTEs	2,596	2,538	2,531	2,529	2,554	2,612				OPUC 203-B; OPUC 175, UE-180 of 2004 & 2005
Growth year over year #		(58)	(7)	(2)	25	58				
Growth year over year %		(0.0223)	(0.0028)	(0.0008)	0.0099	0.0227				
Avg annual growth last 2 years (2007 - 2005)						41.50	27.00	18.5	3.2	
Avg growth in FTEs 2005-2007 (%)						1.641%	1.067%			
2007actual FTEs (straight time)						2,612				
2 year average change in FTEs						1.64096%				
2008 estimated FTEs						2,654.86		1.03		
2009 estimated FTEs						2,698.43		3.309%	0.0165443	

#of FTEs	Actual 2002	Actual 2003	Actual 2004	Actual 2005	Actual 2006	Actual 2007					
Exempt	1165	1,124	1,134	1,150	1169	1205	0.46	1,218	1,230	2624	2652
Hourly	564	574	574	570	573	581	0.22	587	593		
Officer	15	14	13	13	14	15		12	12	Per CUB 88	
Union	852	826	810	795	798	811	0.31	819	828		
	2596	2,538	2,531	2,528	2554	2612	1.00	2,636	2,664		
#of FTEs											
Exempt		-3.52%	0.89%	1.41%	1.65%	3.08%					
Hourly		1.77%	0.00%	-0.70%	0.53%	1.40%					
Officer		-6.67%	-7.14%	0.00%	7.69%	7.71%					
Union		-3.05%	-1.94%	-1.85%	0.38%	1.63%					
Total		-2.23%	-0.28%	-0.12%	1.03%	2.27%					
Total excl officer		**-2.21%**	**-0.24%**	**-0.12%**	**0.99%**	**2.24%**					
2004-2007						1.046%					

May 19, 2008

TO: Vikie Bailey-Goggins
Oregon Public Utility Commission

FROM: Randy Dahlgren
Director, Regulatory Policy & Affairs

PORTLAND GENERAL ELECTRIC
UE 197
PGE Response to OPUC Data Request
Dated May 15, 2008
Question No. 362

Request:

Regarding PGE's labor loadings, under the category defined as "Employee Support" PGE applies a factor of 3.13% in its loading allocations. Please define "Employee Support". Please explain the reasons for the loading. Please describe how these Employee Support amounts benefit ratepayers.

Response:

The Employee Support loading includes the cost of administering PGE's compensation program, EEO (Equal Employment Opportunity) and employee relations, employee training and development, and Human Resources administration.

As these costs are applicable to employees working on capital projects and non-regulated activities, a percentage of the costs are allocated (through PGE's labor loading process) to capital ledgers and "below-the-line" ledgers based on labor.

The Employee Support costs are required and necessary in order to support PGE's workforce adequately.

The Employee Support amounts are part of PGE's labor loadings, which include necessary support services. Customers benefit because without these services, PGE's costs would be higher since PGE would have to contract outside for these services.

Oregon/Montana Property Taxes
Using only Last Known Actual Values
Except Removing Port Westward and Adding Biglow 1 under SIP
Assessments at 1/1/2008 for 2008/2009 Tax Year
Rates at November 2007 for 2007/2008 Tax Year

<u>Oregon Assessment:</u>	
08/09 Assessments at 07/08 Rates	$ 35,829,091
Less Port Westward Amounts due to EZ	$ (2,646,625)
Less Biglow 1 (SIP vs Regular Prop Taxes)	$ (1,767,074)
Less Adjustments for Capitalized/Partnerships	$ (930,480)
Total Estimated Oregon Prop Taxes	$ 30,484,912
<u>Montana Assessment:</u>	
08/09 Assessments at 07/08 Rates	$ 4,292,345
Less Beneficial Use Tax (recorded as NVPC)	$ (601,074)
Total Estimated Montana Prop Taxes	$ 3,691,271
Total Oregon/Montana Prop Tx (Actual 2008 Value and 2007 Rates)	$ 34,176,183
Staff Proposed Oregon/Montana Prop Tx for 2009	$ 34,046,014

Thus, Staff result would provide for no growth in tax rates or increased assessments due to capital additions.

Table of Contents

I. Introduction

Q. Please state your name and positions with PGE.

A. My name is Arleen Barnett. My position is Vice President, Administration. My responsibilities include establishing compensation and employee policies; creating a positive work environment; overseeing employee relations, health and safety; managing employee development; and overseeing Business Continuity and Security. My responsibilities also include oversight of PGE's Information Technology Department.

My name is Joyce Bell. My position is Director of Compensation and Benefits in the Human Resources Department.

Our qualifications are in our direct testimony, PGE Exhibit 800, Section V. We previously testified in this docket, sponsoring PGE Exhibits 800 and 1500.

Q. What is the purpose of your testimony?

A. The purpose of our testimony is to summarize and respond to other parties' surrebuttal testimony regarding four areas: wages and salaries, incentives, medical and other benefits, and the employee discount. In particular, we show that:

- ICNU-CUB's proposed change to the escalation rate for wages and salaries is not based on objective criteria and would not allow PGE to compete successfully for qualified employees. In contrast, the escalation rates PGE used to develop the forecast of wages and salaries are based on objective criteria, such as market surveys and Bureau of Labor statistics, and are therefore reasonable and allow PGE to compete effectively for qualified employees.
- The Parties' proposed disallowances for incentives are based on outdated information. We demonstrate that Staff's methodology is unjustified and

inconsistent with their testimony, and should not be adopted. We show that PGE's incentive costs are a reasonable and critical part of employees' total compensation that allows PGE to attract and retain qualified employees as well as motivate performance. Further, we show that past Commission decisions do not support an adjustment of the magnitude proposed by Staff.

- Staff's proposed disallowances of several of PGE's other benefits are unreasonable. We demonstrate that these benefits are reasonable and cost effective.
- The proposed full disallowance of PGE's employee discount is not justified. We demonstrate that the employee discount is a low-cost part of PGE's total compensation package that helps PGE compete for qualified employees.

Table 1 below summarizes parties' positions. The amounts below include adjustments stipulated to by PGE, Staff and interveners as well as adjustments made by PGE in rebuttal testimony.

Table 1

Category	PGE Adjusted	Staff	ICNU-CUB
Incentives	$11,356,111	$5,696,145	$5,354,471
variance		*($5,659,966)*	*($6,001,641)*
Medical & Dental	$31,554,803	$31,022,129	N/A
variance		*($532,674)*	*N/A*
Other Benefits	$776,403	$509,262	N/A
variance		*($267,141)*	*N/A*
Employee Discount	$885,846	N/A	$0
variance		*N/A*	*($885,846)*

Q. How is your testimony organized?

A. In addition to this Introduction, our testimony has five sections. In Section II, we rebut ICNU-CUB's proposed escalation rates for PGE wages and salaries. In Section III, we discuss how PGE's incentives are based on objectives that benefit customers. In Section IV, we rebut Staff's remaining adjustments to the cost of union medical and dental benefits. In Section V, we address Staff's various adjustments to other benefits and other parties' proposed disallowance of the employee discount.

II. Wages and Salaries

Q. Please summarize ICNU-CUB's proposed escalation rates.

A. 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.

Q. Does PGE agree with ICNU-CUB's methodology?

A. No. As discussed in PGE Exhibit 1500, page 5, PGE identified four significant problems with ICNU-CUB's methodology based on the exhibits and work papers provided with ICNU-CUB Direct Testimony. They were as follows:

1. ICNU-CUB's methodology excludes 2005 and 2007 escalations for exempt employees on the basis that the increases are greater than those for union and non-exempt, and "they were unusual when compared to the other years" (ICNU-CUB/100, Blumenthal/9). By that logic, one could just as easily remove the increases for 2003 and 2004 exempt employees because they are <u>less</u> than those for union and non-exempt employees for those years, resulting in a higher escalation rate. ICNU-CUB's methodology appears to be result-driven and arbitrary, and should not be adopted.
2. ICNU-CUB states that "the salaries of PGE's officers increased disproportionately in both 2006 and 2008" (ICNU-CUB/100, Blumenthal/9). This analysis fails to recognize that the addition of one officer in 2006 caused a significant portion of that year's alleged "escalation." ICNU-CUB also ignores the realignment of officers' salaries with the market in 2006 and 2007. Independent analyses determined that PGE Officers' salaries were below market and, as a result of the increases, are now approximately at market. Keeping salaries at market level helps to attract and retain qualified, experienced

candidates. ICNU-CUB also fails to adjust its analysis for the impact in 2004 of one fewer officer.

3. ICNU-CUB fails to consider historical events that affected PGE's wages and salaries. For example, PGE did not provide merit increases in 2003, which had an impact on wages and salaries in both 2003 and 2004.
4. ICNU-CUB's analysis uses an incorrect figure for FTEs in 2007.

Q. Did ICNU-CUB respond to the problems with their methodology identified by PGE?

A. Of the four significant concerns raised by PGE, ICNU-CUB corrected issue no. 4 in their model (see PGE Exhibit 2300 for a thorough discussion of ICNU-CUB's FTE adjustments) and attempted to respond to issue no. 2. Regarding issue no. 2, ICNU-CUB continues to assert that their calculation of wage and salary escalation rates is not arbitrary and support their assertion by alleging that PGE "officers have realized increases that are substantially greater than all other classes of employees over the last few years" (ICNU-CUB/111, Blumenthal/6).

Q. Does ICNU-CUB's response support their calculation of escalation rates?

A. No. PGE responded to this claim in rebuttal testimony (PGE/1500, Barnett-Bell/5, lines 13-21) where we explained that ICNU-CUB's analysis failed to recognize: 1) changes in the number of officers, and 2) the realignment of officers' salaries with the market in 2006 and 2007.

Q. Should the Commission rely on ICNU-CUB's methodology?

A. No.

Q. What would be the result of using ICNU-CUB's proposed escalation rates?

A. PGE's wages and salaries in 2009 would be unjustifiably low compared to the market. PGE would find itself at a disadvantage in hiring and retaining qualified individuals.

Q. On what criteria should the wages and salaries escalation rate be based?

A. PGE's escalation rate should be based on objective criteria, such as market surveys and Bureau of Labor statistics. In addition, employee merit changes must be considered. In fact, this is the method that PGE used to determine its 4.5% escalation rate.

Q. Is there any recent information available that supports PGE's estimate?

A. Yes. Preliminary market surveys from the Economic Research Institute, as previously provided in PGE Exhibit 1501, indicate that projected escalation rates for 2009 are in the mid-four percent range.

III. Incentives

Q. Please describe Staff's adjustments to Corporate Incentives.

A. Staff proposes to remove all of PGE Officers' Stock Incentive Plan (SIP) and Officers' Annual Cash Incentive (ACI). Staff also proposes to disallow half of Non-Officer ACI, the Corporate Incentive Plan (CIP) and Notable Achievement Awards (Notables) (Staff/800, Owings/19).

Q. Does Staff make an error when identifying the full amount of Officers' SIP (Staff/800, Owings/19)?

A. Yes. Staff incorrectly identifies $2.8 million as the total for Officers' SIP. However, the PGE work paper referenced by Staff identifies an aggregate SIP amount that includes both Officer and Non-Officer SIP. This is clear in PGE Exhibit 1500, page 7, table 3. The correct amount for Officer SIP is approximately $1.7 million and has already been removed from the 2009 test year by PGE. No further adjustment should be made.

Q. Does Staff provide any additional justification for their proposed adjustments to Non-Officer ACI, CIP and Notables?

A. No. Staff provides no further justification beyond what was discussed in their direct testimony.

Q. PGE responded to Staff's arguments in its rebuttal testimony. Does Staff respond to any of PGE's rebuttal testimony?

A. No. To summarize, PGE's disagreement with Staff's approach included that:

- Staff's support was based on outdated incentive plan materials that are not relevant to the plans for which PGE is asking recovery in its 2009 test year.

- Staff's notion that PGE's current ACI and CIP plans are based solely on financial performance is false. These programs have been modified to align incentive compensation with benefits to customers through their correlation to the following four objectives: overall customer satisfaction, power distribution quality and reliability, generation plant availability, and financial strength.
- Commission Order No. 87-406 is not relevant to PGE's rate case and should not provide a basis for any disallowance of PGE's incentives.

Q. Staff Exhibits Staff/809, Owings/1-2 concern PGE's incentives. Do these exhibits support their testimony?

A. No. These exhibits contain inconsistencies relative to Staff's testimony. For the reasons below, Staff's methodology should not be adopted.

- Staff testimony proposes the "removal for the entire amount of Officer ACI and Officer's stock incentive" (Staff/800, Owings/19). However, in Staff Exhibit 809, page 2, Staff applies an adjustment of 92.49% to Officer ACI and Officer/Non-Officer SIP. The application of this ratio has two faults: 1) it is not consistent with Staff testimony, and 2) it is applied to the total amount of SIP instead of just Officers' SIP, an error we discussed above.
- In Staff Exhibit 809, page 1, Staff utilizes a depreciation adjustment of approximately 3.4% but provides no support for this. When asked for support, Staff provided none (see PGE Exhibit 2401, OPUC Response to PGE Data Request No. 061).

Q. If a depreciation adjustment were to be applied to the capitalized portion of incentives would Staff's rate be appropriate?

A. No. Staff's depreciation rate assumes that all of PGE's capitalized labor costs are both incurred on January 1, 2009, and that they are all associated with capital projects that close to plant in service (and hence subject to depreciation) on January 1, 2009. This is not the case as the capitalized labor costs are incurred throughout the year and projects close to plant throughout the year. Thus, Staff's adjustment should be disregarded.

Q. What support does Staff provide for their 50% disallowance of incentives?

A. In Staff's response to PGE Data Request No. 012, Staff referenced two Commission Orders from 1999, Order Nos. 99-697 and 99-033.

Q. Are the Commission Orders referenced by Staff relevant to PGE's current incentive plans?

A. No. PGE's current incentive plans are significantly different than the incentive plans at issue in Commission Order No. 99-033. Order No. 99-697 concerned Northwest Natural and there is no evidence in this case that the incentive programs at issue then have any similarity to PGE's current incentive plans. Specifically, PGE's current incentive plans are focused on benefits to customers as described in detail in PGE Exhibit 800, pages 8-10, and PGE Exhibit 1500, pages 9-11.

Q. Did Staff consider more recent Commission decisions when determining their percentage disallowance?

A. No. In UE 115 (Order No. 01-777), the Commission allowed 85% of PGE's Non-Officer incentives (PGE Exhibit 2402). In UE 180 (Order No. 07-015), the Commission allowed 75% of PGE's Non-Officer incentives (PGE Exhibit 2403).

Q. What portion of incentives would be allowed if the Commission were to make a decision consistent with that of UE 180?

A. Seventy-five percent of Non-Officer incentives would be allowed. This would result in a revenue requirement adjustment of approximately $2.1 million.

Q. Does ICNU-CUB respond to any of PGE's rebuttal testimony?

A. No. As we discussed in PGE Exhibit 1500, pages 11-13, ICNU-CUB provided no justification for their adjustments to incentives with the exception of SIP. In the case of SIP, ICNU-CUB mischaracterizes the purpose and impact of PGE's SIP. Consequently, ICNU-CUB's adjustments to incentives should not form the basis for any incentive disallowance for the 2009 test year.

Q. Has PGE provided information on what the appropriate standards are for the treatment of incentives?

A. Yes. In PGE Exhibit 1500, pages 13 and 14, we discuss how Commission Order No. 97-171 would allow for recovery of incentives that benefit both "ratepayers and shareholders."

Q. Do PGE's incentives provide customer benefits?

A. Yes. PGE's incentives have been modified to more closely align incentive compensation with customer benefits (PGE Exhibit 800, pages 8-10 and PGE Exhibit 1500, pages 9-11).

Q. Are PGE's incentive costs at, above, or below the market?

A. PGE Exhibits 800 and 1500 show that PGE's incentive package is slightly below market.

Q. If Staff's or ICNU-CUB's recommendations for a total compensation package that is significantly below market were followed by the Commission, could PGE compete for, and succeed in hiring, qualified individuals?

