



Oregon

Theodore R. Kulongoski, Governor

Public Utility Commission

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March 18, 2009

OREGON PUBLIC UTILITY COMMISSION
ATTENTION: FILING CENTER
PO BOX 2148
SALEM OR 97308-2148

RE: **Docket No. UE 204** – In the Matter of **PORTLAND GENERAL ELECTRIC COMPANY** Requests recovery of costs associated with the **Selective Water Withdrawal Project**.

Enclosed for electronic filing in the above-captioned docket is the Public Utility Commission Staff's Reply (Redacted) Testimony.

/s/ Kay Barnes

Kay Barnes

Regulatory Operations Division

Filing on Behalf of Public Utility Commission Staff

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c: UE 204 Service List (parties)



**PUBLIC UTILITY COMMISSION
OF OREGON**

UE 204

STAFF REPLY TESTIMONY OF

**Carla Owings & Michael Dougherty
Kelcey Brown**

**In the Matter of
PORTLAND GENERAL ELECTRIC COMPANY
Requests recovery of costs associated with the
Selective Water Withdrawal Project.**

**REDACTED
March 18, 2009**

CASE: UE 204
WITNESS: OWINGS-DOUGHERTY

**PUBLIC UTILITY COMMISSION
OF
OREGON**

STAFF EXHIBIT 100

Reply Testimony

March 18, 2009

**CERTAIN INFORMATION CONTAINED IN STAFF EXHIBIT 100
IS CONFIDENTIAL AND SUBJECT TO PROTECTIVE
ORDER NO. 08-515. YOU MUST HAVE SIGNED
APPENDIX B OF THE PROTECTIVE ORDER IN
DOCKET UE 204 TO RECEIVE THE
CONFIDENTIAL VERSION
OF THIS EXHIBIT.**

1 **Q. PLEASE STATE YOUR NAME, OCCUPATION, AND BUSINESS**
2 **ADDRESS.**

3 A. My name is Carla Owings. I am a Senior Revenue Requirements analyst
4 employed by the Public Utility Commission. My business address is 550
5 Capitol Street NE Suite 215, Salem, Oregon 97301-2551.

6 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND WORK**
7 **EXPERIENCE.**

8 A. My Witness Qualification Statement is found in Exhibit Staff/101.

9 **Q. PLEASE STATE YOUR NAME, OCCUPATION, AND BUSINESS**
10 **ADDRESS.**

11 A. My name is Michael Dougherty. I am a Program Manager for the Corporate
12 Analysis and Water Regulation Section of the Public Utility Commission. My
13 business address is 550 Capitol Street NE Suite 215, Salem, Oregon 97301-
14 2551.

15 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND WORK**
16 **EXPERIENCE.**

17 A. My Witness Qualification Statement is found in Exhibit Staff/102.

18 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

19 A. We will present Staff's recommended revenue requirement reduction to
20 Portland General Electric's (PGE) request of \$12.9 million related to the
21 Selective Water Withdrawal (SWW). In addition, we will:

22

- Sponsor a stipulation between the Parties related to depreciation

23 and salvage value;

- 1 ○ Describe PGE's revenue requirement update of March 3, 2009;
- 2 ○ Provide Staff's response to PGE's request to update ratios used to
- 3 determine taxes collected in rates for SB 408 purposes;
- 4 ○ Describe an adjustment related to SWW contingency costs; and
- 5 ○ Finally, introduce Staff's recommended rate base adjustments of
- 6 approximately \$7.5 million.

7 **Q. PLEASE SUMMARIZE STAFF'S RECOMMENDATION REGARDING THE**
8 **REVENUE REQUIREMENT.**

9 A. Staff's recommendation regarding revenue requirement for this proceeding
10 includes the adoption of a Stipulation filed March 11, 2009, which reduces
11 PGE's revenue requirement by approximately \$1.1 million. An explanation of
12 the adjustment can be found at Staff/103, Owings-Dougherty/4. In addition,
13 Staff recommends two separate and additional adjustments related to the
14 overall costs of the Project. The first Staff sponsored adjustment is related to
15 the removal of contingency costs still included in PGE's most recent update of
16 forecasted costs, will be covered later in this testimony. This adjustment,
17 referred to as S-1, reduces PGE's requested revenue requirement by
18 approximately \$810,000. Associated work papers for this adjustment can be
19 found at Staff/103, Owings-Dougherty/5.

20 The second Staff sponsored adjustment is related to Staff's conclusion that
21 PGE was imprudent in its approach to the bidding and construction of SWW
22 and recommends a cost-sharing adjustment on cost overruns. This
23 adjustment, referred to as S-2, results in a decrease of revenue requirement of

1 approximately \$900,000 (See Staff/103, Owings-Dougherty/3) and is
2 sponsored by Staff Witness Kelcey Brown at Staff/200, Brown/1-22. To
3 summarize, Staff is recommending total reduction of approximately \$2.8
4 million¹ (See Staff/103, Owings-Dougherty/1) to PGE's revenue requirement
5 request of \$12.9 million, for a total revenue requirement increase of
6 approximately \$10.1 million (See Staff/103, Owings-Dougherty/2).

7 **Q. PLEASE DESCRIBE THE PROCEDURAL BACKGROUND FOR THIS**
8 **DOCKET.**

9 A. On February 27, 2008, PGE filed an application for a general rate increase
10 docketed as UE 197. Included in that request was a request for rate recovery
11 of the SWW project located at the Pelton Round Butte Project (Project). At the
12 time of the original request, the SWW was projected to close to books by
13 March 31, 2009. During the UE 197 proceeding, PGE announced that the on-
14 line facility date had been delayed until April 30, 2009.

15 On October 9, 2008, a stipulation in UE 197 between PGE, Staff, the
16 Citizens' Utility Board (CUB), and the Industrial Customers of Northwest
17 Utilities (ICNU) was filed agreeing to remove the SWW and related costs into a
18 separate proceeding. PGE filed opening testimony on October 24, 2008,
19 including a request of \$12.9 million revenue requirement. A procedural
20 schedule was established on December 2, 2008, and modified on February 3,
21 2009, at which time PGE revised its forecast for completion and in-service date
22 to June 1, 2009 (See PGE'S Motion in Opposition to Staff's Motion to suspend

¹ Includes \$1.0 million reduction related to adopting the March 11, 2009, Stipulated Agreement

1 tariffs for an additional three months, filed on February 17, 2009). The
2 procedural schedule was modified for a second time on March 3, 2009.

3 Also on March 3, 2009, PGE filed a revenue requirement update to include
4 its most recent cost information; and on March 11, 2009, Staff, PGE, and CUB
5 (collectively the "Parties") filed a Stipulation resolving issues related to
6 Depreciation and Salvage Values in this docket (See Staff/104, Owings-
7 Dougherty/1-4).

8 **Q. WHAT WAS PGE'S ORIGINAL RATE REQUEST THIS DOCKET?**

9 A. PGE originally forecasted an increase in revenue requirement of approximately
10 \$12.9 million, or approximately 0.75 percent of retail revenues. In its March 3,
11 2009, update, PGE reduced its request by approximately \$1.1 million to \$11.8
12 million. The reduction to the Company's March 3, 2009, update was mostly
13 related to adjustments to depreciation and salvage value agreed upon in a
14 stipulation between the Parties filed on March 11, 2009 (See Staff/104,
15 Owings-Dougherty/1-4).

16 Staff's total proposed adjustments, plus the \$1.1 million related to the
17 March 11, 2009 Stipulation, reflects a reduction to revenue requirement of
18 approximately \$2.8 million, leaving a total revenue requirement request of
19 approximately \$10.1 million, which represents an increase of approximately
20 0.59 percent of retail revenues.

21 **Q. PLEASE DESCRIBE THE STIPULATED AGREEMENT RELATED TO**
22 **DEPRECIATION.**

1 A. During the proceeding, Staff proposed several adjustments to depreciation
2 based on three separate and distinct issues;

- 3 ▪ First-year depreciation rates;
- 4 ▪ Percentage of Net Salvage Value; and
- 5 ▪ Net Salvage Value related to the Allowance for Funds used
6 during Construction (AFDC).

7
8 The Parties agreed to the actual rate for the first-year depreciation and the
9 percentage of overall Net Salvage Value that should be attributable to the
10 project.

11 **Q. PLEASE EXPLAIN PGE'S FIRST-YEAR DEPRECIATION RATE AND**
12 **PERCENTAGE OF NET SALVAGE VALUE.**

13 A. When calculating depreciation expense for SWW, PGE used a 12-month
14 depreciation expense calculated from May 2009 – April 2010, and a negative
15 100 percent salvage value, which resulted in annual depreciation expense of
16 \$2,236,203. PGE used May 2009 as the starting point for depreciation based
17 on the projected plant in service date.

18 PGE typically aggregates similar types of assets into group assets in order
19 to develop and assign economic lives. For SWW, the assets were scheduled
20 to be booked into FERC Account 332, using a S3-95 curve and average life (95
21 years) combination. In addition, when calculating depreciation expense, PGE
22 uses a net salvage value of negative 100 percent for reservoirs, dams, and
23 waterways. Salvage values are a reserve of funds intended to reflect the future
24 cost to remove the asset should it become necessary in the future to demolish
25 or remove the facility. A negative 100 percent salvage value indicates that

1 over the life of the asset, PGE will recover an additional 100 percent of the total
2 capital costs for future removal. As a result of the negative 100 percent
3 salvage value, PGE based its SWW depreciation expense on the cost of the
4 project, \$78.3 million plus the net salvage value of \$78.3 million, \$156.6 million
5 total.

6 **Q. HOW DID THE PARTIES RESOLVE THE METHOD USED TO**
7 **CALCULATE DEPRECIATION FOR THE 2009 TEST PERIOD?**

8 A. For purposes of rates set in this docket, depreciation rates for the SWW were
9 set separately from other Round Butte assets in FERC Account 332,
10 Reservoirs, Dams, and Waterways, using an S3-95 curve and average life
11 combination. This revision results in a decrease to revenue requirement of
12 approximately \$1.1 million (See Staff/103, Owings-Dougherty/4). Depreciation
13 will begin the date the plant is closed to books, with rates established at the
14 closing date. The 2009 rate is consistent with the test year depreciation
15 expense calculated for 2010, which included the SWW in the derivation.

