BEFORE THE PUBLIC UTILITY COMMISSION

OF THE STATE OF OREGON

DR 10 / UE 88 / UM 989
REMAND

PORTLAND GENERAL ELECTRIC COMPANY

Phase III Surrebuttal Testimony of

Jay Tinker
Stephen Schue
Patrick G. Hager

Portland General Electric

June 27, 2008

I. Introduction

Q. Please state your names and positions.

A. My name is Jay Tinker. My position is Project Manager in the Rates and Regulatory Affairs Department of PGE. My qualifications are set forth in PGE/7500.

My name is Stephen Schue. My position is Senior Analyst in the Rates and Regulatory Affairs Department of PGE. My qualifications are set forth in PGE/7500.

My name is Patrick G. Hager. My position is Manager, Regulatory Affairs of PGE. My qualifications are set forth in PGE/7500.

Q. What is the purpose of your testimony?

A. The purpose of our testimony is to discuss several errors in the rebuttal testimony of Mr. Jim Lazar, URP Exhibit 510. These include:

- Application of the wrong discount rate;
- Failure to recognize the governing Commission ratemaking framework as it applies to the FAS 109 asset; and
- Incorrect assumptions with respect to NEIL.

Q: Mr. Lazar argues that the "net benefit analysis" is flawed because it allegedly uses the wrong discount rate. He testifies that the appropriate discount rate is PGE's pre-tax cost of capital. Is that the appropriate discount rate?

A. No. The appropriate discount rate is PGE's authorized cost of capital, which is the rate PGE and Commission staff used in the revenue requirement net benefit analysis. This is the rate the Commission has historically allowed as interest on deferred balances, either owed to customers or owed to a utility.

Q. Does Mr. Lazar's objection apply to the asset balance net benefit analysis?

A. No. The asset balance net benefit analysis compared the actual balances of the applicable regulatory assets and liabilities. No discount rate was used for that net benefit test.

Q. Mr. Lazar claims there is no evidence showing the amount of taxes actually paid, suggesting that this undermines the Commission's treatment of the FAS 109 asset. Is that correct?

A. No. At all times relevant to this proceeding -- when Trojan was included in rates and during the UM 989 proceeding – the Commission applied a stand-alone approach to all utility expenses, including tax expenses. According to that approach, a utility's tax expense included in rates is based solely upon the utility's expenses and revenues on a stand-alone basis. This Commission policy served to protect customers from paying rates that included non-utility expenses and from paying higher tax expenses associated with non-utility activities. Moreover, the stand-alone approach protected for customers the benefits of accelerated depreciation by ensuring compliance with the IRS' normalization rules. In addition, Mr. Lazar fails to recognize that SB 408 was enacted into law in 2005 and applies to taxes paid beginning January 1, 2006. Thus, it would be inappropriate for the Commission to evaluate the impact of a 2000 settlement in light of a new regulatory paradigm regarding income taxes that became effective more than five years after the settlement. This approach would also run counter to the scoping order for this phase which established the proper framework as reviewing "…relevant facts as they existed on or before October 1, 2000." For all these reasons, actual taxes paid by PGE are not relevant to the FAS 109 asset or its treatment under the settlement.

Q: Mr. Lazar claims there is no evidence that customers benefited from accelerated tax deductions in the early years of Trojan's service life. Is that accurate?

A. No. In the early years of Trojan's service life, customers benefited from a reduction in PGE's stand-alone tax expense because of the accelerated depreciation the federal tax code affords. This lowered the tax expense included in rates, reducing the overall rate customers paid. As those accelerated tax deductions reverse in later years, the tax deductions associated with the investment are less than they otherwise would have been. On a stand-alone basis, PGE's tax expense in those later years would have been higher. The FAS 109 asset reflects this fact.

Q. Does Mr. Lazar question the accounting treatment of the FAS 109 asset?

A. No. He does not attempt to rebut our prior testimony that the FAS 109 asset was required under Generally Accepted Accounting Principles, audited by independent auditors on an annual basis, and was part of standard cost-of-service ratemaking.

Q. Mr. Lazar suggests that between rate cases customers should be entitled to the benefits of all non-recurring events that operate in their favor. Otherwise, Mr. Lazar claims "the utility can handsomely profit merely by arranging to overpay vendors on a regular basis and then receive lump sum true-ups from the vendors, conveniently scheduled between rate cases or conveniently labeled 'non-recurring items.' This is another 'heads-I-win--tails-you-lose' technique that Staff should not be endorsing." Do you agree with Mr. Lazar's characterization?

A. No. His opinion is unsound on a number of levels. First, he appears to assume that all non-recurring events will be income producing for the utility. This is not the case. Between rate cases, costs and revenues vary from projected rate case levels: some are greater than forecasted, some are lower than forecasted. Generally speaking, the utility bears this type of risk between rate cases. Second, a utility is not free to increase artificially its costs in a rate case. A utility's forecasted expenses are subject to discovery, testimony from other parties, and the Commission's determination in a final order. A utility would not be permitted to inflate expenses in order to facilitate a refund or rebate later. Finally, Mr. Lazar misses the point about the treatment of NEIL in the net benefit analyses. Those tests accepted Mr. Lazar's assumption that customers were entitled to 100% of the proceeds from NEIL and still showed that the settlement provided a net overall benefit of between $16.4 and $18.5 million.