A. No. PGE must pay competitive compensation, including incentives, if we are to be able to hire qualified individuals in a competitive labor market and continue to provide quality service to customers.

Q. In summary, what is PGE's position with regard to incentives?

A. PGE's incentive programs are an integral part of a total compensation package designed to achieve PGE's goal of attracting and retaining qualified employees while rewarding employees for performance. In addition, PGE has designed these incentives to be based on goals that benefit customers. The proposals by Staff and INCU-CUB are not supported and would only serve to widen the gap between PGE and market incentives.

IV. Medical and Dental Benefits

Q. Please describe Staff's current adjustments to medical and dental benefits (Staff Exhibit 900, pages 2-5).

A. Staff proposes to remove $532,674 based on a partial correction of their original methodology.

Q. Are there remaining problems with Staff's methodology?

A. Yes, there are at least three remaining problems. First, Staff uses incorrect dollar amounts for the 2007 baseline for active and non-active union medical and dental benefits. Second, Staff applies an 8.5% escalation rate to this baseline. Third, Staff removes two months of escalated cost based on their interpretation of PGE's contract with the union.

Q. Did PGE provide the correct figures for 2007 active and non-active medical and dental benefits?

A. Yes. In PGE Exhibit 1500, page 15, we provided the amount that PGE booked in 2007 as expense, or $1,199,155 for union retirees and $9,235,367 for active union employees.

Q. Staff suggests that PGE did not address Staff's inflation factor of 8.5% (Staff/900, Ball/2). Is this correct?

A. No. In our rebuttal testimony (PGE Exhibit 1500, page 16, lines 1-5), we discussed the correct methodology for determining the cost of union (active and retiree) medical and dental benefits and we provided the appropriate escalation rate for active union medical and dental costs, which is approximately 10%.

Q. Staff suggests that "PGE will only incur 10 months of increased medical and dental benefits for active union employees" (Staff/900, Ball/4). Is this correct?

A. No. PGE responded to Staff Data Request No. 419 addressing this issue (see PGE Exhibits 2404 and 2405). PGE's calculation of its 2009 test year union medical and dental costs is based on PGE's agreement with the union and the expectation that these costs will increase at a rate similar to that for non-union medical and dental benefit costs, or approximately 10% annually.

Q. What would the result be if Staff's methodology used the information provided in PGE's rebuttal testimony?

A. Table 2 below details the result of using the information PGE provided to Staff in rebuttal testimony and in response to OPUC Data Request No. 419. Table 2 is formatted to be consistent with that of Staff Exhibit 901, page 2. The resulting $12,073,900 was originally included in the 2009 test year. Based on Table 2, no adjustment to PGE's original filing is warranted for medical and dental costs.

Table 2
Corrected Staff Methodology

2007 Active Union Base	$ 9,235,367
2009 Forecast @ approx. 10%	$11,259,900
Increase over 2007	$ 2,024,533
2009 Active Union Benefits	$11,259,900
2009 Retiree Union Benefits	$ 814,000
2009 Test Year (Active & Retiree)	**$12,073,900**

V. Other Benefits

A. Miscellaneous Benefits

Q. Please compare PGE's and Staff's current positions on other benefits.

A. The dollar difference remains fairly small compared to the revenue requirement for compensation. Nevertheless, Staff proposes to remove approximately one-third of these benefits. Table 3 below outlines PGE's and Staff's positions, including stipulated adjustments and an adjustment for Occupational Fitness as described below.

Table 3

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	($10,644)
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
Total	**$765,759**	**$509,262**	**($256,497)**

Q. Are Staff's adjustments to other benefit expenses reasonable?

A. No, for several reasons, as we discuss below:

- Occupational Health – While PGE currently offers wellness programs, PGE's newest set of offerings became active in April 2008. New offerings include improved wellness profiles for health assessment, worksite 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 workforce, and more.

Staff's simple comparison of 2007 to 2008 costs does not accurately capture the expansion of the 2008 program which launched in April. As a result of the new programs, PGE expects to see increased participation and costs, particularly in 2009. As discussed in PGE Exhibit 1500, page 20, studies show that the return on investment in wellness and occupational health programs can be as much as 300%.[1] The benefits from PGE's investment in wellness and occupational health programs are expected to be reflected in lesser increases in PGE's healthcare costs as well as more employee productivity.

- Integrated Absence Management (IAM) – Staff suggests that only costs for programs that provide short-term benefit should be allowed. PGE believes that the implementation of IAM will decrease costs through increased efficiency in managing absences, thereby reducing the number of days employees are off work. As discussed in PGE Exhibit 1500, page 21, PGE is currently developing key metrics to monitor the program's direct and indirect benefits and expects to have limited monitoring in place by the end of 2008. Staff's adjustment in this area is counter-productive and short-sighted.
- Occupational Fitness – PGE has reviewed its need in this area and will reduce its program so that the costs will align with Staff's proposal, or approximately $48,000.
- Recreation Program – As discussed in PGE Exhibit 1500, PGE's recreation program promotes healthier lifestyle choices, team-building, and a sense of loyalty to PGE. The results are healthier employees and better retention.

[1] Source: April 2006 *Forbes.com* article referring to Wellness Council of America study.

- Health Club Partial Reimbursement – Like Occupational Health, PGE's new programs went into effect in April 2008. Again, Staff's simple analysis is inadequate since participation in PGE's expanded programs has just begun to increase and continues to grow in popularity among employees and addresses the ongoing health of employees.
- Commuter Program – Staff has removed their adjustment to the commuter program (Staff/900, Ball/9) in support of the approximate $25,000 as requested in PGE's 2009 test year.
- Service Awards – These are not merit based awards as Staff contends. 'Merit' implies a performance-based award. Service awards provide recognition to employees for length of service. This type of award supports retention goals and helps to minimize the cost of turnover as described in PGE Exhibit 1500, page 23. These awards are common practice in the industry.
- Retiree Activities – As discussed in PGE Exhibit 1500, PGE promotes continuity by funding networking opportunities for retirees and employees.
- Executive Financial Planning – In rebuttal testimony, PGE agreed to remove this expense from its revenue requirement.
- Other – In rebuttal testimony, PGE agreed to remove this expense from its revenue requirement.

B. Employee Discount

Q. Please summarize CUB's (and ICNU-CUB's in their rebuttal) position on the Employee Discount.

A. CUB proposes that the Commission eliminate or phase out the employee discount. CUB suggests that the employee discount unfairly insulates employees from the price signals related to PGE's service (CUB/200, Jenks/32). With the exception of ICNU-CUB, who provided no additional testimony in support of their proposal, no other party has provided testimony in support of this.

Q. Does the employee discount insulate PGE employees from price signals?

A. No. As discussed in PGE Exhibit 1500, pages 27 and 28, the employee discount does not insulate PGE employees. A percentage increase in the cost of electricity is exactly the same for a PGE employee as it is for one of PGE's residential customers. The dollar impact may differ, but that depends on the consumption habits of the customer or employee. Both are motivated by the price change to alter their behavior through conservation, adoption of energy efficiency, or other means.

Q. Is it necessary to include the Employee Discount in PGE's compensation study as CUB suggests (CUB/200, Jenks/32)?

A. No. As the compensation study stands now, the comparisons of the components of compensation are "apples to apples." As not all of the utilities in the study have a discount, adding the employee discount to the study would create an "apples to oranges" comparison. These studies are performed by third party consultants, such as Towers Perrin, and PGE believes it is uncommon for these firms to include discounts in their surveys for compensation studies.

Q. Does PGE compete for qualified employees with other utilities that offer employee discounts?

A. Yes. As discussed in PGE Exhibit 1500, page 26, PGE competes with other utilities in the region such as PacifiCorp and NW Natural that also provide employee discounts.

Q. CUB suggests that the Commission eliminate the employee discount (CUB/200, Jenks/32). Does PGE agree?

A. No. The Commission should not eliminate PGE's employee discount for the reasons above and those discussed at length in PGE Exhibit 1500, pages 24-30. Specifically, our employee discount is a low-cost part of PGE's total compensation package that helps PGE compete for qualified employees in a competitive labor market where other utilities are offering discounts. Further, PGE employees and retirees have given service to PGE in exchange for the discount as part of their compensation package.

Q. CUB also suggests that the Commission phase out the employee discount (CUB/200, Jenks/32). Does PGE agree?

A. No. Again, we believe that the discount is an effective, low-cost benefit that should be retained. However, should the Commission determine that a phase out is appropriate, PGE suggests that the employee discount no longer be offered to new employees beginning January 1, 2009. This retains the "benefit of the bargain" that existing employees and retirees expect to receive in exchange for their service to PGE.

Q. Does this conclude your testimony?

A. Yes.

List of Exhibits

PGE Exhibit	Description
2401	Copy of OPUC Staff's Response to PGE Data Request No. 061
2402	Excerpts from Commission Order No. 01-777 and UE-115 Staff-PGE Exhibit 100
2403	Excerpt from Commission Order No. 07-015
2404	Copy of PGE's Response to OPUC Data Request No. 419
2405	Copy of PGE's Response to OPUC Data Request No. 255, Attachment 255-A

September 25, 2008

TO: Patrick G. Hager
Manager, Regulatory Affairs

FROM: Judy Johnson
Program Manager, Rates and Regulation

OREGON PUBLIC UTILITY COMMISSION
UE 197
PGE's Seventh Set of Data Requests to OPUC – DR Nos. 061-062
Dated September 18, 2008 – Due September 25, 2008
Question No. 061

Request:

61. The adjustments in Staff Exhibit 809 appear to differ from those in Staff's description of their adjustments in testimony (Staff/800, Owings/19). Should the adjustments be the same? If not, please explain why not. If yes, please provide the reconciliation. Also, please provide detailed reasoning regarding the calculation and use of the 92.49% reduction (work paper 'Exhibit 809.xls', worksheet 'S-4 Exhibit Corp Incent Adj', cell C42) and the depreciation adjustment of 3.398% (work paper 'Exhibit 809.xls', worksheet 'S-4 Corp Incentives', cell D30).

Response:

Staff/800, Owings/19 states that Staff's original proposed adjustment is unchanged from its position in direct testimony however, Staff Exhibit 809 demonstrates a change of position of approximately $154,000. Exhibit 809 is correct. The change reflected in Staff's exhibit ties to Staff's calculation for workforce adjustment. In order to correctly reflect the adjustment for corporate incentives, Staff removes the impact of Staff's workforce adjustment on line 52 of the excel worksheet. Since Staff made an adjustment to its position for the workforce adjustment (S-3) it is proper to reflect that adjustment in corporate incentives (S-4). That reduces Staff's original adjustment by approximately $154,000. Staff/800, Owings/19 should be corrected to reflect this change to S-4.

The 92.49% reduction is intended to reconcile the amount included in the test period compared to the total amount of system-wide CIP (see PGE/800 workpaper 10 compared to PGE/800 workpaper 12).

The Parties further agree that PGE may defer (for future amortization in rates) amounts spent in excess of the final approved amount for the twelve month period starting when UE-115 rates go into effect subject to Staff audit of all Category A advertising and related expenses. This is an annual deferral that continues until new base rates are established. Interest will accrue on deferred amounts at PGE's most recently approved cost of capital. The Parties agree that the mechanism described above is an automatic adjustment mechanism and no earnings test is required.

S-28: Public Purpose Adjustment: Reduce A&G expense by $149,000 to reflect removal of Lighting Lab costs. Remove $550,000 from Customer Service expense for DSM Evaluation and Verification (E&V) costs. The parties agree that the DSM E&V costs may be deferred and recovered through Schedule 101 subject to a review of prudence by the Staff. Deferral will continue until all energy efficiency programs receiving lost revenue recovery are closed out. The Parties agree that the mechanism described above is an automatic adjustment mechanism and no earnings test is required.

S-29: Marketing and Sales Expense: Reduce Customer Service expense by $800,000.

S-30: Transmission & Distribution O&M: Reduce Transmission O&M by $1,505,000 and Distribution O&M by $990,000. The Open Access Transmission Tariff (OATT) and intertie revenue will be revised based on the final transmission revenue requirement. This update cannot occur until the cost of capital (Issue S-0) is finalized.

S-31: A&G Accounts: Reduce A&G expense by $1,000,000.

S-32: SERP O&M: Reduce A&G by $1,250,000.

S-33: Bonus/Incentive Pay: Reduce A&G expense by $2,237,000, payroll taxes by $240,000, and rate base by $602,000.

S-34: Workforce Level: Reduce A&G expense by $4,821,000, payroll taxes by $518,000 and rate base by $1,046,000.

S-35: OPUC Wage Formula: Reduce A&G expense by $1,550,000, payroll taxes by $167,000, and rate base by $336,000.

S-36: Distribution Plant: Reduce net average plant by $2,000,000, Depreciation expense by $60,000, and Property Taxes by $30,000. Sales to Consumers is increased by $1,075,452.

S-37: Materials and Supplies: Reduce rate base by $3,681,000.

S-38: Y2K Amortization: The parties agree that PGE should recover the unamortized balance of 1999 incremental Y2K costs deferred through a supplemental tariff versus base rates as initially proposed by PGE. Accordingly, reduce Amortization expense by $1,977,000 and rate base by $4,942,000. The unamortized balance at 10-1-01 will be placed in a balancing account, accruing interest at PGE's last approved cost of capital, for future amortization in rates through a supplemental tariff.

Q. What is the basis for the stipulation relating to issue S-32, Remove Supplemental Executive Retirement Plan (SERP)?

A. PGE agreed to remove the SERP expense of $1.25 million from PGE's revenue requirement.

Q. What is the basis for the stipulation relating to issue S-33, Bonus and Incentive Adjustment?

A. Staff reviewed the various incentive programs offered by PGE and assessed the relative value the incentive programs provide to both PGE customers and shareholders. PGE agreed to adjust test period revenue requirement to reflect the allowance of 85% of non-officer bonuses and 0% of officer bonuses in the test year. The Parties agreed that the adjustment provides for a fair test period recovery of incentive program costs.

Q. What is the basis for the stipulation relating to issue S-34, Workforce Level Adjustment?

A. Staff reviewed PGE's projected test period FTEs in light of current employment, projected activities in the test period, employees providing regulated utility service, and the historical relationship between FTEs and number of customers. PGE agreed to an adjustment of eighty (80) A&G and customer service FTEs from the test year based on these considerations. The Parties agreed that the reduction will provide PGE with a reasonable level of FTEs in the test year to support regulated activities.

Q. What is the basis for the stipulation relating to issue S-35, OPUC Wage Formula Adjustment?

A. PGE agreed to an adjustment resulting from the application of the three-year wage formula for calculating the expected level of non-union wages and salaries. The

STIPULATIONS

Revenue Requirement

On August 25, 2006, PGE, Staff, CUB, ICNU, and Fred Meyer Stores submitted a stipulation regarding certain revenue requirement issues. The parties agree to reduce the amount included in rates for taxes, by $0.8 million for payroll taxes, and $1.4 million for Oregon property taxes, to properly reflect the escalation of actual 2005 taxes. No adjustments were made for federal or state income taxes, because they will be automatically adjusted based on the final operating income of this case.

The parties also agree to reduce non-labor administrative and general (A&G) and operations and maintenance (O&M) expenses by $6.551 million, which includes a $34,000 reduction in transmission O&M, $1.6 million in distribution O&M, and $4.9 million in A&G expense.

For incentives, the parties agree to remove 100 percent of officers' incentives and 25 percent of employee incentives based on PGE's 2007 labor costs, resulting in a $5.6 million reduction. The parties further agree to allocate $4.4 million of this reduction to O&M and the remaining $1.3 million to rate base. PGE also accepts Staff's adjustment for wages and salaries, based on the guidelines followed in docket UE 88. The calculation was based on escalated actual 2004 labor costs, applying a 10 percent band, and splitting the difference 50-50 with the Company, resulting in a reduction to test year O&M of $3.5 million and a reduction in rate base of $1.0 million.

The parties also agree to a compromise on PGE's historical capital expenditures, reducing rate base by $7 million, and a reducing O&M by $82,000 for memberships. In addition, the parties agree that there should be no adjustments for system losses or tenant improvements. Further, Staff, CUB, and PGE negotiated a $1.6 million reduction to O&M for advertising and customer service costs.