16 **Q. PLEASE EXPLAIN THE CALCULATION OF NET SALVAGE VALUE**
17 **RELATED TO THE SWW.**

18 A. A negative 100 percent salvage value for the SWW does not accurately reflect
19 PGE's future ownership in the Project. Currently, the ownership structure of
20 the SWW is such that PGE owns approximately 66.67 percent share of the
21 Project while the Confederated Tribes of Warm Springs Reservation of Oregon
22 (Warm Springs Tribes) own approximately 33.33 percent share. According to a
23 contractual agreement between PGE and the Warm Springs Tribe, by the year

1 2021, the ownership structure is scheduled to shift to 49.99 percent owned by
2 the Warm Springs Tribes; a much greater percentage than the current
3 ownership status. On December 31, 2036, the Warm Springs Tribe is
4 projected to have majority ownership of the Project at 50.01 percent. This
5 shifting of ownership is memorialized in Commission Order No. 00-459², which
6 states in part:

7 "PGE also suggests that, based on its analysis, the Tribes
8 are likely to choose all three purchase options, thereby
9 owning a 50.01 percent interest in the Project by December
10 31, 2036."³
11

12 Since PGE is likely to own 50.01 percent of the project by December 31,
13 2021, and 49.99 percent on December 31, 2036, PGE was willing to reduce
14 the SWW Net Salvage Value to a negative 50 percent of the total capital costs
15 rather than the 100 percent originally proposed. This change prevents
16 customers from having to pay a higher depreciation expense that does not
17 accurately represent the future ownership of the facility.

18 **Q. HAVE THESE STIPULATED ADJUSTMENTS BEEN INCLUDED IN**
19 **STAFF'S RECOMMENDED REVENUE REQUIREMENT FOR THIS**
20 **DOCKET?**

21 A. Yes. Staff's proposed adjustments to the capital cost in the revenue
22 requirement model reflecting both the stipulated depreciation rate and negative
23 50 percent salvage value adjustments can be found at Staff/103, Owings-

² Dated August 22, 2000.

³ Pages 5 and 6 of the above referenced Order.

1 Dougherty/1-5, STIP-1. These adjustments represent approximately \$1.1
2 million of the overall reduction to revenue requirement.

3 **Q. WERE THERE ANY OTHER ISSUES RELATED TO SALVAGE VALUE**
4 **AND DEPRECIATION THAT REMAIN UNRESOLVED IN THIS**
5 **PROCEEDING?**

6 A. Yes. During the discovery process, Staff learned that it is typical for PGE to
7 include in its Salvage Values the amount attributable to AFDC. AFDC
8 (Allowance for Funds used During Construction) represents an amount added
9 to capital costs based on a percentage calculation, or interest, to represent the
10 Company's net cost of borrowed funds used for construction purposes. This
11 interest is capitalized, added to the book costs of construction and included in
12 the total amount added to ratebase. For projects that take considerable
13 lengths of time to complete (SWW began in 2006), the amounts attributable to
14 AFDC can be significant. While the amounts may fairly represent the interest
15 attributable to the capital outlay of the Company during construction, Staff
16 believes that including the amounts attributable to AFDC into Net Salvage
17 Value could contribute to higher than reasonable Salvage Values. The
18 March 11, 2009, Stipulation includes an adjustment to the salvage value of the
19 assets that will be placed-in-service for this proceeding (See Staff/103,
20 Owings-Dougherty/4, Stip-1); however, Staff believes that it is appropriate to
21 resolve this question in a future depreciation study. PGE is scheduled to file a
22 new study later this year. Staff recommends that the question of AFDC being
23 included in Salvage Values be investigated at that time. Staff does not have a

1 recommendation of action for the Commission related to this issue in this
2 proceeding.

3 **Q. CAN YOU PLEASE EXPLAIN THE ISSUE RAISED BY PGE RELATED TO**
4 **THE UPDATING OF RATIOS USED TO DETERMINE THE TAXES**
5 **COLLECTED IN RATES FOR SB408 PURPOSES?**

6 A. Yes. At PGE/100, Keil-Schue-Hager/16, lines 8-19, PGE requests that the
7 Commission allow the Company to update its ratios used to calculate the net to
8 gross and effective tax rates used to determine the SB408 true-up.

9 **Q. DOES STAFF BELIEVE IT IS APPROPRIATE TO ALLOW PGE TO**
10 **UPDATE THESE RATIOS?**

11 A. Yes. Staff believes it is appropriate to allow the Company to update its net
12 revenues or effective tax rate as long as the updated calculations are weighted
13 for the average of months that the new rates are in effect. Staff believes that
14 PGE's request is pursuant to the language in OAR 860-022-0040(2)(s)(B),
15 which allows for calculation of net to gross and effective tax rates to be
16 updated should the Commission authorize a change in rates during the tax
17 year.

18 **Q. CAN YOU PLEASE EXPLAIN PGE'S SWW CONTINGENCY COSTS?**

19 A. At PGE/100, Keil-Schue-Hager/12, PGE provides a Summary of Costs in
20 Table 1 of its testimony that shows the forecast of 100 percent of the costs for
21 SWW related to Construction and Engineering to be approximately \$106.9
22 million. In its testimony, PGE describes the components of the \$26 million
23 increase of overall costs from its 2006 projections to current projections (See

1 PGE/100, Keil-Schue-Hager/13). Item 3 of these components are \$6.6 million⁴
2 of Design and Construction Allowance and Contingency. These contingencies
3 were added for..."the expected additional expenditures such as changes to the
4 contract once the design was finalized, unknown geological conditions,
5 painting, steel price escalation, potential schedule delays, and potential
6 changes to the scope of the trash rack removal/modifications portion of the
7 project." To clarify, the \$6.6 million of contingency is included in the \$106.9
8 million of total forecasted costs. The estimate of \$6.6 million was a component
9 of the \$26 million cost increase from 2006 to current.

10 In its March 11, 2009 update, PGE states that the construction and
11 engineering portion of the Project is expected to be on budget, with only small
12 changes to AFDC, capitalized property taxes and loadings (See PGE/200, Keil-
13 Gilman-Hager/3, Lines 15-16). On March 5, 2009, Staff issued Data Request
14 DR) Nos. 049 and 052, asking for a detailed breakdown of construction costs
15 by category of costs (i.e., construction, retainage, contingency, etc) and a
16 breakout of the outstanding contingencies as of March 3, 2009 (See Staff/105,
17 Owings-Dougherty/1-2 and *Confidential Exhibit*, Staff/106, Owings-
18 Dougherty/1-2. On March 13, 2009, PGE submitted its confidential response
19 to Staff DR No. 049 and its nonconfidential response to Staff DR No. 052,
20 identifying approximately \$8.2 million in total unfulfilled contingency costs,
21 equating to approximately \$5.5 million for PGE's share of outstanding
22 contingency costs. PGE also identifies these contingency costs at

⁴ See PGE/100, Keil-Schue-Hager/13, Lines 15-20.

1 PGE/100,Keil-Schue-Hager/13. The \$8.2 million total project (\$5.5 million,
2 PGE share) in “contingency costs” represents approximately 7.7 percent of
3 total SWW project costs and approximately 52.6 percent of remaining forecast
4 costs for the time period of February 2009 through June 2009.

5 **Q. PLEASE PROVIDE ADDITIONAL DETAIL ON THESE CONTINGENCY**
6 **COSTS.**

7 A. According to PGE’s response to Staff DR No. 052, PGE lists the construction
8 contingency costs as:

- 9 • Outstanding fabrication and construction cost requests to address
10 design changes, scope changes, and other cost changes in
11 relation to the initial bid documents. Potential cost: up to
12 \$2,797,778.
- 13
- 14 • Extra Work Order requests from the construction contractors for
15 additional work requested to address design issues, additional
16 work scope, and/or other PGE related impacts to their work for
17 work completed to-date. Potential cost: up to \$869,340.
- 18
- 19 • Potential cost increases for the construction contractors for
20 additional work requested to address design issues, additional
21 work scope, and/or other PGE related impacts to their work
22 remaining to be completed. Potential cost: up to \$1,050,000.
- 23
- 24 • Potential additional work by the detailing contractor to address
25 emergent work items. Potential cost: up to \$60,000.
- 26

27 In response to Staff DR No. 052, PGE states that the first two bullets above
28 in construction contingencies (approximately \$3.5 million) are under review and
29 are expected to be resolved within thirty days from March 13, 2009. PGE does
30 not state when the last two bullets above in construction contingencies will be
31 resolved.

1 In response to Staff DR No. 049, PGE identifies contingencies in two
 2 separate categories. *Begin Confidential*** [REDACTED]
 3 [REDACTED]
 4 [REDACTED]
 5 [REDACTED]
 6 [REDACTED]
 7 [REDACTED] ***End*

8 *Confidential* Staff relied upon the remaining balances identified by PGE's
 9 response to Staff DR No. 052, which indicates that this second category of
 10 contingency costs, "Project Management Contingency", remains unfulfilled.
 11 Staff has relied upon PGE's Data Responses as a base for its adjustment S-2
 12 found at Staff/103, Owings-Dougherty/6.

13 Concerning "Project Management Contingency" costs, PGE has evenly
 14 spread these costs over the five-month period of February 2009 through June
 15 2009. As a result, a large portion of the SWW costs may not be settled when
 16 PGE's proposed rates go into effect on June 1, 2009.

17 **Q. WHAT ARE STAFF'S CONCERNS RELATED TO PGE'S CURRENTLY**
 18 **OUTSTANDING CONTINGENCY COSTS?**

19 A. Staff will demonstrate in its testimony at Staff/200, Brown/1-22, that throughout
 20 the Project's timeline, PGE has experienced significant design changes,
 21 delays, additional work scope and other basis related to cost increases. Staff

⁵ ***Begin Confidential* [REDACTED]
 [REDACTED] ***End Confidential.*

⁶ ***Begin Confidential* [REDACTED]
 [REDACTED] ***End Confidential*

1 believes that if PGE had needed to fill these contingencies, there would not be
2 the significant amount of unfulfilled contingency costs this late in the Project.
3 The amount of remaining, unfulfilled contingencies represents more than 52
4 percent of the remaining forecast costs. Because the Project is so near
5 completion and the majority of costs have been identified and because PGE
6 has not provided any evidence that these costs will actually occur, PGE should
7 not be allowed to recover in rates any SWW costs that are not completed,
8 invoiced, and audited by the Company as actual costs. Although “pro forma” or
9 “future period” adjustments are frequently allowed in rates, the allowance
10 depends on the nature, materiality, and certainty of the specific adjustment.⁷
11 This could potentially lead to customers paying in rates, costs that did not
12 occur and that are not used and useful for utility service. As such, these costs
13 would be prohibited in rates under the ORS 757.355 standard because they
14 are *“not presently used for providing utility service to the customer.”*⁸

15 In the case of PGE’s contingency costs, the materiality is significant (\$5.5
16 million PGE share) and the certainty is not known. As such, inclusion of the
17 contingency costs in revenue requirement could result in rates that are not just
18 and reasonable. Staff also points out that SWW is not analogous to the

⁷ In Commission Order No. 97-171, p. 13 (readopted by Order 00-191), the Commission concluded: “. . . In [Order 87-406] we stated that because ratemaking is prospective, ‘recurring increases in revenues and expenses that are reasonably certain to occur are added to the test year.’ . . . The ‘reasonably certain’ standard, rather than the ‘known and measurable’ standard, is the correct one for judging whether a given adjustment is appropriate. That standard does not preclude forecasts. We use the same standard to exclude nonrecurring revenues and expenses. . . .”