Q. Does that conclude your testimony?

A. Yes.

CERTIFICATE OF SERVICE

I hereby certify that on this day I served the foregoing **PHASE III SURREBUTTAL TESTIMONY OF JAY TINKER, STEPHEN SCHUE AND PATRICK G. HAGER** by e-mail and/or mailing a copy thereof, to each party that has not waived paper service, in a sealed, first-class postage prepaid envelope, addressed to each party listed below and depositing in the US mail at Portland, Oregon.

(Waives Paper Service)
David J. Meyer
Vice President & Chief Counsel
Avista Corporation
PO Box 3727
Spokane, WA 99220-3727
david.meyer@avistacorp.com

Stephanie S. Andrus
Assistant Attorney General
Department of Justice
Regulated Utility and Business Section
1162 Court Street NE
Salem, OR 97301-4096
stephanie.andrus@state.or.us

Paul A. Graham
Department of Justice
Regulated Utility & Business Section
1162 Court Street, N.E.
Salem, OR 97301-4096
paul.graham@state.or.us

(Waives Paper Service)
Lowrey R. Brown, Utility Analyst
Citizens' Utility Board of Oregon
610 SW Broadway, Suite 308
Portland, OR 97205
lowrey@oregoncub.org

(Waives Paper Service)
Jason Eisdorfer
Energy Program Director
Citizen's Utility Board of Oregon
610 SW Broadway, Suite 308
Portland, OR 97205
jason@oregoncub.org

(Waives Paper Service)
Robert Jenks
Citizens' Utility Board of Oregon
610 SW Broadway, Suite 308
Portland, OR 97205
bob@oregoncub.org

Daniel W. Meek
Daniel W. Meek, Attorney At Law
10949 S.W. Fourth Avenue
Portland, OR 97219
dan@meek.net

Linda K. Williams
Kafoury & McDougal
10266 S.W. Lancaster Road
Portland, OR 97219-6305
linda@lindawilliams.net

(Waives Paper Service)
Ric Gale
Idaho Power Company
1221 West Idaho Street
P. O. Box 70
Boise, ID 83707-0070
rgale@idahopower.com

(Waives Paper Service)
Barton L. Kline, Senior Attorney
Idaho Power Company
PO Box 70
Boise, ID 83707-0070
bkline@Idahopower.com

(Waives Paper Service)
Monica B. Moen
Idaho Power Company
1221 West Idaho Street
PO Box 70
Boise, ID 83707-0070
mmoen@idahopower.com

(Waives Paper Service)
Michael Youngblood
Senior Pricing Analyst
Idaho Power Company
PO Box 70
Boise, ID 83707-0070
myoungblood@idahopower.com

(Waives Paper Service)
Lisa D. Nordstrom
Idaho Power Company
PO Box 70
Boise, ID 83707-0070
lnordstrom@idahopower.com

(Waives Paper Service)
Lisa F. Rackner
McDowell & Rackner PC
520 SW Sixth Avenue, Suite 830
Portland, OR 97204
lisa@mcd-law.com

(Waives Paper Service)
Katherine A. McDowell
McDowell & Associates PC
520 SW Sixth Avenue, Suite 830
Portland, OR 97204-1268
katherine@mcd-law.com

(Waives Paper Service)
Wendy McIndoo
McDowell & Rackner PC
520 SW Sixth Avenue, Suite 830
Portland, OR 97204
wendy@mcd-law.com

(Waives Paper Service)
Richard H. Williams
Lane Powell Spears Lubersky LLP
2100 ODS Tower
601 S.W. Second Avenue
Portland, OR 97204-3158
williamsr@lanepowell.com

(Waives Paper Service)
Portland Docketing Specialist
Lane Powell Spears Lubersky LLP
2100 ODS Tower
601 S.W. Second Avenue
Portland, OR 97204-3158
docketing-pdx@lanepowell.com

(Waives Paper Service)
Natalie L. Hocken
Assistant General Counsel
PacifiCorp
Office of the General Counsel
825 NE Multnomah St., Suite 1800
Portland, OR 97232
natalie.hocken@pacificorp.com

(Waives Paper Service)
Oregon Dockets
PacifiCorp
Office of the General Counsel
825 NE Multnomah St., Suite 1800
Portland, OR 97232
oregondockets@pacificorp.com

J. Jeffrey Dudley
Portland General Electric Company
121 SW Salmon, 1WTC1300
Portland, OR 97204
jay.dudley@pgn.com

Patrick G. Hager, III
Manager, Regulatory Affairs
Portland General Electric Company
121 SW Salmon, 1WTC0702
Portland, OR 97204
patrick.hager@pgn.com

Rates & Regulatory Affairs
Portland General Electric Company
121 SW Salmon Street, 1WTC0702
Portland, OR 97204
pge.opuc.filings@pgn.com

DATED this 27th day of June, 2008.

TONKON TORP LLP

By ______________________________
DAVID F. WHITE, OSB No. 01138
Attorneys for Portland General Electric Company

001991\00226\1036078 V001