



Portland General Electric Company

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April 11, 2008

Via U.S. Mail and E-Filing

Public Utility Commission of Oregon
Attn: Filing Center
550 Capitol St NE #215
PO Box 2148
Salem OR 97308-2148

Re: OPUC Dockets UE 88, DR 10 and UM 989
Phase III Direct Testimony of Portland General Electric Company

Attention: Filing Center

Enclosed for filing in the above-captioned docket are the original and five copies of each of the following documents:

- PGE Phase III Direct Testimony of Jay Tinker, Stephen Schue and Patrick G. Hager, Exhibit No. PGE/7500

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

These documents are also being filed electronically per the Commission's eFiling policy to the electronic address PUC.FilingCenter@state.or.us, with copies being served on all parties on the service list via U.S. Mail. A photocopy of the PUC tracking information will be forwarded with the hard copy filing.

Thank you in advance for your assistance.

Sincerely,

Jay Tinker
Project Manager
Rates and Regulatory Affairs

cc: UE 88 Service List
Enclosures

**BEFORE THE PUBLIC UTILITY COMMISSION
OF THE STATE OF OREGON**

UE-88 REMAND

PORTLAND GENERAL ELECTRIC COMPANY

Phase III Direct Testimony of

*Jay Tinker
Stephen Schue
Patrick G. Hager*



Portland General Electric

April 11, 2008

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I. Introduction and Summary

1 **Q. Please state your names and positions.**

2 A. My name is Jay Tinker. My position is Project Manager in the Rates and Regulatory Affairs
3 Department of PGE. My qualifications are in Section VII at the end of this testimony.

4 My name is Stephen Schue. My position is Senior Analyst in the Rates and Regulatory
5 Affairs Department of PGE. My qualifications are in Section VII at the end of this
6 testimony.

7 My name is Patrick G. Hager. My position is Manager, Regulatory Affairs of PGE.
8 My qualifications are in Section VII at the end of this testimony.

9 **Q. What is the purpose of your testimony?**

10 A. The purpose of our testimony is to respond to the Phase III issues in this DR 10/UE 88/UM
11 989 remand proceeding set forth in the ALJ's conference report dated February 22, 2008.

12 **Q. What did the ALJ identify as the scope of Phase III of this proceeding?**

13 A. The ALJ identified the following seven issues to be addressed in this phase:

- 14 1) What was PGE's remaining undepreciated investment in Trojan as of October 1, 2000?
15 2) Do the rates approved in Order No. 02-227 provide PGE with the functional equivalent
16 of a "return on" the remaining undepreciated investment in Trojan?
17 3) Should the creation of a new regulatory asset to pay the customers' FAS 109 liability be
18 disregarded because it is a "phantom" tax bookkeeping asset?
19 4) Did the Settlement improperly transfer the proceeds from PGE's NEIL policy from
20 ratepayers to PGE?

1 5) Were the rates adopted in Order No. 02-227 unjust and unreasonable because they were
2 higher than the rates adopted in UE 88, which the Court of Appeals “declared unlawful” in
3 Citizens’ Utility Board?

4 6) Was Order No. 02-227 supported by substantial evidence?

5 7) Did the Commission deny URP due process in docket UM 989?

6 **Q. Which issues do you address in this testimony?**

7 A. We address the first four of the seven issues identified in the scope of this proceeding.
8 Issues #5, #6, and #7 are legal issues and will be addressed in PGE’s legal briefs.

9 **Q. How is the remainder of your testimony organized?**

10 A. The remainder of our testimony summarizes the evidence previously provided that
11 supported the Commission’s decision in Order No. 02-227 related to the factual issues in the
12 scope of this docket.

II. What was the remaining undepreciated investment in Trojan?

1 **Q. What evidence did PGE provide regarding the undepreciated investment in Trojan at**
2 **9/30/2000?**

3 A. Staff-PGE Exhibit 201 provides the actual journal entries recorded to implement the offset
4 of Trojan with customer credits. The exhibit shows the actual balance of \$180.5 million as
5 of 9/30/2000.

6 Staff-PGE Exhibit 206 summarizes the offset, including the actual undepreciated
7 balance of Trojan at 9/30/2000 of \$180.5 million.

8 Staff-PGE Exhibit 200, pg. 20, Table 3 provides the actual Trojan balances from
9 4/1/1995 through 9/30/2000, including the actual balance of \$180.5 million for Trojan as of
10 9/30/2000.

11 **Q. Is \$180.5 million the actual undepreciated investment in Trojan at 9/30/2000?**

12 A. Yes. As we previously indicated in UM 989, the actual undepreciated balance of Trojan as
13 of 9/30/2000 is \$180.5 million.

III. Did UM 989 provide PGE with the functional equivalent of a return on the undepreciated investment in Trojan?

1 **Q. What evidence did PGE previously provide regarding this issue?**

2 A. As noted in Staff-PGE Exhibit 200, pg. 9, Trojan was removed from rate base as of
3 10/1/2000. Therefore, PGE has not directly received a return on Trojan since the
4 Settlement.