⁸ In Commission Order No. 07-454, the Commission stated, “Moreover, ORS 757.355 governs the timing of when a utility may include property in rate base. The statute requires that the property be “presently used for providing utility service to the customer.”

1 Commission's decision in Order No. 07-474 concerning Port Westward, which
2 states:

3 Finally, all rate base components, to at least some degree, are
4 typically estimates in a future test year. See, e.g., Order No.
5 80-021 at 24 (when a future test year used, the data is drawn
6 from budget figures and financial models of the utility). ORS
7 757.355 does not require the use of actual amounts or a true-
8 up of forecasted amounts in establishing a rate base.
9

10 **Q. DOES STAFF BELIEVE THAT PGE'S CURRENTLY OUTSTANDING**
11 **CONTINGENCY COSTS SHOULD BE HANDLED SIMILARLY TO THE**
12 **WAY THE COMMISSION HANDLED PORT WESTWARD?**

13 A. No. Staff believes that the differences between SWW and Port Westward
14 (Order No. 07-454) are as follows:

- 15 1. SWW has yet to be placed service and no true-up of rates is
16 required. As such, there is sufficient time and opportunity to
17 establish rate base that accurately reflects actual costs, including
18 removing contingency costs that are not likely to occur; and
19
- 20 2. Unlike Port Westward, there is currently no offset of the revenue
21 requirement by other cost increases that were described in Order
22 No. 07-354; and
23
- 24 3. The level of significance in materiality is a large 7.7 percent of total
25 project costs and 52.6 percent of remaining costs as compared to
26 Port Westward, which was 1.1 percent of total project costs⁹.
27

28 As a result, PGE should not be allowed to include in rates approximately
29 \$5.4 million in contingency costs that may not occur.

30 **Q. DID YOU INCLUDE A "CONTINGENCY COST" ADJUSTMENT IN**
31 **STAFF/102, OWINGS-DOUGHERTY/1-5?**

⁹ \$3.2 million divided by rate base of \$279 million.

1 A. Yes. PGE has provided an update as of March 2009. With two and one-half
2 months prior to the close of the project, PGE, the engineering firm, and the
3 contractor should have a firm grasp of the final cost of the SWW. As a result,
4 the \$5.4 million in contingency costs should not be included in rates, resulting
5 in a reduction to PGE's requested revenue requirement of approximately
6 \$810,000.

7 **Q. IS STAFF'S ADJUSTMENT RELATED TO THE REMOVAL OF**
8 **CONTINGENCY COSTS SEPARATE FROM STAFF'S PROPOSED**
9 **ADJUSTMENT RELATED TO IMPRUDENCE AND COST OVERRUNS**
10 **(STAFF-2)?**

11 A. Yes, it is a separate adjustment. Staff Witness Kelcey Brown will sponsor
12 Staff's recommended adjustments to ratebase at Staff/200, Brown/1-22. These
13 adjustments are related to Staff's conclusion that PGE was imprudent in its
14 approach to the bidding and construction of the SWW. Specifically, Staff is
15 proposing an adjustment based on cost sharing on cost over-runs from the
16 original cost estimates, proposed disallowances for delays in design, and
17 prolonged construction schedule. Staff's proposed adjustment, referred to as
18 S-2, results in a decrease to revenue requirement of approximately \$900,000
19 (See Staff/103, Owings-Dougherty/6).

20 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

21 A. Yes.

CASE: UE 204
WITNESS: OWINGS-DOUGHERTY

**PUBLIC UTILITY COMMISSION
OF
OREGON**

STAFF EXHIBIT 101

Witness Qualification Statement

March 18, 2009

WITNESS QUALIFICATION STATEMENT

NAME: Carla M. Owings
EMPLOYER: Public Utility Commission of Oregon
TITLE: Senior Utility Analyst/Revenue Requirement/Rates and Regulation
ADDRESS: 550 Capitol Street NE Suite 215, Salem, Oregon 97301-2115.
EDUCATION: Professional Accounting Degree
Trend College of Business 1983

EXPERIENCE: I have been employed by the Public Utility Commission of Oregon since April of 2001. I am the Senior Utility Analyst for revenue requirement for the Rates and Regulation Division of the Utility Program. Current responsibilities include leading research and providing technical support on a wide range of policy issues for electric and gas utilities.

From September 1994 to April 2001, I worked for the Oregon Department of Revenue as a Senior Industrial/Utility Appraiser. I was responsible for the valuation of large industrial properties as well as utility companies throughout the State of Oregon.

I have testified in behalf of the Public Utility Commission in Docket Nos. UE 177, UE 178, UG 170, UG 171, UE 180, UM 1234, UE 167, UE 180, UE 188, UM 1121, UM 1261 and UM 1271.

OTHER EXPERIENCE: I received my certification from the National Association of State Boards of Accountancy in the Principles of Public Utilities Operations and Management in March of 1997. I have attended the Institute of Public Utilities sponsored by the National Association of Regulatory Utility Commissioners at Michigan State University in August of 2002 and the College of Business Administration and Economics at New Mexico State University's Center for Public Utilities in May of 2004.

In 2008, I attended a Energy Utility Consultants presentation on Performance Benchmarking in Denver, Colorado. In 2005, I attended the National Association of Regulatory Utility Commissioners Advanced Course at Michigan State University. I worked for seven years for the Oregon State Department of Revenue as a Senior Utility and Industrial Appraiser.

CASE: UE 204
WITNESS: OWINGS-DOUGHERTY

**PUBLIC UTILITY COMMISSION
OF
OREGON**

STAFF EXHIBIT 102

Witness Qualification Statement

March 18, 2009

WITNESS QUALIFICATION STATEMENT

NAME: MICHAEL DOUGHERTY

EMPLOYER: PUBLIC UTILITY COMMISSION OF OREGON

TITLE: PROGRAM MANAGER, CORPORATE ANALYSIS AND
WATER REGULATION

ADDRESS: 550 CAPITOL ST. NE, SALEM, OR 97308-2148

EDUCATION: Master of Science, Transportation Management, Naval
Postgraduate School, Monterey CA (1987)

Bachelor of Science, Biology and Physical Anthropology, City
College of New York (1980)

EXPERIENCE: Employed with the Oregon Public Utility Commission as the
Program Manager, Corporate Analysis and Water Regulation.
Also serve as Lead Auditor for the Commission's Audit
Program.

Performed a five-month job rotation as Deputy Director,
Department of Geology and Mineral Industries, March through
August 2004.

Employed by the Oregon Employment Department as Manager
- Budget, Communications, and Public Affairs from September
2000 to June 2002.

Employed by Sony Disc Manufacturing, Springfield, Oregon, as
Manager - Manufacturing, Manager - Quality Assurance, and
Supervisor - Mastering and Manufacturing from April 1995 to
September 2000.

Retired as a Lieutenant Commander, United States Navy.
Qualified naval engineer.

Member, National Association of Regulatory Commissioners
Staff Sub-Committee on Accounting and Finance.

CASE: UE 204
WITNESS: OWINGS-DOUGHERTY

**PUBLIC UTILITY COMMISSION
OF
OREGON**

STAFF EXHIBIT 103

**Exhibits in Support
Reply Testimony**

March 18, 2009

Portland General Electric
 UE 204
 December 31, 2009
 (000)

Summary of Narrative

Item	Staff	Issue	Revenue Requirement Effect
Revenue Requirement on the Company's Filed Results			\$12,875
Proposed Staff Adjustments			
Stip-1		Depreciation Adjustment per Stipulated Agreement Filed on March 11, 2009	(\$1,039)
S-1	CO-MD	Staff proposed adjustments to remove contingencies remaining in final forecasted costs	(\$810)
S-2	KB	Staff proposed adjustments due to construction delays, fixed fee for profit Design delays and Cost Sharing for Overruns	(\$892)
S-3			0
S-4			0
S-5			0
S-6			0
S*		Revenue Sensitive Costs	(\$6)
Total Staff-Proposed Adjustments (Base Rates):			(\$2,747)
Staff-Calculated Revenue Requirements Change (Base Rates):			\$10,128

Summary of Revenue Requirement

	2009 Results Per Company Filing (1)	Adjustments (2)	2009 Adjusted (3)	Required Change for Reasonable Return (4)	Results at Reasonable Return (5)
SUMMARY SHEET					
1	Operating Revenues				
2	Retail Sales	\$0	\$1,708,644	\$0	\$1,718,772
3	Wholesale Sales	0	0	0	0
4	Other Revenues	0	18,891	0	18,891
5	Total Operating Revenues				
6	Operating Expenses				
7	Net Variable Power Costs	\$0	\$848,441	\$0	\$848,441
8	Production	0	100,891	0	100,891
9	Other Power Supply (Trojan)	0	129	0	129
10	Transmission	0	11,787	0	11,787
11	Distribution	0	61,478	0	61,478
12	Customer Accounting	0	64,790	0	64,790
13	OPUC Fees	0	5,340	0	5,340
14	Uncollectibles	0	7,347	0	7,347
15	Administrative and General	0	92,404	0	92,404
16	Total Operation & Maintenance				
17	Depreciation	(\$1,183)	\$174,606	\$0	\$174,606
18	Amortization	0	18,781	0	18,781
19	Taxes Other than Income	(175)	46,825	286	47,111
20	Income Taxes	640	62,445	3,755	66,200
21	Local Taxes and Franchise Fees	0	42,955	0	42,955
22	Total Operating Expenses				
23	Net Operating Revenues				
24	Average Rate Base				
25	Electric Plant in Service				
26	Accumulated Depreciation & Amortization	(\$11,479)	\$5,166,902	\$0	\$5,166,902
27	Accumulated Deferred Income Taxes	714	(2,675,475)	0	(2,675,475)
28	Accumulated Deferred Inv. Tax Credit	(204)	(287,449)	0	(287,449)
29	Net Utility Plant				
30	Plant Held for Future Use	\$0	\$0	\$0	\$0
31	Acquisition Adjustments	0	0	0	0
32	Working Capital	(37)	79,988	50	80,038
33	Fuel Stock	0	67,707	0	67,707
34	Materials & Supplies	0	0	0	0
35	Customer Advances for Construction	0	0	0	0
36	Weatherization Loans	0	0	0	0
37	Prepayments	0	(37,755)	0	(37,755)
38	Misc. Deferred Debits	0	23,917	0	23,917
39	Misc. Rate Base Additions/(Deductions)	0	6,503	0	6,503
40	Total Average Rate Base				
41	Rate of Return	8.01%	8.076%		8.33%
42	Implied Return on Equity	9.45%	9.58%		10.10%