Finally, the parties agree to remove $69,000 in costs related to low-income weatherization programs, because other organizations have similar programs. The stipulation preserved the ability of PGE and other parties to later argue that the Commission should continue to include PGE's weatherization program in rates which CUB also supports.

Resolution

We note that the parties did not make any additional arguments related to the weatherization program; therefore we rely on the terms of the stipulation agreed to by all parties. We have reviewed the Revenue Requirement Stipulation and find the proposed adjustments contained therein to be reasonable. Accordingly, the Stipulation, set forth in Appendix A, attached hereto, is adopted.

In addition to the stipulated adjustments, PGE accepted Staff's revenue

September 03, 2008

TO: Vikie Bailey-Goggins
Oregon Public Utility Commission

FROM: Randy Dahlgren
Director, Regulatory Policy & Affairs

PORTLAND GENERAL ELECTRIC
UE 197
PGE Response to OPUC Data Request
Dated August 19, 2008
Question No. 419

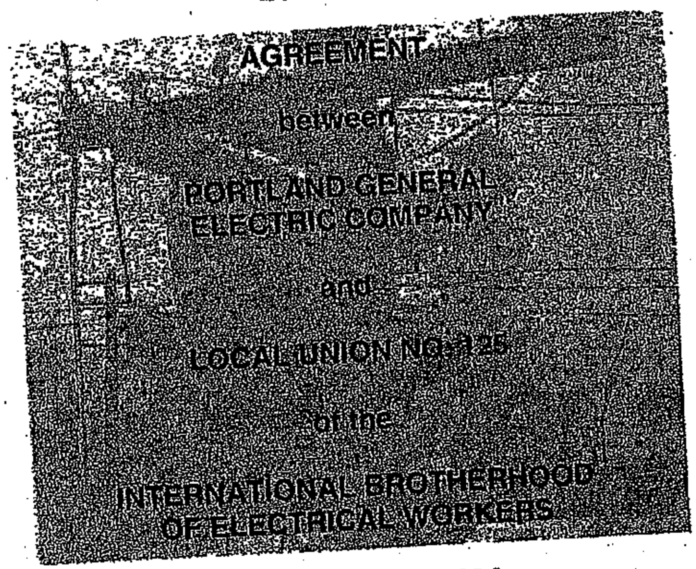
Request:

Does PGE believe that it is reasonable to escalate the 2009 test year union medical and dental benefits by 10 months of increased benefits rather than a full 12 months of increased benefits? If not, please explain why PGE disagrees.

Response:

Per PGE's agreement with the Union, PGE is responsible for making 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" (see PGE's Response to OPUC Data Request No. 255, Attachment 255-A). Irrespective of the timing of a new Collective Bargaining Agreement, medical and dental costs for active union employees are expected to increase at a rate of approximately 10% annually from the 2007 actual expense (PGE Exhibit 1500, Barnett-Bell/15-16).

2004-2009



Dated March 1, 2004

participation in the plan or plans so discontinued shall no longer be a condition of employment.

15.4 The provisions of the Long-Term Disability Plan made effective August 13, 1971 or any amendments thereto shall control and govern during the term of this Agreement.

* **15.5** **HOSPITAL-MEDICAL.** Effective the first of the month following ratification, the Company shall contribute to the EBA/IBEW/PGE Health and Welfare Trust the sum of five dollars and twenty-five cents ($5.25) per straight time compensable hour (i.e., 174 hours per month per enrolled full-time employee). The Employee shall contribute fifty-two cents (.52¢) per straight time compensable hour (i.e., 174 hours per month) for the Term of the Agreement.

If at any time after 3/1/04 the Trust determines there is not sufficient funds to ensure the viability of benefits for active employees covered by the Collective Bargaining Agreement, the Employer/Employee shall contribute such required increase on a 90/10 Employer/Employee contribution ratio. (This 90/10 only applies to the increase.) The Trust vote shall be determined by two Trustees on each side.

The Business Manager of IBEW Local 125 or his designee shall act as a Union Trustee and shall have full authority to appoint other Union Trustees as he deems necessary.

The Company currently contributes up to $50,000 per year to assist with administrative costs associated with Trust operations. The Company has agreed to contribute up to an additional $50,000 per year for Trust administration costs if such extra costs cannot be paid with existing Trust Funds and such extra costs are deemed necessary by a majority vote of the Trustees during the term of this Agreement. This $50,000 per year in additional contributions to administrative costs is non-cumulative and any unused portion cannot be carried over from year to year.

Table of Contents

I. Introduction

Q. What is your name and position with PGE?

A. My name is Stephen Hawke. I am Senior Vice President of Customer Service and Delivery. My qualifications appear in Section IV of PGE Exhibit 600. I previously sponsored PGE Exhibits 600, 700, 1600, and 1700.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to respond to issues discussed in other parties' surrebuttal testimony regarding Distribution and Customer Service O&M costs.

Q. How is your testimony organized?

A. In Section II, I discuss proposed adjustments to Distribution O&M costs. Specifically, I discuss proposed adjustments for the porcelain insulator program, locating expenses, arc-flash mitigation, tree trimming, and FITNES costs. In Section III, I discuss the helicopter. Finally, in Section IV, I discuss the Customer Focus Initiative.

II. Distribution Adjustments

Q. Please summarize Staff's adjustment to the Porcelain Insulator Replacement project for 2009.

A. Staff continues to propose an adjustment of approximately $288,000 to PGE's forecast of approximately $684,000 for the 2009 test year.

Q. What is the basis for Staff's adjustment?

A. Staff's analysis continues to focus only on the non-labor component of this project, escalating 2007 non-labor costs to 2009. Staff asserts that "if PGE chooses to hire contractors as opposed to using PGE labor, as they did during 2007, then they should fund such a decision with the cost savings associated with a reduced PGE labor expense" (Staff/900, page 17, Lines 5-7).

Q. Do you agree with Staff's reasoning?

A. No. Staff's reasoning is incorrect because: 1) we used PGE labor for this program in 2007, and 2) PGE uses a combination of PGE labor and contract labor, which fluctuates from year-to-year throughout projects in the Distribution area. If contract labor is used for this program it does not mean that PGE labor is reduced but that it is being deployed elsewhere in the Distribution area. In other words, PGE labor is expected to be fully deployed in 2009 and contract labor will also be used. For budgeting purposes some of this contract labor was allocated to this project. In actual operations, PGE and contract labor is fairly interchangeable and thus actual allocations for a particular project may differ from budget.

Q. Does Staff agree that if their adjustment was implemented it would extend the length of time needed to complete this program?

A. No. Staff states that "PGE has not demonstrated that level of funding for the project during 2007 was unacceptable" (Staff/900, Page 16/Lines 22-23).

Q. Are non-labor costs in 2007 escalated to 2009 appropriate to determine the level of spending for the 2009 test year?

A. No. The amount spent on this program fluctuates from year-to-year. For instance, in 2006, we spent $791,894, and in 2007, PGE spent $525,789 for the project. Different funding levels occur for various reasons, such as when work is performed and when materials are purchased.

Q. Should an adjustment be made to the Porcelain Insulator Replacement Project for 2009?

A. No. PGE believes that an adjustment will extend the timeframe of the program and we believe it is important to continue the program as currently projected.

Q. Does PGE still propose to keep the scheduled program through 2021?

A. Yes, at this time. However, in 2009, PGE plans to study whether or not it is more cost-effective to replace all of the porcelain insulators in a three to five-year timeframe and capitalize those costs. If so, we will work with parties to accurately reflect changes in revenue requirements.

A. Locating Expenses

Q. Does Staff still recommend an adjustment of approximately $271,000 to locating costs for the 2009 test year?

A. Yes. Staff continues to base their adjustment on a formulaic approach that has incorrect assumptions that do not provide for a reasonable projection of the costs for locates in 2009.

Q. Has PGE identified incorrect assumptions in Staff's approach?

A. Yes. Staff based their analysis on PGE's Response to Data Request No. 183, in which Staff asked specifically for <u>non-labor costs only</u>, and as a result, their analysis does not consider total costs for locating. PGE's locating expenses have a portion of PGE labor because there are areas in our service territory that necessitate a high level of expertise to accurately locate our facilities and these locates cannot be performed by contract labor. Also, congested areas directly adjacent to our substations may require PGE personnel and equipment to accurately locate the facilities. In addition, when PGE has an underground facility outage, a special tester (linemen that have considerable training to help them detect problems in the system) locates our facilities and uses the equipment to pinpoint where the fault has occurred on our line. The line crew can then dig exactly where they need to in order to fix the cable and restore power.

Q. If you correct Staff's analysis to include both labor and non-labor costs, what is the result?

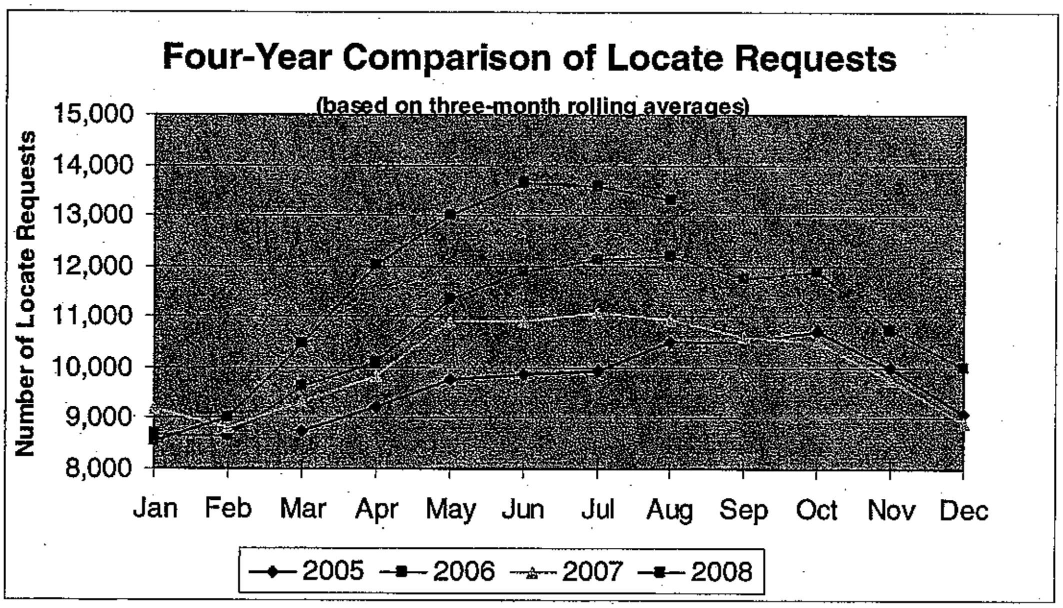
A. The result is a much smaller adjustment of approximately $60,000, versus approximately $271,000 that Staff recommends.

Q. Are there other factors that Staff's analysis does not take into consideration?

A. Yes. PGE's Response to Data Request No. 094 addressed Staff's question regarding two factors: increased contract rates and increased number of locates for 2009. PGE answered that approximately 95% of the increase in locating costs is due to higher contract rates and approximately 5% of the increase is due to a greater number of locates. However, there are other smaller factors, such as the cost per locate request that PGE pays to the Oregon Utility Notification Center (currently $1.05) that we did not include in our response.

Q. Please summarize why PGE's initial filing request for locating costs should not be reduced.

A. We developed our test year request based on expected/known contract rates and projections of locates that will need to be performed in 2009. Recent activity suggests that, if anything, our 2009 projection may be too low. We have experienced a significant increase in locate requests year-to-date, in 2008. We believe that the projected 130,000 for 2008 and the projected 136,500 for 2009 may be low estimates. As stated in my direct and rebuttal testimony, 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. The graph below shows a four-year comparison of locate requests, based on three-month rolling averages.



During January through August of 2007, we received 83,004 locate requests. In comparison, during January through August of 2008, we received 98,924 locate requests. We now project we will receive 144,704 locate requests for 2008 and 156,280 for 2009, far higher than our 2009 test year projection of 136,500 locate requests. Thus, our expected costs associated with those requests should not be reduced.

Q. Should the Commission adopt Staff's proposed adjustment of approximately $271,000 to locating expenses?

A. No. PGE's locate function is demand driven and required by Oregon State law. Our request is based on the forecasted demand in 2009. Underfunding legal requirements would unfairly penalize shareholders or decrease needed funding in other areas in order to complete locates that are legally required.

B. Arc-Flash Mitigation

Q. Please summarize Staff's proposal for the 2009 costs for Arc-Flash Mitigation.

A. Staff proposes to remove approximately $271,000 of Arc-Flash Mitigation costs from the 2009 test year, leaving approximately $90,000.

Q. Does PGE accept Staff's adjustment?

A. Yes.

C. Tree Trimming

Q. Does Staff continue to recommend an adjustment of approximately $1.3 million for tree trimming expenses in the 2009 test year?

A. Yes.

Q. What reason does Staff give for their adjustment?

A. Staff believes their original adjustment is reasonable based on information PGE provided in our response to OPUC Data Request No. 428 in which we indicated that the line miles to be trimmed would increase from 3,777 miles in 2007 to 4,500 miles both in 2008 and in 2009.

Q. Is PGE significantly increasing the number of line miles to be trimmed from 2007 to 2009?

A. No. The numbers of actual miles trimmed for 2004 through 2007 were identified as what had "previously been reported to Staff as Service Quality Measurements [SQMs]" (PGE's Response to OPUC Data Request No. 428). However, there is a component that these numbers do not include and that is the carryover miles, which are not included in SQMs.

Carryover miles represent miles scheduled for trimming in the previous year that were not completed and therefore carried over and trimmed in the next year. The carry over miles from one year to the next have not been counted in the twice-yearly Tree Trimming SQM accomplishments reported to the OPUC Safety Staff (standard practice since 1999). If PGE factors in these carryover miles, total actual miles trimmed in 2007 are 4,112 miles rather than 3,777 miles.

Q. Do the 4,500 line miles PGE shows in 2009 include a projection of carryover miles?

A. Yes. However, the 4,500 line miles for 2008 and 2009 double count the carryover miles in those years. This occurred because we projected the line miles for a full cycle of tree trimming activity for 2008 and 2009 and also erroneously included estimated carryover miles from previous years.

Q. Do you expect the approximate number of line miles trimmed to remain fairly constant?

A. Yes. PGE Exhibit 2501 demonstrates actual and estimated total miles trimmed.

Q. Given that you expect to trim approximately the same line miles per year, can you put the requested increase in perspective?

A. Yes. In 2007, we spent approximately $10.9 million for tree trimming. Our 2009 budget is approximately $12.3 million. This represents an increase of approximately 6.2% per year which is nearly identical to the escalation rate used by Staff (Staff/900, page 21, lines 15-17).

Q. Would a reduction of $1.3 million in tree trimming expenses allow PGE to meet SQMs set forth by the Commission?

A. No. A reduction of $1.3 million in tree trimming expenses would result in PGE not trimming more than 550 miles of lines otherwise scheduled for 2009. This would increase the possibility of tree contacts in violation of OAR 860-024-0016 and increase the likelihood of not meeting required SQMs.

Q. Does PGE believe its initial request of approximately $12.3 million for tree trimming expenses is still valid?

A. Yes. The test year request is based on work that will need to be done in 2009 to meet SQMs.

D. FITNES

Q. What is Staff's recommendation concerning FITNES program costs included in PGE's 2009 test year revenue requirement?

A. Staff recognized that their original adjustment of $900,000, based upon the 2007 early completion of underground FITNES, may not be representative of ongoing costs for this program. In surrebuttal testimony, Staff proposes a revised adjustment of approximately $312,000 to the FITNES program costs in 2009.

Q. Does PGE accept Staff's revised proposal?

A. No. However, we believe that there is a way to significantly reduce underground FITNES costs. PGE can propose a reduction of $900,000 to its 2009 FITNES costs, <u>dependent upon</u> moving the underground FITNES program from a four-year to a 10-year cycle.

Q. Do Division 024 Rules allow for a 10-year cycle?

A. Yes. This is the standard for other electric utilities in Oregon, and the Commission could adopt this as the standard for PGE.