5 **Q. Is PGE receiving a return on Trojan indirectly?**

6 A. No. As noted in Staff-PGE Exhibit 200, pg. 10, the Commission has the authority to change
7 the lives of regulatory assets and liabilities. Further, the offset of Trojan against customer
8 credits is the equivalent to amortization of Trojan and those credits on a single day and thus
9 represents the exercise of the Commission's discretion to change amortization periods.
10 Interest on regulatory liabilities represents a payment for the time value of money when
11 receipt is delayed. In other words, interest is the result of a delay in payment. Customer
12 credits are not the equivalent of certificates of deposits or other investments with a
13 guaranteed term. PGE received what was owed to it on 9/30/2000 for the remaining
14 investment in Trojan and customers received what was owed to them for the balance of the
15 customer credits. No further interest is warranted since the receipt of funds was no longer
16 delayed for customers or PGE.

17 **Q. What benefit did customers receive from shortening the life of the credits to offset the**
18 **remaining Trojan investment?**

1 A. Shortening the life of Trojan allowed customers to receive the benefits identified in the
2 Settlement of between \$16.4 and \$18.5 million, as shown in Staff-PGE Exhibit 200, pg. 5,
3 and affirmed by the Commission in Order No. 02-227, pg. 19.

4 **Q. Is PGE today receiving the functional equivalent of a return on Trojan as a result of**
5 **the Settlement in UM 989, approved in Order No. 00-601 and affirmed in Order No.**
6 **02-227?**

7 A. No.

**IV. Should the FAS 109 liability be disregarded because it is a “phantom”
bookkeeping asset?**

1 **Q. What evidence did PGE previously provide regarding this issue?**

2 A. The FAS 109 asset related to the Trojan investment is not a phantom bookkeeping asset that
3 can be created arbitrarily. Rather, it is required under Generally Accepted Accounting
4 Principles (GAAP), subject to an independent annual audit, and is a standard component of
5 cost of service ratemaking. Staff-PGE Exhibit 200, pgs. 13-15.

6 **Q. Did PGE previously provide evidence regarding the size of the Trojan FAS 109 asset as
7 of 9/30/2000, the date of the Settlement?**

8 A. Yes. Staff-PGE Exhibit 201 provides the journal entries used to implement the offset,
9 including the FAS 109 asset of \$47.4 million at 9/30/2000.

10 **Q. What does the Trojan FAS 109 asset represent?**

11 A. The Trojan FAS 109 asset represents the value of accelerated tax benefits previously flowed
12 through to customers that are expected to reverse over time through higher tax expense in
13 future years. The FAS 109 asset related to the Trojan investment represents the amount
14 customers owe PGE as a result of previously flowed through accelerated tax benefits related
15 to the Trojan investment. Staff-PGE Exhibit 200, pg. 13.

16 **Q. Is the Trojan FAS 109 asset, along with its replacement asset authorized in Order No.
17 00-601 and affirmed in Order No. 02-227, a phantom asset that should be disregarded
18 for purposes of evaluating the Settlement?**

19 A. No.

**V. Did the Settlement improperly transfer proceeds from PGE's NEIL
policy from ratepayers to PGE?**

1 **Q. What evidence did PGE previously provide regarding this issue?**

2 A. We addressed the allocation of the NEIL refunds in our net benefit analysis of the
3 Settlement in UM 989. As described in Staff-PGE Exhibit 200, pgs. 4-6 and 17-18, the net
4 benefit analysis assumes, conservatively, that all NEIL benefits are due customers, and
5 credits customers with \$15.4 million for foregoing 45% of the NEIL benefits in the
6 Settlement. The net benefit analysis concludes that, assuming that customers were entitled
7 to 100% of the NEIL benefits, and crediting customers with \$15.4 million for foregoing
8 45% of those benefits in the Settlement, customers would receive a net benefit of between
9 \$16.4 million and \$18.5 million from the Settlement.

10 **Q. What benefit did customers receive from the 45% share of NEIL that was allocated to
11 PGE?**

12 A. As explained in Order No. 02-227, pgs. 14-15, customers relinquished their right to 45% of
13 the NEIL benefits, along with the other customer credits, to offset the Trojan balance and
14 other amounts owed to PGE. The net result of those offsets was a comprehensive
15 Settlement that conferred a net benefit of between \$16.4 million and \$18.5 million on
16 customers.

17 **Q. Did the Settlement improperly transfer NEIL proceeds from customers to PGE?**

18 A. No.

VI. Qualifications

1 **Q. Mr. Hager, please summarize your qualifications.**

2 A. My qualifications were previously set forth in PGE Exhibit 6400 in these Trojan
3 consolidated proceedings.

4 **Q. Mr. Tinker, please describe your qualifications.**

5 A. My qualifications were previously set forth in PGE Exhibit 6200 in these Trojan
6 consolidated proceedings.

7 **Q. Mr. Schue, please summarize your qualifications.**

8 A. My qualifications were previously set forth in PGE Exhibit 6200 in these Trojan
9 consolidated proceedings.

10 **Q. Does this conclude your testimony?**

11 A. Yes.

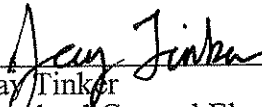
CERTIFICATE OF SERVICE

I hereby certify that I have this day caused PGE's Phase III Direct Testimony of Jay Tinker, Stephen Schue and Patrick G. Hager; Exhibit 7500 to be served by electronic mail to those parties whose email addresses appear on the attached service list, and by First Class US Mail, postage prepaid and properly addressed, to those parties on the attached service list who have not waived paper service from OPUC Docket No. UE 88 DR 10 UM 989.

Dated at Portland, Oregon, this 11th day of April 2008.

PORTLAND GENERAL ELECTRIC COMPANY

By



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