Summary of Adjustments

Staff Adjustments		Stipulated Agreement Depreciation (Slip -1)	Remove Contingencies (S-1)	Delays, Fixed Fees, Cost Overruns (S-2)	(S-3)	(S-4)	(S-5)	(S-6)	Total Adjustments (Base Rates)
1	Operating Revenues								
2	Retail Sales	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
3	Wholesale Sales	0	0	0	0	0	0	0	0
4	Other Revenues	0	0	0	0	0	0	0	0
5	Total Operating Revenues	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
6	Operating Expenses								
7	Net Variable Power Costs	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
8	Production	0	0	0	0	0	0	0	0
9	Other Power Supply (Trojan)	0	0	0	0	0	0	0	0
10	Transmission	0	0	0	0	0	0	0	0
11	Distribution	0	0	0	0	0	0	0	0
12	Customer Accounting	0	0	0	0	0	0	0	0
13	OPUC Fees	0	0	0	0	0	0	0	0
14	Uncollectibles	0	0	0	0	0	0	0	0
15	Administrative and General	0	0	0	0	0	0	0	0
16	Total Operation & Maintenance	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
17	Depreciation	(1,004)	(78)	(102)	0	0	0	0	(\$1,183)
18	Amortization	0	0	0	0	0	0	0	0
19	Taxes Other than Income	3	(85)	(92)	0	0	0	0	(\$175)
20	Income Taxes	365	129	146	0	0	0	0	\$640
21	Miscellaneous Revenue and Expense								\$0
22	Total Operating Expenses	(\$636)	(\$34)	(\$48)	\$0	\$0	\$0	\$0	(\$718)
23	Net Operating Revenues	\$636	\$34	\$48	\$0	\$0	\$0	\$0	\$718
24	Average Rate Base								
25	Electric Plant in Service	(97)	(5,473)	(5,909)	0	0	0	0	(\$11,479)
26	Accumulated Depreciation & Amortization	621	45	48	0	0	0	0	\$714
27	Accumulated Deferred Income Taxes	(300)	46	50	0	0	0	0	(\$204)
28	Accumulated Deferred Inv. Tax Credit	0	0	0	0	0	0	0	0
29	Net Utility Plant	\$224	(\$5,382)	(\$5,811)	\$0	\$0	\$0	\$0	(\$10,969)
30	Plant Held for Future Use	0	0	0	0	0	0	0	0
31	Acquisition Adjustments	0	0	0	0	0	0	0	0
32	Working Capital	(33)	(2)	(2)	0	0	0	0	(\$37)
33	Fuel Stock	0	0	0	0	0	0	0	0
34	Materials & Supplies	0	0	0	0	0	0	0	0
35	Customer Advances for Construction	0	0	0	0	0	0	0	0
36	Weatherization Loans	0	0	0	0	0	0	0	0
37	Prepayments	0	0	0	0	0	0	0	0
38	Misc. Deferred Debits	0	0	0	0	0	0	0	0
39	Misc. Rate Base Additions/(Deductions)	0	0	0	0	0	0	0	0
40	Total Average Rate Base	\$191	(\$5,384)	(\$5,813)	\$0	\$0	\$0	\$0	(\$11,006)
41	Revenue Requirement Effect	(\$1,039)	(\$810)	(\$892)	\$0	\$0	\$0	\$0	(\$2,741)

Portland General Electric
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Per Stipulated agreement and PGE's March 3, 2009 Update. Change to Ratebase amount and adjust Depreciation to reflect Salvage Value adjustments and change to depreciation rate for 2009 period.

Stipulated Agreement Adjustment to Depreciation

Plant - Selective Water Withdraw
Original Plant

	78,346	PGE Original Plant	
	78,249	PGE Updated Plant	See March 3, 2009 Update
	<u>(97)</u>	March 3, 2009 Update	

	2,336	PGE Depreciation	
	1,332	PGE Updated Depreciation per Stipulated Agreement	
	<u>(1,004)</u>	Per Stipulated Agreement	

Ratio to Plant	-0.008179	(1261) PGE Proposed Accum Depreciation	
		(640) PGE Updated Accum Depreciation per Stipulated Agreement	
		<u>621</u>	Per Stipulated Agreement

Ratio to Plant	(0.00847)	(363) PGE Proposed Accum Deferred Taxes	
		(663) PGE Updated Accum Deferred Taxes per Stipulated Agreement	
		<u>(300)</u>	Per Stipulated Agreement

Ratio to Plant	0.0156168	1219 PGE Proposed Property Tax Expense	
		1222 PGE Updated Property Tax Expense	
		<u>3</u>	Per March 3, 2009 Update

Ratio to Plant	0.0469399	2260 PGE Proposed Schedule Ms	
		3673 PGE Updated Schedule Ms	
		<u>1,413</u>	Per March 3, 2009 Update

Ratio to Plant	0.0183006	907 PGE Proposed Provision for Deferred Taxes	
		1432 PGE Updated Provision for Deferred Taxes	
		<u>525</u>	Per March 3, 2009 Update

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Remove costs related to contingencies.
Adjust Depreciation and related costs to reflect Stipulation
filed on March 11, 2009.

Staff Proposed Adjustment To Plant

<p>Remaining Forecasted costs PGE Portion of remaining costs</p>	<p>15,599,176 10,399,971</p>	<p>100% of Project 66.67% of Project</p>	<p>See PGE/200, Keil-Gilman-Hager/4 See PGE/200, Keil-Gilman-Hager/4</p>
<p>100% Contingency Costs PGE Contingency Costs Percentage of Remaining Costs Represented by Contingency Costs 100% of Project PGE Portion</p>	<p>8,209,018 5,472,952</p>	<p>100% Contingency Costs PGE Portion of Contingency Costs</p>	<p>See Staff/106, Owings-Dougherty/1-2</p>
<p>Plant - Selective Water Withdraw Original Plant Staff Proposed Adjust</p>	<p>78,249 72,776 <u>(5,473)</u></p>	<p>PGE Updated Ratebase per March 3, 2009 See Staff/202, Brown/1 Staff Proposed Adjustment</p>	
			<p>1,332 PGE Updated depreciation 1,254 Staff Proposed Depreciation <u>(78)</u> Staff Proposed Adjust</p>
<p>Ratio to Plant</p>	<p>-0.008179</p>		<p>(640) PGE Updated Accum Depreciation (595) Staff Proposed Accum Depreciation <u>45</u> Staff Proposed Adjust</p>
<p>Ratio to Plant</p>	<p>(0.00847)</p>		<p>(663) PGE Updated Accum Deferred Taxes (617) Staff Proposed Accum Deferred Taxes <u>46</u> Staff Proposed Adjust</p>
<p>Ratio to Plant</p>	<p>0.0156168</p>		<p>1222 PGE Updated Property Tax Expense 1137 Staff Proposed Property Tax Expense <u>(85)</u> Staff Proposed Adjust</p>
<p>Ratio to Plant</p>	<p>0.0469399</p>		<p>3673 PGE Updated Schedule Ms 3416 Staff Proposed Schedule Ms <u>(257)</u> Staff Proposed Adjust</p>
<p>Ratio to Plant</p>	<p>0.0183006</p>		<p>1432 PGE Updated Provision for Deferred Taxes 1332 Staff Proposed Provision for Deferred Taxes <u>(100)</u> Staff Proposed Adjust</p>

Portland General Electric
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Test period ending December 31, 2009
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Remove costs related to cost-sharing for over-runs above original estimates, delay related to design changes, costs related to delays in construction. Adjust Depreciation related to Staff Proposed Ratebase amounts to reflect stipulated agreement filed March 11, 2009.

Staff Proposed Adjustment To Plant

Design delays	2,537,273	See Staff Exhibit 202
Overhead Charges	591,264	See Staff Exhibit 202
Cost Sharing above original estimates	2,780,853	See Staff Exhibit 202
	5,909,390	
Plant - Selective Water Withdraw		
Original Plant	72,776	Updated Ratebase after removal of Contingencies
Staff Proposed Adjust	<u>66,867</u>	Staff Recommended Plant
	(5,909)	Staff Proposed Adjustment
		1,254 Updated depreciation after removal of contingencies
		<u>1,152</u> Staff Proposed Depreciation
		(102) Staff Proposed Adjust
Ratio to Plant	-0.008179	(595) Updated Accum Depreciation after removal of contingencies
		<u>(547)</u> Staff Proposed Accum Depreciation
		48 Staff Proposed Adjust
Ratio to Plant	(0.00847)	(617) Updated Accum Deferred Taxes after removal of contingencies
		<u>(567)</u> Staff Proposed Accum Deferred Taxes
		50 Staff Proposed Adjust
Ratio to Plant	0.0156168	1137 Updated Property Tax Expense after removal of contingencies
		<u>1044</u> Staff Proposed Property Tax Expense
		(92) Staff Proposed Adjust
Ratio to Plant	0.0469399	3416 Updated Schedule Ms after removal of contingencies
		<u>3139</u> Staff Proposed Schedule Ms
		(277) Staff Proposed Adjust
Ratio to Plant	0.0183006	1332 Updated Provision for Deferred Taxes after removal of contingencies
		<u>1224</u> Staff Proposed Provision for Deferred Taxes
		(108) Staff Proposed Adjust

CASE: UE 204
WITNESS: OWINGS-DOUGHERTY

**PUBLIC UTILITY COMMISSION
OF
OREGON**

STAFF EXHIBIT 104

**Exhibits in Support
Reply Testimony**

March 18, 2009

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UE 204

In the Matter of Revised Tariff Schedules
filed by Portland General Electric
Company Regarding the Selective Water
Withdrawal Project

**STIPULATION REGARDING
DEPRECIATION ISSUES**

This Stipulation (“Stipulation”) is among Portland General Electric Company (“PGE”), Staff of the Oregon Public Utilities Commission (“Staff”), and the Citizens’ Utility Board of Oregon (“CUB”) (collectively, the “Stipulating Parties”).