Q. How does moving from a four-year to 10-year cycle impact costs in underground FITNES?

A. Moving underground FITNES from a four-year to 10-year cycle would decrease the 2009 costs of the underground equipment-related portion of PGE's FITNES program by approximately 60% or $900,000. PGE fully supports this change and requests that the Commission find that a 10-year cycle is appropriate and thus reduce our underground FITNES cost by $900,000 in 2009.

III. Helicopter

Q. Will PGE include a new helicopter in rate base as part of the 2009 test year revenue requirement?

A. No. In PGE's Supplemental Response to CUB Data Request No. 097, we informed parties that delivery of the new helicopter will be delayed until late 2009 and since it will require some assembly and outfitting prior to use, we therefore do not expect it to be in operation until 2010. Thus, we are removing the capital costs for the new helicopter from the 2009 test year revenue requirement.

Q. Does PGE plan to continue to use the existing helicopter throughout 2009?

A. Yes.

A. O&M Costs

Q. Could unforeseen maintenance for the existing helicopter increase actual O&M costs in 2009?

A. Yes. PGE's 28-year old helicopter could experience unforeseen costly maintenance problems that would increase O&M costs, but these costs have not been included in the 2009 test year.

B. Actual Usage Hours

Q. Does CUB propose to limit usage hours to 175 hours using the existing helicopter in 2009?

A. Yes. CUB states, "For the three years 2006, 2007, and 2008, the Company's total helicopter hours is expected to be between 515 and 525, or about 175 hours" (CUB/200, page 21). However, CUB does not dispute that helicopter usage was low in 2006 and 2007 because the helicopter required substantial maintenance in one year and the pilot had health issues in another year (CUB/200 page 21).

Q. What are actual usage hours for 2008 using the existing helicopter?

A. As of September 2008, we have flown 145 hours and we have scheduled an additional estimated 60 hours of patrols for the remainder of this year (barring any unforeseen circumstances). This will bring flight hours to approximately 205 hours for 2008.

Q. What is the difference in fuel costs between 205 and 250 hours?

A. Currently the cost of fuel is $5.75 per gallon as of September 2008. The helicopter burns 60 gallons per hour, which equates to $345 per hour of fuel. Therefore, 45 usage hours of fuel is approximately $16,000.

Q. Should the Commission reduce PGE's 2009 revenue requirement to reflect an assumption of 205 usage hours?

A. No. We expect usage hours in the 2009 test year to be 225-250 hours even though we will be using the existing helicopter. As we discussed in rebuttal testimony, we have a new pilot and are increasing the number of infrared inspections.

C. Economic Analysis

Q. Can you explain how the net present value calculation for outsourcing a helicopter was calculated?

A. Yes. In PGE's Confidential Exhibits 1603C and 1604C, we provided copies of two outsourcing bids: Roger's Helicopter and Haverfield Corporation. Annual total cost for Roger's was approximately $765,000 and Haverfield was approximately $893,000. In Confidential PGE Exhibit 1602C in the "Summary Rev-Req" tab in cells S10 and V10, these values were the starting point of the calculation to include inflation costs over a 22-year period. Formulae are intact in the spreadsheet.

Q. Would the outsource costs be the same whether the helicopter was used for 150, 175 or 250 hours?

A. Yes, the "outsourced" costs would be the same. Pilot salaries and other flight related costs are included in the Annual Fixed Cost of outsourcing the operations and are the same whether we fly 150 hours or 250 hours. Neither Rogers nor Haverfield included the cost of fuel in their Annual Fixed Bids.

Q. Was the purchase of the new helicopter the appropriate choice under assumptions of 150, 175, and 250 hours?

A. Yes. The outsourcing costs are the same whether we fly 150 or 250 hours because these are only fixed, not variable costs. Therefore, the economic analysis we performed and provided in rebuttal testimony demonstrates purchasing a helicopter is the best option at 150, 175, or 250 usage hours.

IV. Customer Focus Initiative

Q. Has CUB's position on the topic of the Customer Focus Initiative changed?

A. No. In their surrebuttal, CUB proposes to disallow the program cost of approximately $300,000 for the Customer Focus Initiative. CUB asserts that the program provides little benefit to customers.

Q. CUB suggests that PGE is using reliability as justification for the Customer Focus Initiative (CUB/100, page 25). Is this correct?

A. Yes. However, in addition to reliability, PGE also stated that "...the program is designed to foster durable and sustainable improvements that will enhance ... service, and cost efficiency company-wide and over the long term. Cost efficiency is part of the basis for [the] Customer Focus Initiative, but it is not the entire justification" (PGE/1700, Hawke/8 and CUB 200, page 25).

Q. CUB asserts that "PGE thinks that the Facilitator's Guide justifies this program" (CUB/200, page 25). Is this accurate?

A. No. In addition to the Facilitator's Guide, the Design Team Report, PGE Exhibit 1700 (Section IV), PGE's responses to CUB Data Requests (including PGE Exhibit 1704), and this testimony all support the Customer Focus Initiative and justify the cost of the program.

Q. Is the Customer Focus Initiative a well thought-out program designed to benefit customers?

A. Yes, contrary to CUB's assertions (CUB/200, page 25), PGE demonstrates this by:

- Describing the implementation of the initiative in phases.
- Describing the two types of process improvements that stem from the initiative.
- Providing examples of the improvements that are being implemented.

- Describing the iterative nature of the initiative and how it will continue to yield favorable results in the future to the benefit of customers through improved reliability, service and cost effectiveness. (PGE/1700, Section IV)

Q. Does the Customer Focus Initiative focus on cost control and efficiency in a meaningful way?

A. Yes. Again, contrary to CUB's assertions (CUB/200, page 25), we described in PGE Exhibit 1700, page 9, that even though the program is still in its infancy we have every expectation that the improvements resulting from the Customer Focus Initiative will yield cost efficiencies, cost savings, and cost avoidance, and the result for customers will be better service at a better price.

Q. Does this conclude your testimony?

A. Yes.

List of Exhibits

PGE Exhibit	Description
2501	Actual and Estimated Total Line Miles Trimmed

Actual and Estimated Total Line Miles Trimmed

Year	SQM Reported Miles Trimmed	Carry-over Miles Not Included in SQM[1]	Total Miles
2004	3523	184	3707
2005	3464	114	3578
2006	3627	316	3943
2007	3777	335	4112
2008 Projected	3658	347	4005
2009 Projected	3750	350	4100

[1] Represents miles scheduled for work in the previous year that were not trimmed and therefore carried over and trimmed in the next year. The carry over miles from one year to the next have not been counted in the accomplishments in the twice yearly Tree Trimming SQM accomplishments reported to the OPUC Safety Staff. This has been standard practice since 1999.

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I. Introduction

Q. Please state your name and position.

A. My name is Stephen Quennoz. My position at PGE is Vice President, Power Supply. I am responsible for all aspects of PGE's power supply generation and for decommissioning the Trojan nuclear plant. My qualifications are listed in Section V of PGE Exhibit 400. I previously sponsored PGE Exhibits 400 and 1800.

Q. What is the purpose of your testimony?

A. The purpose of my Sursurrebuttal testimony is to address issues raised by CUB related to Generation Excellence and the Boardman Simulator.

Q. How is your testimony organized?

A. In addition to this introduction section, there are two additional sections, one for each issue mentioned above.

II. Generation Excellence

Q. Has CUB maintained their original position regarding Generation Excellence?

A. Yes. CUB believes PGE should not recover the costs related to Generation Excellence because there was no formal cost benefit analysis performed. (CUB/200, Jenks/19, lines 19-26)

Q. Did PGE respond to CUB's position?

A. Yes. PGE thoroughly discussed the following points in its rebuttal testimony (PGE Exhibit 1800, pages 2-6):

- We stated that PGE believes this initiative is a worthwhile investment in our employees that will maintain or improve good performance at our generating plants.
- We discussed the focus of Generation Excellence and that the primary motivation is two-fold: safety and reliability.
- This initiative has small costs and mostly serves as an umbrella to centralize several programs that focus on plant safety and reliability.
- As PGE enters an employee transition period in its generation area, the Generation Excellence cornerstones of safety, process improvements, human performance and plant reliability will benefit customers through improved reliability, consistent plant operations, and a more seamless transition as our highly trained and qualified employees retire.
- We discussed the extensive process and criteria, using a Delphi panel that went into developing this initiative.

- A formal cost benefit analysis is not necessary for every initiative or project – especially when the benefits are obvious.
- Increased training, process improvements, and increased focus on safety and reliability have obvious benefits to our company and our customers.

Q. What response did CUB make to PGE's rebuttal testimony?

A. Unfortunately, while PGE has listed many benefits we expect from this initiative, CUB chose to dismiss PGE's numerous points and focus on one item: a formal cost-benefit analysis. CUB's response to PGE's rebuttal testimony was to reiterate its original position.

Q. CUB states that the test year cost of this program being largely non-incremental is not "a relevant point" (CUB/200, Jenks/20, lines 1-4). Do you agree?

A. No. The fact that PGE has already included this program as part of its O&M expenditures in 2007 and 2008 helps demonstrate that the project is an important part of supporting PGE's generation portfolio for the benefit of customers.

Q. CUB believes PGE should have an "analysis of the program that supports it as a cost-effective program" (CUB/200, Jenks/19, lines 25-26). Is this type of analysis necessary for all projects?

A. No. PGE does not believe that every initiative or project requires a cost benefit analysis to prove it has benefit to customers (PGE Exhibit 1800, page 2, lines 6-8). In this particular case, PGE went to great lengths, using a Delphi panel and considering many options, before agreeing on the specific Generation Excellence program we are implementing (PGE Exhibit 1800, pages 3-4).

Q. Please summarize PGE's position on the Generation Excellence initiative?

A. Generation Excellence is a well thought out program that will benefit customers through good plant performance. Solid plant performance benefits the customers by reducing PGE's utilization of volatile power markets, thereby maintaining net variable power costs as low as possible. We believe CUB is taking a short-sighted approach to PGE's efforts to maintain the operations readiness of the plants in view of the problems facing the industry that were detailed in prior testimony. The costs of Generation Excellence should be included in PGE's revenue requirement.

III. Boardman Simulator

Q. Has CUB's position remained the same regarding the Boardman Simulator?

A. Yes. CUB believes PGE should not recover the $1.0 million of additional costs included in Revision 2 of the project because there was no economic analysis to support them.

Q. How did PGE respond to CUB's position?

A. As with Generation Excellence, PGE responded with multiple points about the benefits and rationale for the simulator (PGE Exhibit 1800, pages 6-9):

- We explained that the Boardman Simulator has always been a reliability project and the original economic analysis was simply to evaluate what additional economic benefits might be present.
- We supported that every version of the simulator project profile was approved on the basis of reliability regardless of economic benefit.
- We further discussed how this simulator plays a critical role in increased training at one of our valuable base-load plants and that we considered it to be "best practice".
- We discussed in detail the additional $1.0 million in costs for the simulator.
- We pointed out that three of the employees listed in the costs for Generation Excellence, which CUB wants to remove completely, are necessary to run the simulator. It is illogical to approve PGE's simulator and not approve the employees necessary to operate the simulator.

Q. What response did CUB make to PGE's rebuttal testimony?

A. Once again, CUB took a narrow view of the decision making process and did not recognize that decisions can be made to benefit customers without a formal cost-benefit analysis.

Simply because a project may not have a direct payback within five years does not mean it fails to provide a meaningful benefit and should not be considered. Those familiar with the power industry would find it difficult to question the value of a simulator that uses advanced training technology to comprehensively and cost-effectively equip plant operators with the skills and experience essential to safely and efficiently operate modern power plants.

Q. CUB states that the Simulator project was "focused on the cost of training, with reliability being an afterthought" (CUB/200, Jenks/17, lines 6-7) and that the driver of the simulator was "the increase in training costs, not reliability" (line 12). Is this an accurate characterization?

A. No. PGE has consistently stated that the simulator project was approved on the basis of reliability. CUB is merely drawing its own conclusions that are not substantiated by the facts. Our first mention of it in PGE Exhibit 400, page 17, lines 9-12 discusses how the purpose of the project is to "minimize the probability of outages due to operator error." In PGE's Response to CUB Data Request No. 049, PGE says "training for plant staff is critical to maintain high reliability". Furthermore, in PGE Exhibit 1800, page 7, lines 6-7, PGE says "the original version and subsequent revisions of the project profile for the simulator at Boardman have always been approved on the basis of reliability". PGE's initial and Supplemental Responses to CUB Data Request No. 049, are attached as PGE Exhibit 2601.

Q. Were escalating training costs a factor in consideration for the Simulator?

A. Yes, in part. Due to increased training costs and the importance of training to maintain reliability, PGE had to consider alternatives when projected costs to send operators to an off-site simulator for training were forecasted to increase over 350%.

Q. Did PGE consider the economic impact of the additional $1.0 million in costs added in Revision 2 of the project?

A. Yes. PGE's Response to CUB Data Request No. 049 says "With these additional costs, the project was not expected to have an economic payback of less than 5 years; however, it was still considered a critical part of training, reliability and safety." The initial economic valuation was to show what benefits, in addition to reliability, would be gained from this project. PGE was well aware that the economics would change with the addition of $1.0 million in costs; however, the project was always more about reliability than economics, and the decision was made to proceed.

Q. Of the additional $1.0 million in question, is the entire $1.0 million of costs related entirely to the Simulator?

A. No. As explained in PGE Exhibit 1800, pages 7-8, of the $1.0 million, $0.4 million is for the higher than budgeted cost of the high fidelity simulator, $0.4 million is for extra office space and increased cost of the original building and the remaining $0.2 million is for increased training and installation factory acceptance testing.

The $0.4 million for additional office space in the building is mostly unrelated to the simulator. The additional space is for an increase of staff at Boardman, which will continue to increase with the addition of pollution controls through the BART process. Additionally, concrete and steel prices caused construction costs of the building to increase. We discuss this further in PGE Exhibit 1800, page 7, lines 12-23. While these costs and additional office space are important to PGE, they are not directly related to the cost of the simulator and were only included for expediency to the project profile as the addition was to the proposed building.

Revision 2 of the project profile, which is the request to increase the project by $1.0 million, is included in Confidential PGE Exhibit 2602C. This exhibit was provided as Attachment E in PGE's second supplemental response to CUB Data Request No. 049.

Q. Did it make sense to update the economic analysis for this last $1.0 million?

A. No. Considering that nearly half of the additional costs are unrelated to the simulator, it didn't make sense to update the analysis for the additional costs. Furthermore, as we've stated repeatedly, the simulator project was done primarily to increase training and the reliability of one of the PGE's most critical and low cost resources.

Q. Has PGE committed to increased reliability as a result of the simulator?

A. Yes, even though the simulator program 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.

Q. CUB says that it "is difficult to get complete and timely responses to data requests which ask for the analysis behind decisions" from PGE, in reference to CUB Data Request No. 049 (CUB/200, Jenks/18, lines 1-9). Is this correct?

A. As PGE stated in our first supplemental response to CUB Data Request No. 049, the final version of the project was approved for reliability purposes; therefore, the analysis performed in prior versions of the project was irrelevant because it did not impact the final decision to build the simulator. Furthermore, the additional analysis that was not included in the original response was provided to CUB the day it was discovered. The project profile system referenced only the updated version of the economic analysis and the early version of the analysis was discovered only after each individual version of the project profile was reviewed. CUB seems to imply that PGE withheld information and was purposely difficult in this case, which is simply not true. (PGE's second supplemental response to CUB Data Request No. 049 and all of the attachments are attached as PGE Exhibits 2601 and 2602C.)

Q. Please summarize PGE's position on the Boardman Simulator?

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

Q. Does this conclude your testimony?

A. Yes.

List of Exhibits

PGE Exhibit	Description
2601	Copy of PGE's Second Supplemental Response to CUB Data Request No. 049, Attachments 049-B and 049-F.
2602C	**Copy of PGE's Second Supplemental Response to CUB Data Request No. 049, Confidential Attachments 049-A, 049-C, 049-D, 049-E.**

August 13, 2008

TO: Lowrey Brown
Citizens' Utility Board

FROM: Randy Dahlgren
Director, Regulatory Policy & Affairs

PORTLAND GENERAL ELECTRIC
UE 197
PGE *Second Supplemental* Response to CUB Data Request
Dated May 19, 2008
Question No. 049

Request:

PGE in investing in a new training simulator and expanding the staff related to training at Boardman.

a. Please provide a copy of the proposals (analyses, memos, and all other documentation) that was consider by Jim Piro, the Officers, and the Board of Directors concerning this new training program.
b. How does this group benefit customers?
c. If the Company has engaged in multi-year planning for this group, does PGE forecast the amount of company resources invested in this program to increase, decrease, or remain the same in the next few years?
d. What is the total cost in the 2009 test year related to the training simulator and training at Boardman (please distinguish between the two), and how does this compare to the cost before PGE purchased the simulator.

Response:

a. PGE objects to this request on the basis that is it overly broad and unduly burdensome. Without waiving its objection, PGE replies as follows: Please see PGE Attachment 049-A, which is the internal project profile used by the Capital Review Group. Attachment 049-A is confidential and subject to Protective Order 08-133.

b. Training for plant staff is critical to maintain high reliability. In the past, PGE sent Boardman employees off-site for training; however, due to an uncontrollable change in service providers, the costs for Boardman training were expected to increase over 350%, from approximately $60,000 up to $272,000 per year. The initial proposal for the Boardman simulator was approved in August 2005 as a response to these increased costs and to maintain plant reliability. After Revision 1 in August 2006 the project had a 4.88 year payback period. In February 2007, PGE increased the project cost by an additional $0.6 million for the simulator and a further $0.4 million to increase the size of the building for Boardman offices and storage. With these additional costs, the project was not expected to have an economic payback of less than 5 years; however, it was still considered a critical part of training, reliability and safety. The project justification is also described in PGE Attachment 049-A.

c. The total costs in 2009 represent a consistent level of PGE's current plans for on-going costs.

d. The total cost for training at Boardman in years 2005 through 2009 are presented below:

Year	Dollars	% Change
2005	282,000	
2006	251,000	-10.99%
2007	333,009	32.67%
2008	176,155	-47.10%
2009	184,926	4.98%

* Includes PGE's share of labor and non-labor

<u>Supplemental Request June 13, 2008</u>

On June 13, 2008, CUB requested the economic analysis provided to support version 3 of the project approval.

<u>Supplemental Response June 13, 2008</u>

Related to the payback analysis discussed on page 3 of Attachment 049-A:

As discussed in part b above, the final version of the project was approved for reliability purposes, not on economic payback, and therefore the payback analysis was not included in the final project approval and, subsequently, was not included in PGE's response. The original payback analysis is PGE Attachment 049 Supp 1-B.

<u>Second Supplemental Response August 6, 2008</u>

In preparing PGE's rebuttal testimony, PGE reviewed the individual revisions of the Boardman Simulator Project profile for a job and ranking code. During that review, we discovered that the final project profile, Revision 3, provided to CUB in PGE's Response to Data Request 049, did not include all of the detail from the previous versions. Specifically, version 0 of the project profile included an original economic analysis, but this information was removed in revision 1.0 to avoid confusion because the results were no longer valid. The economic analysis in version 0 was a preliminary analysis that was then updated in revision 1.

PGE Attachments 049 Supp 2-C, D and E provide revisions 0, 1, and 2. PGE Attachment 049 Supp 2-F is the economic analysis for version 0. These do not change the final conclusions of the revisions already provided, but only include the additional analysis described above. Attachments 049 Supp 2-C, D, and E are confidential and subject to Protective Order 08-133.

UE 197 PGE Exhibit 2601
Attachments 049-B Supp. 1
and 049-F Supp. 2
Provided Electronically (CD) Only

UE 197 PGE Exhibit 2602C

Confidential and Subject to Protective Order No. 08-133

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I. Introduction

Q. What is your name and position with PGE?

A. My name is James J. Piro. I am the Executive Vice President and Chief Financial Officer for PGE. My qualifications appear in PGE Exhibit 100, Section VIII.

My name is Alex Tooman. I am a Project Manager for Regulatory Affairs at PGE. My qualifications appear in PGE Exhibit 200, Section IX.

We previously sponsored PGE Exhibits 500 and 1900.

Q. What is the purpose of your testimony?

A. The purpose of our testimony is to address the remaining issues related to PGE's administrative and general (A&G) costs and to respond to other parties' surrebuttal testimony on those issues.

Q. How is your testimony organized?

A. In the next section, we address Staff's proposed adjustment to PGE's forecasted insurance costs and uninsured losses. We conclude by providing detail regarding Staff's proposed adjustment related to miscellaneous actual charges in 2007.

II. Insurance and Losses

Q. Please summarize Staff's position regarding insurance costs as filed in their Surrebuttal Testimony.

A. Staff recommends removing approximately $1.83 million from PGE's expected 2009 insurance premium costs and $1.75 million from uninsured losses.[1]

Q. Does PGE agree with Staff's adjustments?

A. PGE agrees in general with Staff's adjustment for uninsured losses and we accept the $1.75 million adjustment. However, PGE does not agree with Staff's adjustment for Insurance Premiums.

Q. What are the components of Staff's adjustment?

A. Staff's adjustment is based on five components:

1. An adjustment to exclude 50 percent of Director's and Officer's (D&O) Supplement Liability insurance.
2. A true-up and comparison of policies in the test year to policies currently in effect.
3. Escalation of property insurance premiums.
4. A policyholder credit that PGE believed may occur.
5. An allocation to reduce insurance related to non-utility operations.

Q. What is PGE's position on these issues?

A. First, PGE does not agree that there should be any adjustment for the D&O policies. Second, Staff is mistaken about which policies are included in PGE's 2009 forecast and which are not. We clarify this below. Third, Staff has not allowed for escalation of property insurance premiums for the second half of 2009. The policies currently in effect will expire July 1, 2009. Staff's analysis holds these costs flat for the

[1] Throughout this section, we discuss insurance expenditures and losses. These amounts must then be allocated between capital and O&M, currently at 45.5 % and 54.5 %, respectively.

remainder of the year. PGE will experience an increase in the property insurance policies due to increased asset values of the property insured. Fourth, PGE no longer believes that it will receive a policy holder credit in 2009 and, therefore, the credit should be removed. Lastly, PGE agrees with Staff that there should be an adjustment for policies related to non-utility operations but we do not agree with Staff's amount. PGE will propose a revised adjustment. All of these issues are discussed in more detail below.

A. Director's and Officer's Insurance

Q. Please explain Staff's position related to Director's and Officer's Insurance.

A. Staff continues to support a 50% reduction in Excess Director's and Officer's (D&O) Liability insurance. Staff states that PGE "failed to elaborate on the benefits of such policies" in its rebuttal testimony. However, PGE did explain in detail in our rebuttal testimony why D&O insurance is a necessary and prudent cost of doing electric utility business (PGE/1900, Piro-Tooman/16).

Q. Will you please reiterate why D&O Insurance is necessary and prudent?

A. Yes. Adequate levels of D&O coverage address the risks that directors and officers are subject to as a result of their positions managing the utility. It also protects PGE's balance sheet from losses and other financial distress incurred due to frivolous lawsuits against directors and/or officers in the normal course of doing business. Adequate levels of coverage will cover legal costs to defend the director and/or officer. Dealing effectively with such adverse outcomes allows directors and/or officers to focus on their primary duties and is a direct benefit to customers.

Q. Are there other direct benefits to customers regarding coverage of D&O insurance?

A. Yes. In today's competitive job market, it is crucial that PGE hire and retain qualified and competent directors and officers. Adequate D&O liability insurance is a prerequisite to achieve this.

Q. What is Staff's main argument for disallowing the D&O insurance cost?

A. Staff states that lawsuits can occur "in conjunction with the performance of their [directors and officers] duties as they relate to the Company" (Staff/900, Ball/11, lines 3-4). Staff makes an important point with this statement. The directors and officers are performing their duties in the normal course of business. They are performing their duties for the benefit of customers and therefore this directly impacts customers. D&O insurance coverage should be included as a normal cost of doing business.

B. Policies Included or Excluded Incorrectly

Q. What is PGE's issue with Staff's analysis related to the inclusion or exclusion of certain policies in the 2009 test year and those currently in effect?

A. There were several policies that Staff either didn't include or exclude when they should have. In addition, PGE provided Staff with costs it would incur in Surplus Line Taxes.[2] We discuss each of these issues below.

[2] The reason for the Surplus Line Taxes is that many of PGE's insurance placements are with insurance carriers that are non-admitted (not licensed) in Oregon. However, such insurers are allowed to underwrite overage through a licensed surplus lines broker. As a result of the insurer's non-admitted status the State of Oregon levies taxes on a surplus lines placement, payable by PGE.

1. Policies That Should be Excluded

Q. Please explain the policy that needs to be excluded from Staff's analysis?

A. Staff includes a policy that PGE agreed to withdraw from the rate case. The withdrawal of the policy with an annual premium of $3,333 was noted in PGE's Second Supplemental Response dated May 23, 2008 to OPUC Data Request No. 066 (provided as Exhibit 2701). Thus, the policy should be removed.

2. Policies That Should Be Included

Q. Please explain the policies that need to be included in Staff's analysis but were not.

A. There were four categories of policies that Staff should have included in their analysis. Those policies are: 1) Operational Risk policy for Biglow Canyon 1; 2) Self-Insured Worker's Compensation Bonds; 3) Western Interconnection Electric System (WIES); and, 4) Miscellaneous Bonds.

Q. Please describe PGE's issue with the Operational Risk policy for Biglow Canyon 1.

A. Operational Risk policy was included in PGE's initial filing of UE 197. Staff states that "PGE is attempting to bring in a new insurance policy that was not included in its original UE 197 filing" (Staff/900, Ball/11, lines 20-21). Staff is mistaken. The Operational Risk policy related to Biglow Canyon 1 was included as part of our initial filing but not individually identified. That policy was part of the property insurance total of $2,778,647; it simply was not itemized. Indeed, Staff's argument is not that the policy isn't necessary, but that it was excluded from the 2009 test year.

PGE has demonstrated that the policy was included and even if it were not, the policy is a prudent cost that should be recovered.

Q. Why was this policy not provided to Staff along with the other property insurance term sheets in the response to OPUC Data Request No. 066?

A. At the time, PGE inadvertently overlooked the policy. It was not included as part of our response to OPUC Data Request No. 066. We discovered the error and promptly provided an updated response to Staff on August 28, 2008 (provided as PGE Exhibit 2702C). As we noted above, this policy was included in PGE's initial filing of UE 197.

Q. What is Staff's treatment of the Operational Risk policy?

A. Staff has excluded the policy in its analysis; however, it was included in PGE's initial filing and therefore should be included. Since the costs of Biglow Canyon 1 were approved by the Commission in UE 188, the cost of this policy is currently in rates.

Q. Please describe PGE's position related to the Worker's Compensation policy.

A. The premium's associated with the Self-Insured Worker's Compensation bonds was listed and provided to Staff in PGE's response to OPUC Data Request No. 285 on May 30, 2008 (provided as PGE Exhibit 2705). The premium for these two bonds is $34,638. These bonds are required by the Worker's Compensation Division of the State of Oregon as a security deposit to meet our workers' compensation obligations. The amounts of the bonds are determined by the State based on PGE's outstanding reserves. The bonds should be included in Staff's analysis as this is a cost that PGE will incur in 2009 and this cost was included in the PGE's initial filing. (These bonds are also discussed and the term sheet provided in PGE's third supplemental response to OPUC Data Request No. 066, provided as PGE Exhibit 2701 and 2703C, respectively).

Q. Please describe the WIES policy and the Miscellaneous Bonds.

A. The WIES policy has a premium of $23,467 and various Miscellaneous Bonds total $6,424. These premiums and term sheets were provided on August 28, 2008 in PGE's third supplemental response to OPUC Data Request No. 066 (provided as PGE Exhibit 2701 and 2703C). The policy and bonds were included in PGE's initial filing of UE 197.

Q. Please discuss the Surplus Line Taxes.

A. Lastly, 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. The term sheets included as part of PGE's response to OPUC Data Request No. 066, Attachment 066-A, provided only the details of the policy and the premium amount. The Surplus Line Taxes were not included in the response. However, they were provided to Staff in PGE's third supplemental response to OPUC Data Request No. 066 on August, 28, 2009. These are expenses that were also included in PGE's initial filing of UE 197.

C. Escalation of Property Insurance Policies

Q. Please describe the escalation on the property insurance policies.

A. When Staff requested the current term sheets in effect, PGE provided them. However, there was no adjustment for the escalation that will occur in 2009 when the policies are renewed. PGE provided a worksheet (Attachment 066 Supp. 3-E) in its third supplement response to OPUC Data Request No. 066 on August 28, 2008 (See PGE Exhibit 2704C) that provides the calculation for the escalation rate. An escalation rate of 9.4 percent was used based on the increasing asset values of the property insured. The 9.4 percent was applied to half the year because the current policies expire on July 1, 2009. This escalation, totaling $110,586 (product of the property insurance policies of $2,352,900 and 4.7 percent) will cover the cost that PGE will incur in the second half of 2009 due to the renewal of the property insurance policies.

Q. Why did Staff exclude this information from its Surrebuttal Testimony?

A. We don't know. The supplemental response was not addressed or analyzed. The supplemental response was provided on August 28, 2008, over two weeks prior to Staff's scheduled submittal of Surrebuttal Testimony.

D. Policyholder Credit

Q. Please explain the policyholder credit that should be removed.

A. PGE included a policyholder credit of $170,000 in our initial filing. At the time this case was filed with the Commission, PGE believed it was likely that we would receive a policyholder credit estimated at $170,000. However, since that time, market conditions have changed dramatically as described in PGE's supplemental response to OPUC Data Request No. 70 provided on August 26, 2008. (See PGE

Exhibit 2706) The response explained that we no longer believe we will receive the policyholder credit because catastrophe losses are on the rise in 2008 compared to 2006 and 2007. In fact, 2008 insured losses are substantial and above the average of the last 10 years. We believe that this trend will adversely effect insurer financial results and diminish the possibility of PGE's property insurer declaring a policyholder credit in 2009.

Q. How has Staff treated this supplemental response in its analysis?

A. Staff did not address the supplemental response in its Surrebuttal Testimony.

E. Utility Allocation

Q. Please explain the last adjustment regarding Utility Allocation.

A. Staff adjusts the total amount of insurance downward by 1.79 %, stating that it is an adjustment for premium coverage of both utility and non-utility property. (Staff/900, Ball/13)

Q. Does PGE agree with Staff on this issue?

A. PGE believes there should be an adjustment for the portion of the insurance premiums that cover non-utility aspects of PGE's operations. However, PGE does not agree with Staff's adjustment.

Q. Please describe Staff's adjustment?

A. Staff applies an allocation factor of 1.79 percent to all insurance policies.[3]

Q. Why does PGE disagree with using Staff's adjustment amount?

[3] Staff uses the Non-utility allocation factor provided in PGE's 2007 Cost Allocation Manual.

A. 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 each and 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 activities at PGE's offices in the World Trade Center. Therefore, since that amount has already been removed from the test year forecast, there is no need to apply the allocation factor to any of the property insurance. However, Worker's 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.

Q. What does PGE recommend?

A. We recommend an adjustment to specific categories of policies. As explained above, both Liability and Worker's Compensation policies cover areas of PGE that relate to non-regulated services (i.e., Distribution Services). Distribution Services makes up 17 percent of total "X" or non regulatory accounts, therefore, PGE recommends applying only 17% of Staff's 1.79% allocation factor for an adjustment to Liability and Worker's Compensation insurance policies. This results in an adjustment of $6,377 to overall insurance.

Table 2

	Policy	17% * 1.79%	Adjustment
General Liability	$ 1,815,754	0.003043	$ 5,525
Worker's Comp	279,985	0.003043	852
			$ 6,377

F. Conclusions on Insurance

Q. Can you please summarize the insurance adjustments?

A. The adjustments discussed above are important in the analysis of insurance costs. They are all reasonable costs that PGE is expected to incur in 2009. These costs are part of the original filed rate case and should be part of the analysis. See PGE Exhibit 2707 for a summary of all insurance policies.