I. INTRODUCTION

This docket will result in the inclusion in rates of the Selective Water Withdrawal (“SWW”) capital additions and related expenses. PGE is constructing the SWW at the Pelton Round Butte hydro generation facility in compliance with the new 50-year license of the facility.

Settlement conferences have been held in this docket. As a result of those discussions, the Stipulating Parties have agreed to two changes to depreciation-related expenses for the SWW. The specific changes are set forth below. The Stipulating Parties submit this Stipulation to the Commission and request that the Commission adopt orders in this Docket implementing the following:

II. TERMS OF STIPULATION

1. This Stipulation is entered to settle only the issues described below.
2. For purposes of rates set in this docket, depreciation rates for the SWW should be set separately from other Round Butte assets in the 332 Account Reservoirs,

Dams, and Waterways, using an S3-95 curve and average life combination. Depreciation will begin the date the plant is closed to books, with rates established at the closing date. The 2009 rate (1.149 percent) would then be consistent with the test year depreciation expense calculated for 2010, which included the SWW in the derivation.

3. For purposes of rates set in this docket, net salvage rate for the SWW assets should be reduced to negative 50% from negative 100%. The Stipulating parties agree that the issue of the appropriate net salvage rate will be addressed in PGE's next depreciation study for subsequent ratemaking.

4. The impact of these changes is a reduction in book depreciation expense of approximately \$1,000,000 from that originally proposed in this docket, using the currently projected plant amount. The actual impact on book depreciation will depend on the actual plant balance closed to book, and the date it is closed to book.

5. The Stipulating Parties agree that this Stipulation is in the public interest and will result in rates that are fair, just and reasonable.

6. The Stipulating Parties agree that this Stipulation represents a compromise in the positions of the parties. As such, conduct, statements, and documents disclosed in the negotiation of this Stipulation shall not be admissible as evidence in this or any other proceeding.

7. If this Stipulation is challenged by any other party to this proceeding, or any other party seeks a revenue requirement for PGE that is inconsistent with the terms of this Stipulation, the Stipulating Parties reserve the right to cross-examine witnesses and put in such evidence as they deem appropriate to respond fully to the issues presented, including the right to raise issues that are incorporated in the settlements embodied in this

Stipulation. Notwithstanding this reservation of rights, the Stipulating Parties agree that they will continue to support the Commission's adoption of the terms of this Stipulation.

8. If the Commission rejects all or any material part of this Stipulation, or adds any material condition to any final order which is not contemplated by this Stipulation, each Party reserves the right to withdraw from this Stipulation upon written notice to the Commission and the other Parties within five (5) business days of service of the final order that rejects this Stipulation or adds such material condition. Nothing in this paragraph provides any Stipulating Party the right to withdraw from this Stipulation as a result of the Commission's resolution of issues that this Stipulation does not resolve.

9. This Stipulation will be offered into the record in this proceeding as evidence pursuant to OAR § 860-14-0085. The Stipulating Parties agree to support this Stipulation throughout this proceeding and in any appeal, provide witnesses to sponsor this Stipulation at the hearing (if necessary), and recommend that the Commission issue an order adopting the settlements contained herein. The Stipulating Parties also agree to cooperate in drafting and submitting the explanatory brief or written testimony required by OAR § 860-14-0085(4).

10. By entering into this Stipulation, no Party shall be deemed to have approved, admitted or consented to the facts, principles, methods or theories employed by any other Party in arriving at the terms of this Stipulation. Except as provided in this Stipulation, no Party shall be deemed to have agreed that any provision of this Stipulation is appropriate for resolving issues in any other proceeding.

11. This Stipulation may be signed in any number of counterparts, each of which will be an original for all purposes, but all of which taken together will constitute

one and the same agreement.

DATED this 10th day of March, 2009.

/s/: Douglas C. Tingey _____
PORTLAND GENERAL ELECTRIC
COMPANY

/s/: Jason W. Jones _____
STAFF OF THE PUBLIC UTILITY
COMMISSION

/s/: G. Catriona McCracken _____
CITIZENS' UTILITY BOARD
OF OREGON

CASE: UE 204
WITNESS: OWINGS-DOUGHERTY

**PUBLIC UTILITY COMMISSION
OF
OREGON**

STAFF EXHIBIT 105

**Exhibits in Support
Reply Testimony**

March 18, 2009

March 12, 2009

TO: Vikie Bailey-Goggins
Oregon Public Utility Commission

FROM: Randy Dahlgren
Director, Regulatory Policy & Affairs

**PORTLAND GENERAL ELECTRIC
UE 204
PGE Response to OPUC Data Request
Dated March 5, 2009
Question No. 052**

Request:

Please provide a detailed breakout of the outstanding contingencies as they pertain to the updated 2009 actual costs, provided on March 3. Please also include fulfilled contingencies to date. Please discuss all outstanding contingencies and explain if PGE anticipates any changes in the contingency amounts prior to the close of book in June 2009. Are the contingencies included in PGE's final costs \$78,250,000, as outlined in the updated testimony provided on March 3, 2009 to Staff?

Response:

PGE's Response to OPUC Data Request No. 49, Attachment 049-A, shows the dollar amounts for contingency on two lines: 'Contingency for Potential & Outstanding Cost Issues' and 'Project Management Contingency'. The first captures outstanding and potential issues related to the construction contract. The second provides an overall contingency for the project.

The construction contract contingency addresses the following items:

- Outstanding fabrication and construction cost requests to address design changes, scope changes, and other cost changes in relation to the initial bid documents. Potential cost: up to \$2,797,778.
- Extra Work Order requests from the construction contractors for additional work requested to address design issues, additional work scope, and/or other PGE related impacts to their work for work completed to-date. Potential cost: up to \$869,340.

- Potential cost increases for the construction contractors for additional work requested to address design issues, additional work scope, and/or other PGE related impacts to their work remaining to be completed. Potential cost: up to \$1,050,000.
- Potential additional work by the detailing contractor to address emergent work items. Potential cost: up to \$60,000.

The first two bullets in construction contingency are under review and are expected to be resolved in the next thirty days.

The Project Management contingency provides for unknown cost increases for the other areas of the project including design support and oversight, specialized engineering support for construction activities, and engineering and contractor support for the testing programs.

Fulfilled contingencies to-date relate to increased fabrication costs due to changes in material requirements and cost escalation, increased fabrication costs due to changes in design from the initial bid design, increased fabrication costs for design/scope changes after material fabrication packages were issued to the shop, costs related to schedule delays, and extra work orders requested to address field construction activities related to resolution of design issues, additional work scope, and/or other impacts.

As shown in Attachment 049-A, the 100% project cost is \$106.9 million, which includes the contingencies discussed above. As the construction contract issues are resolved, any changes will be reflected in the overall Project Management Contingency.

CASE: UE 204
WITNESS: OWINGS-DOUGHERTY

**PUBLIC UTILITY COMMISSION
OF
OREGON**

STAFF EXHIBIT 106

**Exhibits in Support
Reply Testimony**

March 18, 2009

March 12, 2009

TO: Vikie Bailey-Goggins
Oregon Public Utility Commission

FROM: Randy Dahlgren
Director, Regulatory Policy & Affairs

**PORTLAND GENERAL ELECTRIC
UE 204
PGE Response to OPUC Data Request
Dated March 5, 2009
Question No. 049**

Request:

In the format provided in PGE's response to Data Request No. 3, please provide the February through June 2009 forecasted costs. As a part of the response:

- a. Please provide a "Description" Column" and "PGE Share" column.**
- b. Please provide forecasted expenditures by anticipated month of expenditure.**
- c. Please provide a detailed breakdown of construction costs (Cost Element 49). Please list general category of cost (construction, retainage, contingency, incentive, penalty, etc.)**

Response:

PGE's Response to OPUC Data Request No. 3 was a download of historical transactions, which contained many columns that are not available in a forecast. We have tried to replicate the significant and relevant items in PGE Attachment 049-A.

PGE forecasts construction costs on a monthly basis, which are provided in Attachment 049-A, however as stated in PGE's Response to OPUC Data Request No. 017, PGE does not forecast total projects on a monthly basis. Attachment 049-A contains an informal forecast of construction costs only and does not include other costs, such as PGE loadings or AFDC. A forecast for those items can be found in PGE work papers provided with the revenue requirement update, filed on March 3. Attachment 049-A is confidential and subject to Protective Order 08-515.

Staff/106
Owings-Dougherty/2

This page is confidential.

You must have signed the protective order in this docket in order to view this page.

CASE: UE 204
WITNESS: BROWN

**PUBLIC UTILITY COMMISSION
OF
OREGON**

STAFF EXHIBIT 200

Reply Testimony

March 18, 2009

**CERTAIN INFORMATION CONTAINED IN STAFF EXHIBIT 200
IS CONFIDENTIAL AND SUBJECT TO PROTECTIVE
ORDER NO. 08-515. YOU MUST HAVE SIGNED
APPENDIX B OF THE PROTECTIVE ORDER IN
DOCKET UE 204 TO RECEIVE THE
CONFIDENTIAL VERSION
OF THIS EXHIBIT.**

1 **Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND**
2 **OCCUPATION.**

3 A. My name is Kelcey Brown. My business address is 550 Capitol Street NE,
4 Suite 215, Salem, Oregon 97301. I am a Senior Economist in the Electric
5 and Natural Gas Division of the Utility Program of the Public Utility
6 Commission of Oregon (OPUC).

7 **Q. WHAT IS YOUR EDUCATIONAL BACKGROUND AND WORK**
8 **EXPERIENCE?**

9 A. My witness qualification statement is found in Staff/201, Brown/1.

10 **Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?**

11 A. The purpose of my testimony is to describe Staff's recommended
12 adjustments to Portland General Electric's (PGE) proposed capital
13 additions for the Selective Water Withdrawal (SWW) facility.