Q. What is PGE's adjusted amount for insurance?

A. We recommend the Commission allow $8,549,902 for insurance policies. This would result in a downward adjustment in insurance expenditures from the original filed case of $439,815, which should be allocated 45.5 % to Capital and 54.5 % to O&M (see footnote 1).

III. Miscellaneous Charges

Q. What are Staff's adjustments for miscellaneous charges?

A. Staff's adjustments are virtually identical to those stated in their direct testimony except that they have removed the adjustment related to tree trimming, as it is addressed elsewhere in their testimony. In total, they equal approximately $710,000 and consist of the following categories of costs: catering, gifts, promotional, civic activities, and other.

Q. What is PGE's response to these adjustments?

A. For the first four categories, PGE believes, as we stated in our rebuttal testimony, that these costs to a great extent represent work-related costs, such as lunch meetings and minor gratuities in lieu of cash bonuses for employees who perform significant amounts of unpaid overtime for major projects. They also represent extra items such as retirement gifts for many years of service, gifts related to sympathy (flowers for deaths or serious illness in employees' families), team building days for employees, and holiday supplies/activities. Although these represent discretionary costs, they are typical items for businesses in general and are part of how companies motivate and reward employees. They are also part of the overall culture at PGE that attracts and retains qualified workers, who provide valuable and necessary services to customers. In total, these adjustments equal $568,000.

Q. How much are the adjustments for the "Other" category?

A. The Other category consists of three adjustments that total approximately $140,000.

Q. Why are you addressing issues of this magnitude in sursurrebuttal testimony?

A. We must address these small items because Staff continues to raise these specific issues although they agree that the Commission should not micromanage PGE's operations. (Staff/800, Owings/17)

Q. How does PGE address the "Other" category?

A. PGE believes these three adjustments are particularly erroneous and we address them individually. First, Staff proposes to remove $50,000 from PGE's 2009 forecast for Forest Service costs. In fact, these are part of PGE's FERC license requirements and nowhere in Staff's testimony do they claim these are not prudent or legitimate. Staff's entire argument is that they believe they are misclassified, which is not a basis for disallowance.

Q. What is the second Staff adjustment?

A. Staff's second adjustment is to remove $66,000 in legal costs that relate to the California refund for energy contracts. Staff's argument is that these are one-time costs that cannot be included in the 2009 forecast. As PGE noted, if these were non-recurring or extraordinary items, they occurred in 2007 and are not included in the 2009 forecast because the California issue is resolved. Consequently, there is no reason to exclude these costs from the 2009 forecast because there was nothing further for PGE to budget for this activity in either 2008 or 2009.

Q. How does Staff's adjustment affect PGE's forecasted legal costs?

A. As shown in PGE Exhibit 501, legal costs are forecasted to be fairly flat from 2007 to 2009, so that deducting additional amounts from a department that reflects minimal increases (below the rate of inflation) would not seem reasonable. Essentially, Staff's adjustment to legal costs amounts to a very incomplete review of

PGE's legal activities because there is no review of new issues and new costs that would be the true basis for the forecast.

Q. What is the third Staff adjustment?

A. The third Staff adjustment relates to annual rent costs for storage of certain underground materials and equipment. These costs relate to one of PGE's line crew centers and the lease allows us to fully utilize that facility. Again, Staff does not claim they are imprudent, but only that they somehow represent double counting. In fact, PGE incurred these costs in 2007 and will continue to do so on an on-going basis in 2008 and 2009. Consequently, they do not represent one-time costs and there is no basis to claim double counting in the 2009 forecast.

Q. Does this conclude your testimony?

A. Yes.

List of Exhibits

PGE Exhibit	Description
2701	PGE's Response to OPUC Data Request No. 066
2702C	**PGE's Response to OPUC Data Request No. 066, Attachment 066 Supp. 2-B**
2703C	**PGE's Response to OPUC Data Request No. 066, Attachment 066 Supp. 3-D**
2704C	**PGE's Response to OPUC Data Request No. 066, Attachment 066 Supp. 3-E**
2705	PGE's Response to OPUC Data Request No. 285
2706	PGE's Response to OPUC Data Request No. 070
2707	Insurance Premium Summary Spreadsheet

August 28, 2008

TO: Vikie Bailey-Goggins
Oregon Public Utility Commission

FROM: Randy Dahlgren
Director, Regulatory Policy & Affairs

PORTLAND GENERAL ELECTRIC
UE 197
PGE *Third Supplemental* Response to OPUC Data Request
Dated March 25, 2008
Question No. 066

Request:

Please provide "term" sheets that cite the premium costs for all current insurance premiums.

Response (Dated April 15, 2008):

See Attachment 066-A, which is confidential and subject to the Protective Order No. 08-133. The attachment contains copies of insurance binders for coverage currently in force.

PGE's Supplemental Response (Dated May 23, 2008) pursuant to an e-mailed Supplemental Request from Staff on May 14, 2008:

Per our telephone conversation, below are items that we discussed and you indicated would be provided in a supplemental response to DR 66.

a. Copies of the "term" sheets that cite the premium costs for the most recent T&D Property insurance as well as Special Coverage.
b. An explanation regarding Special Coverage

Supplemental Response (a):
See Attachment 066-B which is confidential and subject to Protective Order No. 08-133. This attachment is the insurance binder for the T&D property insurance.

Supplemental Response (b):
After further review, PGE has determined that this expense should be removed. PGE will make this change in its rebuttal testimony if it is not already made.

PGE's Second Supplemental Response (Dated August 15, 2008):
See Attachment 066 Supp. 2-B, which is confidential and subject to the Protective Order No. 08-133. The attachment contains a copy of an insurance binder that was inadvertently excluded from the original response. The insurance policy is for Biglow 1 Operational Risks for coverage currently in force.

PGE's Third Supplemental Response to OPUC Data Request No. 066
August 28, 2008
Page 2

PGE's Third Supplemental Response (Dated August 28, 2008):
Upon review of its rebuttal testimony regarding insurance, PGE discovered 5 items that required correction. They are provided Attachment 066 Supp. 3-C ("supplemental information") and are discussed below:

1. Attachment 066 Supp. 3-D provides copies of invoices that were inadvertently excluded from previous responses to this data request. Specifically: WIES (Western Interconnection Electric System), $23,467; Worker's Compensation Bonds, $34,638; Miscellaneous Bonds, $6,424; and Surplus Line Taxes for various policies, $48,125.

2. In addition, PGE did not include the insurance that will need to be in place for the new helicopter, which is expected to be in service in June 2009. The calculation for the estimated annual premium is $153,600, or $89,600 for 7 months.

3. The policyholder credit adjustment (i.e., $170,000) as listed on Attachment 066 Supp. 3-C and explained in PGE's Supplemental Response to OPUC Data Request No. 070.

4. PGE inadvertently excluded a 2009 escalation rate for its property insurance premiums. We expect that for the second half of 2009, premiums will increase by 9.4 percent (i.e., $110,586) primarily due to an increase in the value of property being insured as well as a small increase in rate amounts (see Attachment 066 Supp. 3-E).

5. Finally, PGE incorrectly posted its initial adjustments for insurance and uninsured losses to the revenue requirement without applying appropriate allocations to capital. The correct allocations are as follows:

   - The corrected insurance adjustment based on numbers 1-4 above equals $360,000, which should be allocated $189,000 to capital and $172,000 to expense.
   - The $1.7 million adjustment for uninsured losses does not change from PGE's proposal in rebuttal testimony. However, PGE did not allocate this adjustment between capital and expense as it should. The allocation should be $948,000 to capital and $791,000 to expense.

The combined effect of items 1-5 above is to increase PGE's UE 197 revenue requirement in our rebuttal testimony by approximately $1.4 million.

Attachments 066 Supp. 3-D and 3-E are confidential and subject to Protective Order No. 08-133.

UE 197
Attachment 066 Supp. 3-C

Insurance Premiums

UE 197 PGE - Insurance Premiums- A&G

				Current Binders	(DR 66-Supp 3) Surplus Lines Taxes	UE 197	DR's
Property	70% FM Global	All Risks of Physical Loss or Damage	7-1-08 to 7-1-09	1,690,342			
	20% AEGIS	All Risks of Physical Loss or Damage	7-1-08 to 7-1-09	441,700			
	10% Lloyd's Syndicate 1225	All Risks of Physical Loss or Damage	7-1-08 to 7-1-09	186,415			
	10% AEGIS	All Risks of Physical Loss or Damage	7-1-08 to 7-1-09	32,443		2,778,647	DR 66, 285
	Wind Energy Insurance	Operating All Risks	4-1-2008 to 4-1-09	383,089	11,498		
		Trans & Dist Property		1,500,000		1,584,622	DR 66, 285
Workers Comp	National Union Fire Insurance Co	Supplemental Workers Comp	7-1-08 to 7-1-09	279,985		282,613	DR 66, 285
Liability	AEGIS	Supplemental Liability (First Layer)	3-15-08 to 3-15-09	952,112			
	EIM	Supplemental General Liability (Second La	3-15-08 to 3-15-09	665,000	13,305		
	AEGIS Lloyd's Syndicate 1225	Supplemental Liability (Third Layer)	3-15-08 to 3-15-09	104,657			
	Lloyd's of London	Supplemental Liability (Fourth Layer)	3-15-08 to 3-15-09	93,985		2,031,255	DR 66, 285
	AEGIS	Fiduciary Liability Insurance	5-1-08 to 5-1-09	85,000	1,705		
	US Specialty Insurance Co	Supplemental Fiduciary Liability (Second La	5-1-08 to 5-1-09	25,000	637		
	EIM	Supplemental Fiduciary Indemnity (Third La	5-1-08 to 5-1-09	31,610		173,769	DR 66, 285
	Central, American, Tokio, Mitsui	Aviation	11-1-07 to 11-1-08	39,829		53,813	DR 66, 285
	AEGIS	D&O Liability Insurance	5-1-08 to 5-1-09	539,695	10,799		
	EIM	Supplemental D&O (Second Layer)	5-1-08 to 5-1-09	508,775	10,181		
	US Specialty Insurance Co	Supplemental D&O (Third Layer)	5-1-08 to 5-1-09	220,875			
	XL Specialty	Supplemental D&O (Fourth Layer)	5-1-08 to 5-1-09	251,100		1,769,355	DR 66, 285
	Illinois National Insurance Co	Business Automobile Coverage	3-31-08 to 3-31-09	33,462		37,143	DR 66, 285
	Zurich American Insurance Co	Commercial Crimes	3-1-07 to 3-1-09	55,000		57,100	DR 66, 285
	ANI	Nuclear Energy Liability Program	1-1-08 to 1-1-09	260,962		221,400	DR 66, 285
	Sub-Total			8,383,036		8,989,717	
		Contingent Policyholder credit (All-Risk)		(170,000)			
		Contingent Policyholder credit (Nuclear)		(50,000)			
				8,163,036		8,989,717	
Supplemental Information							
		WIES	6-1-08 to 6-1-09	23,467			DR 66-Supp 3
		Worker's Comp Bonds	7-1-08 to 7-1-09	34,638			DR 66-Supp 3
		Misc Bonds	Various	6,424			DR 66-Supp 3
		New Helicopter	Jun-09	89,600			DR 66-Supp 3
		Old Helicopter adj for partial year	1/1/09 to 8/1/09	(16,595)			
		Policyholder Credit (All-Risk)	N/A	170,000			DR 70 - Supp 1
		Property Insurance Escalation 9.4%	7-1-09 to 12-31-09	110,586			
				8,581,155	$ 48,125	$ 8,989,717	
		Proposed Adjustment	(360,437)	8,629,280		$ 8,989,717	

UE 197
Attachment 066 Supp. 2-B

Confidential and Subject to Protective Order No. 08-133

Insurance Binder for Biglow 1 Operational Risk

UE 197 PGE Exhibit 2703C
Attachment 066 Supp. 3-D
Provided Electronically (CD) Only
Confidential and Subject to Protective Order No. 08-133

UE 197
Attachment 066 Supp. 3-E

Confidential and Subject to Protective Order No. 08-133

Property Value Escalation

May 30, 2008

TO: Vikie Bailey-Goggins
Oregon Public Utility Commission

FROM: Randy Dahlgren
Director, Regulatory Policy & Affairs

PORTLAND GENERAL ELECTRIC
UE 197
PGE *Supplemental* Response to OPUC Data Request
Dated April 25, 2008
Question No. 285

Request:

Please provide a breakdown of PGE's projected cost of Property Insurance, Workers Compensation Insurance, and Liability Insurance for 2009.

Response (Dated May 9, 2008):

Property Insurance	
All Risk Property	2,778,647
(See PGE's Response to OPUC Data Request No. 070 and Attachment 070-A)	
T&D Property	1,584,622
Biglow – Phase II	
Builder's Risk	385,000
Worker's Compensation	
Self-Insurance	34,638
Excess Worker's Comp	282,613
Liability	
Excess Liability Program	2,031,255
Director's and Officers	1,769,355
Fiduciary	173,769
Fidelity and Crime	57,100
Special Coverage	3,333

PGE Response to OPUC Data Request No. 285 Supp. 1
May 30, 2008
Page 2

<u>PGE's Supplement Response (Dated May 30, 2008)</u> pursuant to an e-mailed Supplemental Request from Staff on May 14, 2008:

Per our telephone conversation, below is the item that we discussed and you indicated would be provided in a supplemental response to DR 285.

- **The 2009 Forecasted costs for Aviation Insurance, Business Automobile Coverage, and Nuclear Energy Liability.**

	2009 Forecast
Aviation Insurance	$ 40,000
Business Automobile	Included in the Excess Liability amount in the original response and can not be broken down further.
Pelton-Round Butte Primary Auto	$ 35,000
Nuclear Energy Liability	$ 210,000

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August 26, 2008

TO: Vikie Bailey-Goggins
Oregon Public Utility Commission

FROM: Randy Dahlgren
Director, Regulatory Policy & Affairs

PORTLAND GENERAL ELECTRIC
UE 197
PGE *Supplemental* Response to OPUC Data Request
Dated March 25, 2008
Question No. 070

Request:

Please provide work papers showing how the $550,000 projected increase to All-Risk property insurance, identified in UE 197/PGE /500, Piro – Tooman/6, was calculated.

Response (dated April 18, 2008):

See Attachment 070-A for a detail of the increase to All-Risk property insurance.

The 4 percent increase, which equals approximately $90,000 for each of two years (total $180,000), reflects the valuation of the overall property asset base to which the premium rate applies. PGE uses Handy-Whitman cost trend factors to value utility property. See further discussion below.

An annual premium rate increase assumption of 5 percent contributes approximately $215,000. Offsetting this, PGE has included a contingent policyholder credit (premium reduction) of $170,000. It is impossible to know whether or not the mutual insurers will actually declare a credit. However, at this time the market is and remains fairly soft so we are somewhat optimistic. We do not control this action, however, and absent such a credit, costs would rise accordingly.

The remaining increase of approximately $320,000 represents the placement of All-Risk property coverage for Phase I of Biglow Canyon.

Handy-Whitman
PGE uses Handy-Whitman cost trend factors to trend PGE utility property to current day values. These trend factors are maintained and updated twice a year by Whitman, Requardt & Associates, an engineering firm located in Maryland. These cost factors have been published continuously since 1924 and are widely used in the electric industry.

PGE uses the cost trend factors listed in the Electric Utility Construction section for the Pacific Region. The factors, separated by Function, which PGE uses to value property are Steam, Hydro, and Other. See Attachment 070-B.

First Supplemental Response (Dated August 26, 2008):

We now believe that PGE will not receive in 2009 the $170,000 property insurance policyholder credit initially forecast in 2007. Although the property insurance market has remained relatively soft in 2006 and 2007, insured catastrophe losses thus far in 2008 are on the rise. We believe that this trend will adversely affect insurer financial results and erode the possibility of PGE's property insurer declaring a policyholder credit in 2009.