14 **Q. PLEASE SUMMARIZE STAFF'S PROPOSED CAPITAL COST**
15 **ADJUSTMENTS.**

16 A. Staff proposes three adjustments to PGE's share of the estimated capital
17 costs of the SWW:

- 18 1. A cost sharing reduction of \$2,780,853 associated with cost over-
19 runs above original estimated projections, not including proposed
20 disallowances;
- 21 2. A reduction of \$2,537,273 in additional incurred costs for the PGE-
22 caused delay in design; and,

1 3. A reduction of \$591,264 for additional incurred costs for the PGE-
2 caused delay in construction.¹

3 **Q. WHAT IS THE TOTAL REVENUE REQUIREMENT ADJUSTMENT,**
4 **PROPOSED BY STAFF, TO THE SWW?**

5 A. Staff's proposed adjustments represent a reduction of revenue
6 requirement of approximately \$0.9 million. PGE originally requested
7 approximately \$12.9 million. (See Staff/100, Owings-Doughtery/3)

8 **Q. BRIEFLY, WHAT IS THE SWW?**

9 A. The SWW is a complex, one-of-a-kind structure that is intended to allow
10 PGE to fulfill its obligations prescribed by federal, state, and tribal
11 agencies, which require PGE to provide safe, timely, and effective fish
12 passage. This facility is also designed to satisfy the state and tribal water
13 quality standards, prescribed by the Federal Energy Regulatory
14 Commission (FERC) in the Pelton Round Butte license issued on June 21,
15 2005. PGE has a 66.7 percent majority ownership interest in the
16 development. The remaining ownership is held by the Confederated
17 Tribes of the Warm Springs Reservation of Oregon.

18 **Q. WHAT WAS PGE'S INITIAL PROJECTION OF CAPITAL COSTS?**

19 A. In 2006, PGE issued an "Invitation to Bid" with a design that was less than
20 25 percent complete and construction estimates for the total cost of
21 approximately [REDACTED]. PGE received three bids, in response to its
22 IFB, with a lowest construction bid of [REDACTED]

¹ See Exhibit Staff/202, Brown/1 for the derivation of all proposed adjustments.

1 [REDACTED]. Including design, construction,
2 engineering, and Allowance for Funds used During Construction (AFDC),
3 PGE's estimated total project cost was \$82.4 million, with PGE's
4 proportional ownership share of these costs at \$60.4 million. (See
5 PGE/100, Keil-Schue-Hager/12, Table 1)

6 **Q. WHAT IS PGE'S CURRENT ESTIMATE OF CAPITAL COSTS FOR THE**
7 **SWW?**

8 A. PGE's current estimate for total capital costs, including design,
9 construction, engineering, and AFDC, is approximately \$108.4 million.
10 With PGE's share of these costs, at \$78.3 million, PGE's current estimate
11 of capital costs is approximately 30 percent higher than its original
12 estimate of \$60.4 million.

13 **Q. PLEASE SUMARIZE STAFF'S PROPOSED ADJUSTMENTS**
14 **ASSOCIATED WITH THE SWW.**

15 A. PGE was imprudent in its approach to the bidding and construction of the
16 SWW. Due to the complex and unique structure of the SWW, PGE should
17 have taken additional time in the design phase of the project, which would
18 potentially have allowed it to:

- 19 1. Avoid the delay charges by the Contractor, as well as an extended
20 construction schedule;
- 21 2. Better manage, and potentially avoid, a majority of the unforeseen
22 cost over-runs;

1 3. Approach the bidding process at a higher percentage level of
2 completion, which would have allowed PGE to better determine the
3 least-cost bidder, secure firm pricing from the Contractor within
4 contract negotiations, and require the Contractor to take on risk
5 associated with its pricing and completion date.

6 Because of the early bid out of the SWW project at 25 percent of the
7 design stage, the expenditures associated with the SWW are probably
8 excessive, due to significant delays caused by a lack of proper foresight.
9 A portion of these costs (delays, incentives and extended construction
10 costs) should be deemed to be imprudent and disallowed and PGE should
11 be required to share with ratepayers in the cost over-runs of the project.

12 In addition, Staff has reviewed a benchmark resource, the Fish Bypass
13 Facility at the Rocky Reach Dam. In contrast to this facility, PGE's
14 approach to the SWW clearly demonstrates a lack of prudence, foresight,
15 and an inability to effectively manage cost. Staff's proposed adjustment,
16 of a 30 percent sharing of the cost over-runs, and disallowance of costs
17 related to delays and incentives, represents approximately 8 percent of
18 the total projected project costs.

19 **Q. PLEASE DESCRIBE AN ALTERNATIVE APPROACH FOR DESIGNING
20 AND CONSTRUCTING A MAJOR CAPITAL PROJECT.**

21 A. In the IRP process, the Commission requires a Utility to perform rigorous
22 analysis, which evaluates alternative approaches to determine the best
23 combination of least cost and least risk and, therefore, which option

1 should be pursued. Because this project is a significant capital investment
2 Staff expected that PGE would approach this project in a similar fashion:
3 determining which approach would provide the least cost and best risk
4 solution.

5 **Q. DID PGE PERFORM A COST-BENEFIT ANALYSIS TO ENSURE THAT**
6 **THE SWW WAS THE MOST COST EFFECTIVE, LEAST RISK MEANS**
7 **TO ACHIEVE FISH PASSAGE AND MEET THE WATER QUALITY**
8 **STANDARDS PRESCRIBED BY FERC?**

9 A. No. In Staff's data request number 14,² Staff asked PGE to provide a
10 copy of a cost-benefit analysis used to determine the most cost-effective
11 means to ensure fish runs were adequate to meet FERC relicensing
12 requirements. PGE replied that they were constructing the facility as
13 "cost-effectively as possible." Further, PGE stated that it had performed a
14 cost-benefit analysis only against the alternative of no longer operating the
15 Pelton and Round Butte facility when determining whether or not to pursue
16 the license, but not on alternative solutions. In addition, once cost
17 estimates for the SWW were known to be significantly greater than
18 originally estimated, PGE did not perform any additional analysis to
19 determine whether the project, or more importantly, its selected approach,
20 was the most cost effective means of achieving the requirements.

² See Exhibit Staff/203, Brown/1

1 **Q. HAS PGE PROVIDED PREVIOUS TESTIMONY IN WHICH IT**
2 **DESCRIBES ITS APPROACH TOWARDS PROJECTS SUCH AS THE**
3 **SWW?**

4 A. In UE 197, PGE/1300, Piro/20-21, Mr. Piro testified to PGE's serious
5 consideration of price impacts when evaluating projects.³ Mr. Piro stated
6 that PGE does not perform cost-benefit analysis on all projects, and
7 specifically not on projects that are required for regulatory purposes, such
8 as FERC requirements. Mr. Piro states that: "In such instances, cost-
9 benefit analysis is not appropriate because doing nothing is not an option."
10 (See UE 197, PGE/1300, Piro/21, Lines 4-6)

11 **Q. IS STAFF CONCERNED WITH PGE'S ABILITY AND INCENTIVE TO**
12 **EXERCISE COST CONTAINMENT FOR REGULATORY-RELATED**
13 **PROJECTS?**

14 A. Yes. Mr. Piro's testimony suggests that PGE operates under the
15 assumption that cost-benefit analysis is unnecessary for regulatory
16 requirement projects. In addition, given the extremely low costs of
17 operation of a hydro facility, as compared to market, PGE's incentive for
18 cost containment are low. Finally, the current cost estimate for the SWW
19 is 30 percent above original cost projections. Considering all these
20 factors, Staff believes that the level of PGE's oversight given to capital
21 projects required for regulatory purposes, and SWW in particular, is
22 insufficient and, thus, not prudent.

³ Pursuant to OAR 860-0050(1)(e), Staff requests that the Commission take official notice of the cited testimony in Docket UE 197.

1 **Q. DID PGE GO THROUGH A BIDDING PROCESS TO AWARD THE**
2 **CONSTRUCTION CONTRACT OF THE SWW STRUCTURE?**

3 A. Yes. PGE sent an “Invitation for Bid” (IFB) to three companies in March
4 2006. However, PGE did so at less than 25 percent of the design stage,
5 utilizing an alternative contracting method called Construction
6 Manager/General Contractor (CM/GC) wherein the Contractor is brought
7 in to collaborate on the elements of design and construction.

8 **Q. WHAT IS CM/GC?**

9 A. CM/GC is a construction project delivery system that allows a Company to
10 select a single firm during the early phase of the design process. This
11 approach allowed PGE to develop a more collaborative approach with the
12 contractor and designer. For more information on CM/GC I have attached
13 a definition of the three types of construction methods, including CM/GC⁴,
14 from the Oregon Public Contracting Coalition (OPCC) Design-Build
15 Whitepaper, from February, 2002. The CM/GC methodology is not
16 allowed in certain states and public works sectors where least cost bidding
17 is a requirement because it is difficult to determine the lowest priced
18 bidder.

19 **Q. PLEASE DISCUSS THE INABILITY OF STAFF TO EQUITABLY**
20 **COMPARE THE THREE BIDS THAT PGE RECEIVED IN RESPONSE**
21 **TO ITS INVITATION.**

⁴ See Exhibit Staff/204, Brown/1.

1 A. In PGE’s proposal letter⁵ to the three contractors, it states that the “base
2 bid shall be based on the work scope as addressed in the attached
3 document of this IFB. In addition, the bidder is strongly encouraged to
4 submit more than one method and optional pricing for review.” The
5 resulting bids that were provided to PGE were based on a scope of work
6 that was only 25 percent complete. The bidders were encouraged to
7 provide bids that included different approaches to how they would
8 construct the facility. PGE relied heavily on the experience of the bidders
9 weighting the outcome in favor of bidders to whom PGE believed had
10 more experience rather than weighting the bids solely on cost. In Staff
11 data request No. 47,⁶ PGE acknowledged this level of uncertainty, and
12 went so far as to state in an Addendum IFB, that the submitted pricing
13 schedules would be given a lower value in the bid evaluation matrix. The
14 varying approaches to how each contractor would approach the project
15 makes it difficult for Staff to evaluate what the eventual outcome for each
16 bidder would have been, had they been awarded the job.

17 **Q. BECAUSE THE ORIGINAL BID PRICE IS BASED UPON A LESS THAN**
18 **25 PERCENT DESIGN STAGE, WAS IT REASONABLE FOR PGE TO**
19 **HOLD THE CONTRACTOR TO THIS ORIGINAL BID?**

20 A. No. The contract and proposal from PGE are clear that, because of the
21 incomplete design, the contractor is unable to provide an original total bid

⁵ See Exhibit Staff/205, Brown/1-2.

⁶ See Exhibit Staff/206, Brown/1-2.

1 price that would give a reasonable representation of its actual expected
2 costs.

3 **Q. WITHIN THE CM/GC APPROACH IS IT A COMMON SITUATION TO**
4 **HAVE A MINIMAL DESIGN STAGE WITH BIDS THAT DO NOT**
5 **REFLECT REALISTIC FIGURES?**

6 A. Yes. However, it is also typical within the CM/GC approach for the
7 contractor to provide a “Guaranteed Maximum Price” (GMP) once a more
8 known stage of the design has been reached, e.g. 90 percent.⁷ This
9 allows the Owner, PGE, to then hold the Contractor to a level of
10 responsibility and sharing in the cost risks associated with the project.
11 Because the Contractor is given responsibility for project input it is
12 important that they be given the appropriate incentive to share in the risk
13 of those decisions.

14 **Q. DID PGE EVER ASK THE CONTRACTOR, BARNARD**
15 **CONSTRUCTION, OR CH2M HILL, TO PROVIDE A GMP?**

16 A. No. PGE does not have in place a GMP, cost ceiling, not-to-exceed
17 amount, or any type of cost limitation for the SWW.

18 **Q. BECAUSE THE ORIGINAL BIDS ARE DIFFICULT TO COMPARE, DUE**
19 **TO THE MINIMAL DESIGN STAGE AND REQUEST BY PGE TO**
20 **PROVIDE BIDS THAT WOULD REFLECT HOW THE INDIVIDUAL**
21 **CONTRACTOR WOULD APPROACH THE PROJECT, DOES STAFF**

⁷ See Exhibit Staff/204, Brown/5.

1 **HAVE ANY ASSURANCE THAT THIS PROJECT WAS BUILT IN A**
2 **COST EFFECTIVE MANNER?**

3 A. No.

4 **Q. DOES BARNARD CONSTRUCTION, CH2M HILL OR ANY OTHER**
5 **CONTRACTOR ASSOCIATED WITH THE DESIGN AND**
6 **CONSTRUCTION OF THIS PROJECT BEAR ANY OF THE RISK FOR**
7 **COST, DESIGN OR FUNCTION OF THE SWW?**

8 A. No. PGE ratepayers have been placed in the position of having to bear all
9 the risks associated with this project. This is why Staff recommends that
10 PGE shareholders share in this burden on the cost over-runs portion of
11 the project. The level of risk that PGE has placed on ratepayers is
12 unreasonable. Staff recommends PGE shareholders bear 30 percent
13 sharing, only on cost over-runs, which still results in a project significantly
14 above original estimates. Overall, this adjustment is only approximately 4
15 percent of the total cost of the SWW.

16 **Q. WHY DOES STAFF PROPOSE A 30 PERCENT COST SHARING ON**
17 **COST OVER-RUNS OF THE SWW?**

18 A. Staff is aware that in power cost adjustment filings the Commission has
19 determined that a 90/10 sharing of risk is appropriate. However, this level
20 of sharing is only on costs that the Commission has found to be prudently
21 incurred. Given PGE's lack of prudence in following a least cost method
22 that fails to mitigate customers exposure to risk, Staff recommends the

1 sharing mechanism of 70/30 on cost-overages, for a reduction in capital
2 cost of \$2.8 million. (See Confidential Exhibit Staff/202, Brown/1)

3 **Q. WHY DID PGE CHOOSE TO DO THE CM/GC METHODOLOGY?**

4 A. One of the advantages of the CM/GC approach is that it will allow a fast-
5 track schedule because of the overlap of the design and construction
6 phases. PGE has stated in numerous data requests that the reasons for a
7 fast-track schedule was to meet the amended FERC fish license
8 requirements, which requires a completion date of May 2009. PGE had
9 originally forecasted the completion of the construction phase of the SWW
10 for December 2008, with subsequent testing to be performed before the
11 spring fish runs. Due to delays in design and an extended construction
12 schedule, which Staff will discuss below, PGE is not currently scheduled
13 to complete construction until April 15, 2009.

14 **Q. WHAT PENALTIES, IF ANY, DOES PGE INCUR IF THEY DO NOT**
15 **COMPLETE CONSTRUCTION OF THE SWW BY MAY 2009?**

16 A. None. In Staff data request No. 43,⁸ Staff asked PGE to quantify the fines
17 that would be imposed upon PGE if it were not able to complete the SWW
18 by April 2009. PGE responded that there were no penalties that PGE
19 would incur if they did not complete the project on time.

20 **Q. IF AT ANY TIME DURING THE DESIGN PROCESS PGE HAD DECIDED**
21 **THAT THE PROJECT NEEDED FURTHER SCRUTINY AND DESIGN**

⁸ See Exhibit Staff/207, Brown/1-2

1 **MODIFICATIONS, COULD PGE HAVE REQUESTED ADDITIONAL**
2 **TIME?**

3 A. Yes. PGE had already requested an amended date of completion from
4 the original FERC license schedule, which had originally set the
5 completion date of the SWW for the fall of 2007. Once more of the design
6 of the SWW became known, PGE negotiated with licensing settlement
7 parties for agreement in seeking an amended schedule. In Staff data
8 request No. 43⁹ PGE states that it could have re-negotiated for an
9 amended schedule, with the agreement of the settlement parties, for a
10 later completion date.

11 **Q. EARLY IN THE PROCESS, WHAT WOULD A DELAY OF SCHEDULE**
12 **HAVE ACCOMPLISHED?**

13 A. The delay of schedule would have provided PGE the opportunity to reach
14 a greater design stage for bidding purposes, potentially receive a more
15 competitive bid, and provide PGE greater leverage in requiring the
16 contractor to assume more accountability for meeting specific deadlines
17 and budget constraints.

18 **Q. IN ADDITION TO THE FAST-TRACKED CONSTRUCTION SCHEDULE,**
19 **HAS PGE DISCUSSED ADDITIONAL BENEFITS THAT THE CM/GC**
20 **APPROACH WOULD PROVIDE?**

⁹ *Ibid.*

1 A. Yes. In CUB data request No. 30¹⁰ PGE discusses additional reasons for
2 choosing the CM/GC methodology. They are:

- 3 1. Allows the design team and the contractor to provide innovative
4 construction methods to be incorporated early into the design,
5 which would reduce the risk of late changes, or field changes.
6 2. Securing a contractor early in the process assured PGE dedicated
7 fabrication shop space in what was a very competitive construction
8 market.

9 **Q. DOES STAFF BELIEVE THAT THESE REASONS ARE SIGNIFICANT**
10 **RATIONALES FOR APPROACHING THE PROJECT IN THIS**
11 **MANNER?**

12 A. No. PGE claims that it was necessary to go to bid in order for the
13 contractor to be able to have input on design and construction methods.
14 However, Barnard Construction and Dix (Barnard subcontractor), were
15 members of and part of the “Value Engineering” study for over a year prior
16 to the project being put out for bid. In fact, Barnard made numerous
17 mentions of its ideas already being incorporated into the project within its
18 bid proposal, to justify its confidence in its ability to do the work. Because
19 these contractors were already providing input in the Value Engineering
20 study, and being paid for their time, Staff is unclear as to why it was
21 necessary to go to bid in order to allow them to provide input into the
22 design and construction.

¹⁰ See Exhibit Staff/208, Brown/1.

1 With respect to the need to secure dedicated fabrication shop space
2 and the competitive construction market, Staff has been unable to verify
3 PGE's claims. However, Staff was able to find a comparable project that
4 the SWW could be benchmarked with, which Staff discusses below, where
5 a long lead time to secure dedicated shop time was apparently not
6 necessary.

7 **Q. PLEASE DISCUSS THE COMPARABLE PROJECT THAT STAFF**
8 **BENCHMARKED THE SWW AGAINST.**

9 A. The SWW is a very unique, and never before attempted, solution for
10 achieving fish passage. The most common means of achieving fish
11 passage, for regulatory requirements, are fish ladders and V screens, not
12 floating fish bypass facilities that also incorporate selective water
13 withdrawal. The only comparable project that Staff found, in terms of the
14 technology used, functionality and recent completion date, is the floating
15 Fish Bypass facility at the Rocky Reach Dam. This facility was completed
16 in April 2003 and was the first-of-its-kind with respect to a floating fish
17 transfer facility. It employed many new innovative techniques at attracting,
18 collecting and transferring fish that had not previously been employed.

19 **Q. DID THE ROCKY REACH FACILITY USE THE CM/GC APPROACH**
20 **THAT PGE UTILITIZED FOR THE SWW?**

21 A. No. The Rocky Reach facility used the Design-Bid-Build method. The
22 definition of this method is that it is designed to 100 percent of the design
23 phase, put out for bid, and then built to the specifications that were

1 prescribed.¹¹ One of the major benefits of this approach is that there are
2 assurances that the lowest cost bidder is chosen because the contractors
3 are all bidding on the exact same project. In addition, as in the example of
4 Rocky Reach, Chelan PUD was able to impose and enforce deadlines for
5 construction, with the provision of liquidated damages if the contractor did
6 not finish on time.

7 **Q. WHAT WAS THE PERIOD OF DESIGN THAT THE ROCKY REACH**
8 **FACILITY UNDERWENT AS COMPARED TO THE SWW?**

9 A. The period of design for the Rocky Reach facility was approximately 18
10 months; in addition, there was a preliminary prototype time period in which
11 the Chelan PUD tested different technologies over a five year time period
12 in order to insure that the project would operate as expected once
13 construction was complete and the facility was put into place. For a full
14 timeline and narrative of the Rocky Reach facility, please see Exhibit
15 Staff/209, Brown/1. Comparatively, the SWW went through a design
16 phase of approximately 12 months before being put to bid, 6 months less
17 than this phase for the Rocky Reach Dam.

18 **Q. DID THE ROCKY REACH FACILITY GO THROUGH A LONG LEAD**
19 **TIME BETWEEN PUTTING ITS PROPOSAL OUT FOR BID,**
20 **SELECTING THE CONTRACTOR, AND STARTING CONSTRUCTION?**

21 A. No. Chelan PUD, the owner of the Rocky Reach Dam, went to bid in
22 March 2002 for the Fish Bypass portion of the contract. They awarded

¹¹ For a definition and further description of the Design-Bid-Build method, please review Exhibit Staff/204, Brown/1.

1 this contract to Traylor Bros. on April 11, 2002. Traylor Bros. was then
2 able to secure the dedicated shop fabrication time from April 2002 through
3 September 2002, before on-site construction began.

4 **Q. WHAT WAS THE PERIOD OF CONSTRUCTION THAT THE ROCKY**
5 **REACH FACILITY UNDERWENT AS COMPARED TO THE ORIGINAL**
6 **PROPOSAL OF THE SWW?**

7 A. The Rocky Reach Fish Bypass facility had an extremely short construction
8 schedule that lasted from September 2002 through April 2003, 8 months.¹²
9 In addition to the construction of the project, contractors were also
10 required to demolish and remove the prior prototype fish transfer facility
11 within this time frame. Since the Chelan PUD went to bid at 100 percent
12 of the design phase, it did not have to accommodate additional design
13 time, it minimized their risk of unforeseen design and scope changes, and
14 thus it was able to more effectively manage its construction schedule.