As reported in the 2008 Natural Catastrophe Update webinar hosted by Munich Re America on July 8, 2008, the US has been hit by a large number of weather events during the first six months of 2008. The National Oceanic and Atmospheric Administration tornado statistics show a record number of tornados in the US during the first five months of 2008. Heavy rain and subsequent flooding in Iowa and other Midwest states also caused billion-dollar losses, which also had a significant impact on the insurance industry.

Robert Hartwig, chief analyst for the Insurance Information Institute, reports that losses are running well ahead of 2006 and 2007 figures. 2008 catastrophe losses already exceed all of 2007 losses and are on track to overtake 2006.

By all measures, 2008 insured losses are substantial and above the average of the last 10 years. A copy of the information presented at the 2008 Natural Catastrophe Update is available at:

http://www.munichreamerica.com/content/iw/nat_cat_final.pdf

PGE expects to incorporate this adjustment into its revised 20089 test year in its next Errata filing.

UE 197 PGE - Insurance Premiums- A&G

						Recent Policy	DR 285 UE 197	DR's
Property	70% FM Global	800M	All Risks of Physical Loss or Damage	7-1-08 to 7-1-09	$ 1,690,342.00			
	20% AEGIS	800M	All Risks of Physical Loss or Damage	7-1-08 to 7-1-09	441,700			
	10% Lloyd's Syndicate 1225	500M	All Risks of Physical Loss or Damage	7-1-08 to 7-1-09	188,415			
	10% AEGIS	300M x 500M	All Risks of Physical Loss or Damage	7-1-08 to 7-1-09	32,443	$ 2,352,900	$ 2,778,647	DR 66, 285
	Winder Energy Insurance	255M	Operating All Risks	4-1-2008 to 4-1-09	383,089	383,089	Incl in Above Amt	
			Trans & Dist Property		1,000,000	1,500,000	1,584,622	DR 66
Workers Comp	National Union Fire Insurance Co	55M	Supplemental Workers Comp	7-1-08 to 7-1-09	279,985	279,985	282,613	DR 66, 285
Liability	AEGIS	35M	Supplemental Liability (First Layer)	3-15-08 to 3-15-09	952,112			
	EIM	100M x 35M	Supplemental General Liability (Second Layer)	3-15-08 to 3-15-09	665,000			
	AEGIS Lloyd's Syndicate 1225	25M x 135M	Supplemental Liability (Third Layer)	3-15-08 to 3-15-09	104,657			
	Lloyd's of London	40M x 160M	Supplemental Liability (Fourth Layer)	3-15-08 to 3-15-09	93,985	1,815,754	2,031,255	DR 66, 285
	AEGIS	25M	Fiduciary Liability Insurance	5-1-08 to 5-1-09	85,000			
	US Specialty Insurance Co	10M x 25M	Supplemental Fiduciary Liability (Second Layer)	5-1-08 to 5-1-09	25,000			
	EIM	15M x 35M	Supplemental Fiduciary Indemnity (Third Layer)	5-1-08 to 5-1-09	31,610	141,610	173,769	DR 66, 285
	Central, American, Tokio, Mitsui	20M	Aviation	11-1-07 to 11-1-08	39,829	39,829	53,813	DR 66, 285
	AEGIS	35M	D&O Liability Insurance	5-1-08 to 5-1-09	539,695			
	EIM	50M x 35M	Supplemental D&O (Second Layer)	5-1-08 to 5-1-09	508,775			
	US Specialty Insurance Co	25M x 85M	Supplemental D&O (Third Layer)	5-1-08 to 5-1-09	220,875			
	XL Specialty	30M x 110M	Supplemental D&O (Fourth Layer)	5-1-08 to 5-1-09	251,100	1,520,445	1,769,355	DR 66, 285
	Illinois National Insurance Co	1M	Business Automobile Coverage	3-31-08 to 3-31-09	33,462	33,462	37,143	DR 66, 285
	Zurich American Insurance Co	10M each class	Commercial Crimes	3-1-07 to 3-1-09	55,000	55,000	57,100	DR 66, 285
	ANI	100, 200, 300 M	Nuclear Energy Liability Program	1-1-08 to 1-1-09	260,962	260,962	271,400	DR 66, 285
			Nuclear policyholder credit		(50,000)	(50,000)	(50,000)	
			WIES		23,467		Included	DR 66 Supp 3
			Worker's Comp Bonds		34,638		in the	DR 66 Supp, 285
			Miscellaneous Bonds		6,424		amounts	DR 66 Supp 3
			Surplus Line Taxes		48,128	112,657	above	DR 66 Supp 3
			Escalation of property insurance policies		110,586	110,586		DR 66 Supp 3
	Sub-Total					$ 8,556,279	$ 8,989,717	
	Non-utility Allocation					(6,377)		
	TOTAL					$ 8,549,902	$ 8,989,717	
	PGE Proposed Adjustment				$ (439,815)			

Table of Contents

I. Introduction

Q. Please state your name and positions.

A. My name is Doug Kuns. I am the Manager of the Pricing and Tariffs Department within the Rates & Regulatory Affairs Department.

My name is Marc Cody. I am a Senior Pricing Analyst in the Pricing and Tariffs Department.

My name is Michaela Lynn. I am the Manager of Receivables, Billing and Low Income Operations.

Q. Have you previously testified in this proceeding?

A. Yes. The direct testimony and qualifications of Messrs. Kuns and Cody are provided in PGE Exhibit 1200. The qualifications of Ms. Lynn are provided in PGE Exhibit 2000.

Q. What is the purpose of this sursurrebuttal testimony?

A. The purpose of this sursurrebuttal testimony is to address the issues identified by Commission Staff (separately two portions of testimony, Staff/1200 and Staff/1300), and the issues identified by CAPO in their surrebuttal testimony.

Q. Have you reached agreement with Parties to this case regarding marginal cost, ratespread, and rate design?

A. We have reached verbal agreement with CUB, ICNU, and Kroger. The terms of this agreement are as follows:

For purposes of allocating the functional revenue requirements, the Parties above agree that it is appropriate to use the marginal cost study and rate design principles as filed in PGE's direct testimony to allocate the functional revenue requirements with the exception that the Schedule 83 Facilities Charge differential between secondary and primary delivery voltage will be set to 50 cents per kW before blocking the secondary voltage facilities charge. The Parties also agree that in 2009 a docket should be opened to address marginal cost and rate design issues for PGE for future rate spread and rate design application.

II. OPUC Staff 1200

Q. Please summarize the issues identified by Staff in Staff 1200.

A. Consistent with their direct testimony, Staff continues to propose seasonal energy pricing for all of PGE's major nonresidential rate schedules such that energy prices are higher in the months of July through September, and to introduce a third, higher-priced energy block for Schedule 7 Residential Service during these summer months. In addition to the seasonally differentiated energy prices, Staff continues to propose to add a third super-peak energy price block to Schedule 89 in the summer months. Staff has also expressed concern about PGE's proposal to true-up fixed generation cost recovery contained in Special Condition 2 of Schedule 129. However, the verbal agreement between Parties mentioned in previous testimony appears to have resolved this issue.

Q. What is Staff's stated rationale for imposing seasonal pricing on PGE's major rate schedules?

A. Staff cites the following on pages 3 and 4 of their surrebuttal testimony:

"While a primary objection of rate design is to reflect marginal costs, it is not the only consideration. There are also practical implications such as cost of administration, ease in communication to customers, and simplicity. It was in the interest of concerns having been voiced regarding those latter considerations that 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.")

Q. Please evaluate Staff's contention that the highest wholesale market prices occur in the summer.

A. In order to evaluate Staff's contention we examined more than just the January 3, 2008 projected data that appears in Staff Exhibit 502. We examined the monthly Mid-Columbia market price data for the years 2003-2007. We found that the highest average seasonal prices, both on-peak and off-peak, occurred in the fourth quarter of the year rather than the third quarter. Indeed, the average fourth quarter wholesale prices were approximately 10.5% higher in the fourth quarter than the third quarter. For 2007, the most recently completed calendar year, the average wholesale market prices were more than 15% higher in the fourth quarter than in the third. Furthermore, examining a more recent 2009 market price projection demonstrates that higher overall market prices prevail in the fourth quarter rather than the third quarter. These data are not consistent with Staff's assertion that higher prices prevail in the summer. PGE Exhibit 2801 contains the Mid-Columbia monthly prices that we reference above.

Q. What do you conclude from the data presented in Exhibit 2801?

A. We conclude that a more extensive analysis of wholesale market price data does not support Staff's assertion that the highest prices occur in the summer months. We believe that seasonal pricing must be based on a thorough understanding of costs as well as the variability across time in order to avoid inappropriate price structures.

Q. Please evaluate Staff's assertion that the higher energy rates can be viewed as the most meaningful in the summer with respect to the installation of central air-conditioning.

A. We are unable to evaluate this assertion because it is an assertion with no supporting studies measuring seasonal price elasticity of demand. Furthermore, we have shown that on a cost-causation basis, the highest historical monthly average prices have occurred in the fourth quarter of the year rather than the third. In addition, the most recent forward price projections we are using in our September 26 power cost update also show that the average flat prices are higher in the fourth quarter than in the third quarter.

Q. Regarding the practical implications of changing to seasonal pricing, how did Staff respond to PGE's concerns about cost of administration, ease in communication to customers, and simplicity?

A. In our rebuttal testimony we cited concerns about having to include more complex pricing for the Schedule 128 Short-Term Transition Adjustments, the need to reprogram the billing system, the need for more billing maintenance and testing, more training and calls received at the Customer Contact due to more price changes and prorated bills, and the diversion of resources from the critical AMI project. We also mentioned our desire to avoid a third residential pricing block in the summer because of the potential effects this may have on Schedule 7 TOU energy pricing.

Staff's responses to these concerns are as follows:

Schedule 128: Because PGE already has a plethora of transition adjustments, more should have little effect. Staff also states "monthly Schedule 128 transition adjustments shouldn't represent an insurmountable barrier against the kind of large-customer/large-load rate design reform that is routine elsewhere around the country."

Billing and Customer Service Issues: Staff acknowledges that PGE is trying to minimize costs, but Staff believes that their proposal leads to overall economic efficiency gains. Staff also states that they believe we are "selling short the intelligence of both these customers and PGE's own tariff and bill formulations staffs. Having rates that are higher in some seasons of the year than in others does not constitute some unfathomable mystery."

TOU pricing: Staff believes that we can change the current definition of the summer season (May to October) to accommodate Staff's definition (July to September).

Q. Please evaluate Staff's responses to your rebuttal testimony Schedule 128 administrative concerns.

A. Staff's statements seem to imply that if PGE is already incurring an administrative burden related to numerous transition adjustments, a little more burden should not matter. We find this attitude of wishing to impose more administrative burden highly incongruent with Staff's revenue requirement testimony that advocates significantly reducing PGE's budgeted personnel. We furthermore have not stated in our rebuttal that seasonal pricing is an "insurmountable barrier" of some sort. Quite the contrary, on page 5 of our rebuttal testimony we stated that none of the operational issues associated with seasonal pricing were insurmountable. Finally, we do not necessarily agree that seasonal pricing is a type of rate reform routine elsewhere in the country. In Staff's reply testimony, Staff cited only a utility in Utah as an example of a utility with higher prices in the summer. Pacific Power in both Oregon and Washington does not have seasonal pricing and Puget Sound Energy has higher demand prices in the winter months and the same energy prices year-round for its Large Demand General Service Schedules 26 and 31. We are comfortable assuming that the loads and cost-causation principles in this part of the country can differ from those found in Utah and furthermore that Northwest utilities and regulators have acknowledged the appropriate seasonal cost causation principles within the utilities' tariffs.

Q. Please evaluate Staff's response to the Billing and Customer Service issues.

A. Staff dismisses our concerns regarding operational issues by simply implying that we underestimate the intelligence of our billing and tariff staffs. We point out that the concerns we stated in our rebuttal testimony came from consulting the billing and customer service staff. We also point out that we did not state that seasonal pricing is an "unfathomable mystery," we are certain, however, that it would remove resources from other important projects and require PGE to incur more training and customer service expense.

Q. Did Staff adequately address your Schedule 7 TOU concerns?

A. No. Staff only stated that we should simply change our current definition of summer to accommodate Staff's definition. Staff did not address our more serious concern about the broader impacts of their proposal such as that we may have to resort to what we consider suboptimal pricing so as to not inappropriately induce customers to move to the TOU residential option. As we stated in our rebuttal testimony, a utility (Pacific Power Oregon) with three separate energy pricing blocks and a TOU rate had to resort to negative off-peak energy prices so as to not inappropriately entice customers to the TOU option. As we stated in our rebuttal testimony, we wish to avoid this type of pricing, we believe that it sends the wrong price signal to customers.

Q. Are there other statements in Staff 1200 that you wish to address?

A. Yes. On page 5, lines 2-3 of Staff Exhibit 1200, Staff states the following:

"PGE has also recognized summertime capacity needs and the fact that the highest wholesale electricity prices that PGE faces are not in the winter."

We believe that this statement by Staff misrepresents our testimony. On page 17, lines 4-11 of our rebuttal testimony we stated the following:

"This weighting is problematic because it narrowly focuses on PGE peak loads only and ignores regional peak loads. In other words, it is *possible* [emphasis added] that PGE *may* [emphasis added] need capacity during more of the summer hours than the winter hours due to regional peak load consumption. In fact, the highest prices *cited by ICNU* [emphasis added] on page five of their testimony occur in months other than in the winter. The ICNU weighting methodology completely ignores this and narrowly focuses on PGE peak loads only. This results in the winter months receiving 96% of the weights and the summer months only 4%."

In brief, our statement addresses another party's allocation of 96% of capacity to winter months; it is not recognition as Staff asserts that prices are higher in the summer as opposed to the winter. It is simply an objection to such a heavy weighting in the winter months. It furthermore refers to evidence cited by another party, not evidence provided by PGE.

Q. What has been the response of other parties to Staff's seasonal pricing proposal?

A. All three parties (ICNU, CUB, and CAPO) that responded to Staff's proposal advocated rejection of Staff's proposal. CAPO and CUB objected on bases other than economic and ICNU objected on economic and other bases.

Q. What do you conclude regarding Staff's seasonal pricing proposal?

A. Because a more extensive analysis of the data do not support Staff's fundamental assertion that the summer period is higher priced than all other months, and because all responding customer groups have proposed rejection of Staff's proposal, we conclude that Staff's proposal should be rejected.

Q. Can you offer a constructive proposal to Staff and other parties?

A. Yes. We believe that the agreement we have reached with ICNU, CUB, and Kroger to open a docketed proceeding in 2009 to discuss marginal cost, ratespread, and pricing issues will provide the proper forum for customer groups and Staff to provide their views on the type of differentiated pricing if any they would like to see in the future. Generally, we believe that parties will be more receptive to different types of pricing if they are able to provide input and if they have opportunity to fully evaluate and test the impacts on customers.

III. OPUC Staff 1300

Q. Please summarize the issues identified in Staff 1300 that were previously stated in Staff 600.

A. On page 4 of their surrebuttal testimony, Staff states that their "cardinal" recommendation was that the Commission accept PGE's marginal cost studies. In addition, Staff states that they continue to recommend that "the Commission direct PGE to emulate Pacific Power's general approach to customer cost allocations in PGE's next general rate case, specifying a minimum requirement to analyze and document the extent to which customers in the nonresidential rate schedules either impose burden or receive a benefit greater than (or less than) that imposed upon or received by the average residential customer." Staff also continues to recommend that "the Commission direct PGE to hold workshops for the purpose of considering whether to revise the Company's basis for developing marginal cost estimates."

Q. Does Staff make other assertions in their surrebuttal testimony that you wish to address?

A. Yes, however we continue to support addressing marginal cost issues in a separate docket or in workshops. As in Staff 1200, Staff 1300 misrepresents PGE's statements in rebuttal testimony regarding higher summer prices.

Q. How did Staff once again misrepresent your rebuttal testimony regarding higher summer wholesale market prices?

A. As in Staff 1200, Staff 1300 claims that PGE's statement rebutting ICNU's 96% weighting of summer months somehow supports the Staff position that market prices are higher in the summer. Staff once again provides an incomplete quote of our statements and then states the following: "To the extent that the "it is possible" in PGE's testimony on this point, as quoted above, is factually (or statistically) 'it is probable,' the Company's testimony is congruent with Staff's thinking on this issue and is also highly supportive of the reasoning behind Staff's proposed introduction of seasonal energy rates, *with rates being higher in the summer*."

Q. Please state (again) why your comments are not supportive of Staff's thinking that energy rates should be higher in the summer.

A. To repeat, in our rebuttal testimony we were contesting a proposed allocation that assigned 96% of costs to the winter season and only 4% to the summer season. This does not suggest that we believe that summer prices are higher than in all other seasons. In fact, Exhibit 2801 amply demonstrates that both historically and prospectively, higher prices occur in the fourth quarter rather than the third quarter. This refutes on a factual (or statistical) basis the Staff assertion. It is therefore not "probable" that the referenced testimony is congruent with Staff's thinking that energy prices should be higher in the summer.

IV. CAPO/OECA

Q. Please summarize CAPO/OECA's remaining issues.

A. In its surrebuttal testimony, CAPO/OECA (CAPO/OECA Exhibit 301), continues to claim that PGE's proposed reconnection fees, field visit fees and late-fees are not reasonable and represent an undue burden on low-income customers. Further, CAPO/OECA continues to advocate for exempting low-income customers from reconnection, field visit and late-fees and maintains its proposal to freeze residential customers first block rate at UE-180 levels.

Q. Please address CAPO/OECA's claim that PGE's credit related charges (field visits and reconnection fees) are not cost based.

A. This claim by CAPO/OECA is not accurate. PGE's field-visit and reconnection charges are designed to recover the costs associated with field visits by PGE personnel and reconnection activities. CAPO/OECA explains that disputed fees are not cost-based by the statement "Merely because PGE has developed an allocation methodology, however, does not mean that the expenses are *caused* by the activities to which the Company chooses to attach those fees." (CAPO/OECA Exhibit 301 page 3, lines 7-9).

Contrary to CAPO/OECA's assertions, PGE's fees are in fact determined by a cost-based analysis reflecting cost-causation principles. The operational activities that the fees cover are real activities performed by PGE and thus use resources that cause costs to be incurred. The analysis presented in the Pricing Work Papers that CAPO/OECA disputes describes the cost-causation basis for the activities. Our analysis effectively derives costs by building up the cost elements associated with the activities thus considering the resources utilized in carrying out the functions. This is a reasonable approach to determine costs and to direct cost recovery toward the causes of the costs. Although Parties have agreed to not increase the fees in this case, the information presented establishes the cost basis for the fees, contrary to the CAPO/OECA assertion. Our analysis did not consider additional costs to implement CAPO/OECA's proposal, such as creating mechanisms to identify customers as low income in order to exempt them from the fees. OPUC Staff in Exhibit 1100 also explains how PGE's field services, late fees and reconnection fees are cost-based.

Q. Please address CAPO/OECA's claim that revenues from residential reconnection fees and field visit fees and late-fees are a "PGE profit center".

A. This claim has no merit. Test period revenues from reconnection fees, field visit fees and late-fees are part of "Other Revenues" category and serve as a *reduction* to PGE's retail revenue requirement and retail rates. By design, these activities are not profit centers.

Q. Should the Commission adopt CAPO/OECA's proposal that exempts low-income customers from credit-related charges?

A. No. As stated in PGE's rebuttal, and supported by Staff in Exhibit 1100, PGE's current business practices and Division 21 rules provide protection for all customers, in assessing only those fees that are applicable and where such fees are appropriate. As described in PGE's rebuttal, customers regardless of income levels are provided with multiple opportunities to enter into arrangements on past-due balances long before disconnection of service or application of credit-related charges occurs. As illustrated in our rebuttal testimony (PGE Exhibit 2000), there is significant assistance available to low-income customers. If more assistance is needed and PGE doesn't dispute that this may be the case, additional funding for energy assistance should be addressed through the Oregon Legislature.

Q. Does PGE support Staff's recommendation that issues raised by CAPO/OECA in this proceeding "...should be reviewed in a context of an energy industry-wide investigation about the impact of utility policies regarding rate structures and fees on low-income customers" (Staff, 1100/page 5)?

A. Yes, PGE agrees with Staff's recommendation.

Q. Should the Commission adopt CAPO/OECA's recommendation to freeze the first block of residential rates at UE-180 levels?

A. No. CAPO/OECA's proposal lacks merit and should not be adopted by the Commission. As pointed out by Staff in Exhibit 1200, based on CAPO/OECA's proposal, a customer using exactly 250 kWh per month would save an estimated $1.19. Approximately 60,000 PGE residential customers (less than 10%) average 250 kWh or less per month. In order to provide the monthly bill savings of $1.19 or less, a transfer payment of approximately $13 million to customers who use more than 250 kWh per month would need to occur.

Q. Does this conclude your testimony?

A. Yes.

List of Exhibits

PGE Exhibit	Description
2801	Historical and Projected Mid-Columbia Prices

Dow Jones MC Electricity Indexes

Month	ON	OFF	FLAT	
Jan-03	38.73	33.31	36.34	Index
Feb-03	53.09	46.10	50.09	Index
Mar-03	47.81	42.73	45.57	Index
Apr-03	32.53	30.14	31.52	Index
May-03	33.28	22.23	28.41	Index
Jun-03	36.04	25.36	31.29	Index
Jul-03	47.38	40.11	44.18	Index
Aug-03	41.94	36.43	39.51	Index
Sep-03	42.41	33.86	38.61	Index
Oct-03	37.55	30.48	34.58	Index
Nov-03	37.03	32.64	34.98	Index
Dec-03	40.68	36.84	38.99	Index
Jan-05	49.80	42.28	46.32	Index
Feb-05	47.05	43.84	45.67	Index
Mar-05	51.49	47.53	49.83	Index
Apr-05	53.59	47.04	50.83	Index
May-05	36.29	27.34	32.15	Index
Jun-05	41.42	27.47	35.53	Index
Jul-05	58.03	39.88	49.64	Index
Aug-05	71.04	55.68	64.60	Index
Sep-05	80.15	68.47	74.96	Index
Oct-05	86.12	79.67	83.27	Index
Nov-05	69.96	62.59	66.68	Index
Dec-05	109.15	94.44	102.66	Index
Jan-07	53.61	47.85	51.07	Index
Feb-07	58.60	54.73	56.94	Index
Mar-07	39.79	30.86	36.05	Index
Apr-07	48.84	31.50	41.14	Index
May-07	53.80	40.52	47.94	Index
Jun-07	52.20	39.71	46.92	Index
Jul-07	63.80	40.61	53.08	Index
Aug-07	61.24	40.60	52.58	Index
Sep-07	55.72	45.63	51.01	Index
Oct-07	62.18	53.16	58.39	Index
Nov-07	64.91	55.58	60.75	Index
Dec-07	66.74	56.92	62.20	Index

Month	ON	OFF	FLAT	
Jan-04	46.31	42.38	44.58	Index
Feb-04	41.67	39.94	40.90	Index
Mar-04	38.50	34.78	36.94	Index
Apr-04	42.17	37.42	40.17	Index
May-04	47.92	39.38	43.97	Index
Jun-04	33.83	28.65	31.64	Index
Jul-04	51.25	43.32	47.76	Index
Aug-04	49.82	44.90	47.65	Index
Sep-04	39.72	34.16	37.25	Index
Oct-04	45.62	39.71	43.01	Index
Nov-04	47.79	44.45	46.31	Index
Dec-04	49.79	45.97	48.10	Index
Jan-06	57.73	48.51	53.47	Index
Feb-06	51.38	48.64	50.21	Index
Mar-06	44.28	44.02	44.17	Index
Apr-06	24.85	14.24	20.14	Index
May-06	32.80	13.10	24.11	Index
Jun-06	36.22	13.25	26.53	Index
Jul-06	70.39	45.74	58.99	Index
Aug-06	63.67	52.76	59.09	Index
Sep-06	48.14	42.09	45.45	Index
Oct-06	52.97	45.38	49.62	Index
Nov-06	60.88	49.94	56.02	Index
Dec-06	60.11	54.07	57.31	Index
Projected				
Jan-09	**71.50**	**63.00**	**67.86**	
Feb-09	**65.00**	**58.50**	**62.21**	
Mar-09	**58.50**	**51.50**	**55.50**	
Apr-09	**54.00**	**47.00**	**51.00**	
May-09	**48.00**	**28.75**	**39.75**	
Jun-09	**44.00**	**26.75**	**36.61**	
Jul-09	**74.75**	**53.50**	**65.64**	
Aug-09	**77.75**	**58.50**	**69.50**	
Sep-09	**73.50**	**58.00**	**66.86**	
Oct-09	**71.50**	**59.00**	**66.14**	
Nov-09	**74.00**	**68.00**	**71.43**	
Dec-09	**76.00**	**70.25**	**73.54**	

Monthly Average Prices 2003-2007

	ON	OFF	FLAT
Jan	49.24	42.87	46.36
Feb	50.36	46.65	48.76
Mar	44.37	39.98	42.51
Apr	40.40	32.07	36.76
May	40.82	28.51	35.32
Jun	39.94	26.89	34.38
Jul	58.17	41.93	50.73
Aug	57.54	46.07	52.69
Sep	53.23	44.84	49.46
Oct	56.89	49.68	53.77
Nov	56.11	49.04	52.95
Dec	65.29	57.65	61.85

Average Quarterly Prices 2009

	ON	OFF	FLAT
Jan-Mar	65.00	57.67	61.86
Apr-Jun	48.67	34.17	42.45
Jul-Sep	75.33	56.67	67.33
Oct-Dec	73.83	65.75	70.37

Average Quarterly Prices 2003-2007

	ON	OFF	FLAT
Jan-Mar	47.99	43.17	45.88
Apr-Jun	40.38	29.16	35.49
Jul-Sep	56.31	44.28	50.96
Oct-Dec	59.43	52.12	56.19

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I. Introduction

Q. Please state your name, address, and employment.

A. My name is Ralph Cavanagh. I am the Energy Program Co-Director for the Natural Resources Defense Council, 111 Sutter Street, 20th Floor, San Francisco, CA 94104. My qualifications are listed in Section I of PGE Exhibit 2100. I previously sponsored PGE Exhibit 2100.

Q. For what purpose is this testimony submitted?

A. I respond to surrebuttal testimony by Fred Meyer Stores (Kevin Higgins), CAPO/OECA (Roger Colton), and Staff regarding my initial statement in this proceeding, which generally supported PGE's decoupling proposal, subject to several recommended adjustments.

II. Response to Parties

Q. Mr. Higgins says that you misquoted him and failed to respond to his concern that PGE's decoupling rider would "recover fixed costs associated with PGE's generation facilities from shopping customers."

A. I apologize for any inadvertent misquotation of Mr. Higgins. On the matter of "shopping customers," I take no position on the appropriate allocation of fixed generation costs between them and other customers, which strikes me as a matter for resolution independently of the design of a decoupling mechanism (which would, of course, address only fixed costs allocated by the Commission to shopping customers as a class).

Q. Mr. Colton says that the proposed decoupling mechanism "would be limited to the effect of energy savings reported by the Energy Trust of Oregon resulting from incremental energy efficiency programs approved by the Oregon Commission," (CAPO/OECA Exhibit 301, pages 16-17), based on his clients' response to a PGE discovery request, and that you ignored this.

A. The discovery response in question is flatly wrong, which is hardly either PGE's or my fault. The proposed decoupling mechanism is not "limited to the effect of energy savings reported by the Energy Trust of Oregon;" it adjusts automatically for fluctuations in retail sales, regardless of causation. I remain puzzled by Mr. Colton's initial contention that Oregon lacks targeted low-income energy efficiency programs, which is thoroughly rebutted in my testimony.

Q. Mr. Colton also says that you have failed to respond to his contention that any lost margins originally billed to the second usage block should be rebilled to that block (CAPO/OECA Exhibit 301, page 17).

A. I am sympathetic with his general objective here, and my view is that PGE's proposal is consistent with that objective; with or without decoupling, those in the higher usage block will make a disproportionate contribution to fixed cost recovery, and the proposed decoupling mechanism does not seek to change allocation of fixed costs between usage blocks. To the extent that Mr. Colton is trying to use the decoupling mechanism to shift still more fixed costs into the second usage block, that strikes me as an inappropriate way to change cost allocation in the guise of designing a decoupling mechanism; to the extent that he is arguing against using decoupling to shift more fixed costs to the first usage block, I am sympathetic, but I do not believe that the PGE proposal would have this effect. My reasons for concluding that decoupling will not adversely affect low-income customers appear in my testimony at PGE Exhibit 2100, page 20.

Q. What about Mr. Colton's contentions that lost revenues from reduced sales cannot be assumed automatically to represent the fixed-cost component of the PGE revenue requirement (CAPO/OECA Exhibit 301, page 17)?

A. The company's proposed mechanism addresses only revenues associated with its authorized fixed costs, and does not assume that all lost revenues represent the fixed-cost component; obviously some lost revenues represent, for example, fuel and other variable costs, which the PGE proposal excludes.

Q. What about Mr. Colton's recommendation (CAPO/OECA Exhibit 301, page 20) that "the Oregon PUC should limit PGE's rate stabilization to a certain proportion of the lost revenue as a means of encouraging the Company to offset its lost revenues through improvements in its efficiency of operations?"

A. The Commission initially tested such an approach with the initial Northwest Natural Gas decoupling mechanism, but I agree with the Commission's ultimate decision to adopt full decoupling for Northwest Natural, and I urge the same approach here. If the objective is to break the linkage between the utility's financial health and sales, the half measures urged by Mr. Colton are not the way.

Q. Staff says that reductions in PGE's retail sales only affect the Company's fixed-cost recovery if they are not anticipated in the sales forecast adopted for purposes of ratemaking, and that "PGE's load forecast in this proceeding explicitly incorporates reductions due to energy efficiency measures." (Staff/1300, pages 18-19). What is your response?

A. I disagree strongly with Staff's argument here. Without decoupling, any sales increment or decrement affects fixed-cost recovery, regardless of the forecast. To be sure, if the retail sales forecast turns out to be precisely accurate throughout the period between rate cases, the company will not under-recover or over-recover its authorized fixed costs, but the incentive at the margin always is to sell more and to avoid programs or policies that result in selling less. And this is true regardless of the frequency of rate cases, since under any circumstances most of life is lived between rate cases, and the Commission cannot retroactively address losses or gains associated with unanticipated sales fluctuations between rate cases.

Q. Staff contends, citing a fifteen-year-old example from Maine, that "automatic deferrals can work out in ways other than intended" (Staff/1300, pages, 17-18), with results injurious to customer interests.

A. Staff also acknowledges that it is not "claiming that Oregon is Maine, or that the current period is the same as the early 1990s." (Id. p. 18). The more relevant experience is of course that of Oregon itself, arguably the richest in the nation, which is reviewed in my testimony at PGE Exhibit 2100, page 9. The most important lesson from Maine, which Oregon learned long ago, is to avoid letting decoupling balances accumulate over multiple years in balancing accounts; true-ups should be recorded on a regular basis and no less than annually. (See PGE Exhibit 2100, page 14)

Q. Staff contends, at some length, that decoupling will result in rate increases if PGE simultaneously experiences growth in its customer count and declines in electricity use per customer (Staff Exhibit 1300, pages 11-16). How do you respond?

A. The results of Staff's own analysis is the best rebuttal here. The scenario that Staff presents, based on "PGE's experience of the last 22 years," shows "mostly customer credits" under decoupling *for the first nine years of the mechanism's operation*, and no potential breach of the mechanism's two percent of revenue rate increase constraint *until the year 2024.* Staff Exhibit 1300, page 14. Under my recommendation, the Commission would revisit the design of the mechanism no less than every five years. This hardly looks like a risky proposition from customers' perspective. Moreover, in evaluating customer interests, Staff accords no weight whatever to incremental electricity savings resulting from PGE's efforts; savings show up in Staff's analysis solely as a potential source of decoupling adjustments to restore lost fixed cost recovery. This of course wholly overlooks fuel and capital costs avoided by the system as it substitutes cost-effective energy efficiency for more expensive alternative resources.

Q. Does this conclude your testimony?

A. Yes.