15 By contrast, the originally proposed construction schedule for PGE's
16 SWW was September 1, 2007 through December 2008, approximately 16
17 months. The current timeline has extended the schedule to approximately
18 21 months of construction, or about three times longer than the Rocky
19 Reach construction schedule.

¹² For a full description of the construction schedule, original contract amount, final contract amount, and award date, for the Fish Bypass portion at the Rocky Reach Dam, please see the Confidential Exhibit Staff/210, Brown/1-3. This exhibit is an excerpt from the Traylor Bros. bid package for the SWW, which was provided to justify the Company's experience and expertise in building a Fish Bypass facility

1 **Q. WHAT WOULD HAVE BEEN THE BENEFITS OF A SHORTER**
2 **CONSTRUCTION SCHEDULE?**

3 A. Barnard Construction, Dix, and Thompson Metal Fabrication were all
4 contracted for the duration of the SWW construction period. Two
5 elements of cost for these firms are overhead and fixed fee for profit. For
6 example, Thompson Metal Fabrication charges [REDACTED] per week in
7 overhead charges. These two cost elements are schedule driven; the
8 longer the schedule, the greater the overhead and fixed fee for profit, and
9 the greater the costs for PGE's customers.

10 **Q. WHAT PERCENTAGE OF COSTS DO THESE TWO ELEMENTS**
11 **REPRESENT WITH RESPECT TO THE TOTAL PROJECT COST OF**
12 **THE SWW?**

13 A. Of the total projected construction cost for the SWW, [REDACTED], the
14 overhead and fixed fee for profit are [REDACTED]
15 percent of the total costs.¹³ This does not include the additional costs
16 PGE paid for delay, [REDACTED], or the scheduled incentive that PGE will
17 pay if the Contractor is able to finish construction by April 15, 2009,
18 [REDACTED]. Including these additional costs, overhead, incentives, and
19 fixed fee for profit adds to a total amount of [REDACTED]
20 [REDACTED] construction costs.¹⁴

¹³ See Confidential Exhibit Staff/202, Brown/1.

¹⁴ PGE's share of all costs stated in this paragraph is 66.7 percent. Staff attained these figures from Staff DR No. 25, Attachment 25-A. This is the most recent invoice provided to Staff from Barnard construction to PGE, pages 7-8. See Confidential Exhibit Staff/211, Brown/1-2.

1 **Q. ARE THERE OTHER CHARGES ASSOCIATED WITH A LONGER**
2 **CONSTRUCTION SCHEDULE?**

3 A. Yes. A longer construction schedule results in a higher Allowance for
4 Funds used During Construction (AFDC) charge. AFDC is the net cost for
5 the period of construction of borrowed funds used for construction
6 purposes and a reasonable rate on other funds when used. The longer
7 the construction period, the higher the AFDC cost will be as AFDC
8 compounds on previous monthly balances. The AFDC included in SWW
9 is calculated as \$6,002,751. A shorter construction schedule would have
10 resulted in a lower AFDC charge.

11 **Q. IN THE ROCKY REACH CONTRACT WAS THE CONTRACTOR,**
12 **TRAYLOR BROS., GIVEN AN INCENTIVE TO COMPLETE THE**
13 **PROJECT BY A SPECIFIC DATE?**

14 A. No. In fact, it was the opposite. The Contractor was required to complete
15 in-water construction of the project by April 2003, due to fish requirements
16 on the Columbia River. If they did not achieve this date the Contractor
17 would have been required to pay liquidated damages to the Owner of the
18 facility, and resume work in the fall once fish runs were complete.

19 **Q. DID THE ROCKY REACH FACILITY EXPERIENCE COST OVER-RUNS**
20 **OF THE SAME MAGNITUDE AS THE SWW FACILITY?**

1 A. No. According to Traylor Bros. the original contract amount was
2 [REDACTED] and the final contract amount was [REDACTED]
3 [REDACTED] than the original contract amount.¹⁵

4 **Q. DOES STAFF BELIEVE THAT COST OVER-RUNS ON A UNIQUE**
5 **PROJECT, SUCH AS THE SWW, ARE GOING TO REASONABLY**
6 **OCCUR?**

7 A. Yes. Cost over-runs on a unique and untried technology, such as the
8 SWW, are not unexpected. PGE acknowledges the risk of pursuing such
9 a structure within its risk assessment sheet.¹⁶ However, PGE lacked the
10 proper foresight, due to a minimal design phase, to adequately evaluate
11 these risks in determining a proper development path and minimize cost.
12 Cost over-runs of approximately 30 percent are unreasonable, which is
13 demonstrated by comparing them with the Rocky Reach facility.

14 **Q. HAS PGE PROVIDED ANY PROBABILITIES ASSOCIATED WITH ITS**
15 **BELIEF THAT THE STRUCTURE WILL WORK AS INTENDED?**

16 A. Yes. In CUB data request No. 33, Attachment 33-A, PGE provided a Risk
17 Assessment document which shows that the fish transfer function of the
18 SWW has a 40 percent probability of failure, resulting in continual
19 mitigation costs.¹⁷

20 **Q. DOES STAFF BELIEVE THAT HAD PGE TAKEN ADDITIONAL TIME**
21 **FOR A DESIGN AND TESTING PHASE THEY COULD HAVE AVOIDED**

¹⁵ See Confidential Exhibit Staff/210, Brown/2.

¹⁶ See Confidential Exhibit Staff/212, Brown/1.

¹⁷ *Ibid.*

1 **NOT ONLY THE DELAYS AND COST OVER-RUNS, BUT**
2 **POTENTIALLY HAVE GAINED MORE ASSURANCE THAT THE**
3 **FACILITY WOULD FUNCTION AS DESIRED?**

4 A. With a greater stage of design PGE could have avoided the delay charges
5 and a majority of the cost over-runs. Additionally, PGE would have gained
6 greater assurance of operational success, due to the more known
7 specifications of its operations. PGE has placed the risk of operation of
8 this facility solely on customers, who also face potential additional
9 mitigation costs in the event of failure, PGE should have exercised more
10 prudence, based upon what PGE knew or should have known at the time
11 the decision to go forward was made.

12 **Q. IS THIS THE REASON FOR STAFF'S ADJUSTMENTS ASSOCIATED**
13 **WITH DELAY AND PROLONGED CONSTRUCTION SCHEDULE?**

14 A. Yes. PGE was charged for a delay by Barnard Construction in September
15 2007 for [REDACTED]. The claim was for fixed
16 fees and expenses related to the delayed start of the SWW project from
17 September 1, 2007 to October 25, 2007. The delay was related to design
18 issues, which took longer than expected. In addition, due to the extended
19 construction schedule of five months, Barnard Construction filed a second
20 delay claim for [REDACTED]. Through Settlement,
21 PGE negotiated an up front payment of [REDACTED]
22 [REDACTED], and an incentive for Barnard
23 Construction if they complete construction by April 15, 2009, in the amount

1 of [REDACTED]. Barnard Construction has also included additional
2 charges for overhead due to the prolonged construction schedule of
3 [REDACTED]. Staff recommends the Commission
4 disallow the entire amount of these PGE-caused additional and
5 unnecessary costs. For a full narrative and numerical spreadsheet of
6 these settlement negotiations, provided by PGE in Staff data request No.
7 33-A,B, and 34-B, please see Confidential Exhibit Staff/213, Brown/1-4,
8 and Confidential Exhibit Staff/202, Brown/1 for Staff's calculation
9 worksheet.

10 **Q. PLEASE SUMMARIZE STAFF'S RECOMMENDED ADJUSTMENTS.**

11 A. The SWW is a complex and unique structure, which combines not only
12 fish passage, but also selective water withdrawal into one structure.
13 Because the risks associated with the design and construction of such a
14 large project are significant, PGE should have exercised greater prudence
15 in mitigating these risks to the greatest extent possible. Customers are in
16 the untenable position of having to bear all risks for this project. If PGE
17 had given greater time to the design portion of the structure and gone to
18 bid with a higher percentage of design completion, many of the issues
19 faced today by PGE could potentially have been avoided, such as design
20 delays, prolonged construction schedules, a 40 percent probability of
21 failure, and the magnitude of cost over-runs. In addition, a benchmark
22 facility at the Rocky Reach Dam demonstrates that a different approach
23 could have had very different results. Finally, because the bidding for the

1 original project was done on a less than 25 percent design stage, Staff
2 has no assurance that the least cost bidder was chosen. All these
3 reasons, which PGE knew at the time it made its decision to go forward,
4 leads Staff to recommend its proposed adjustments for a 70/30 sharing on
5 cost over-runs, and a disallowance of costs associated with the PGE-
6 caused delays. In summary, these adjustments are:

- 7 1. A cost sharing reduction of \$2,780,853 associated with cost over-
8 runs above original estimated projections, not including proposed
9 disallowances;
- 10 2. A reduction of \$2,537,273 in additional incurred costs for the PGE-
11 caused delay in design; and,
- 12 3. A reduction of \$591,263 for additional incurred costs for the PGE-
13 caused delay in construction.

14 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

15 A. Yes.

CASE: UE 204
WITNESS: BROWN

**PUBLIC UTILITY COMMISSION
OF
OREGON**

STAFF EXHIBIT 201

Witness Qualification Statement

March 18, 2009

WITNESS QUALIFICATION STATEMENT

NAME: Kelcey Brown

EMPLOYER: Public Utility Commission of Oregon

TITLE: Senior Economist, Electric and Natural Gas Division, Resource and Market Analysis

ADDRESS: 550 Capitol Street NE Suite 215, Salem, Oregon 97301-2115.

EDUCATION: All course work towards Masters in Economics
University of Wyoming

B.S. University of Wyoming
Major: Business Economics
Minor: Finance

EXPERIENCE: Since November 2007 I have been employed by the Public Utility Commission of Oregon. Responsibilities include research, analysis and recommendations on a wide range of cost, revenue and policy issues for electric utilities. I have provided testimony in UE 199 and UE 200, and actively participated in regulatory proceedings in Oregon, including UE 195, UE 198, and UM 1355.

From June 2003 to November 2007 I worked as the Economic Analyst for Blackfoot Telecommunications Group, a competitive and incumbent telephone provider in Missoula, Montana. I conducted all long and short term sales and revenue forecasts, resource acquisition cost-benefit analysis, business case analysis on new products and build-outs, pricing, regulatory support, market research, and strategic planning support.

From May 2002 to August 2002 I worked as an intern at the Illinois Commerce Commission in Springfield, Illinois. I performed competitive market analysis, spot market monitoring and pricing review, and extensive research on locational marginal pricing and transmission system incentives for development.

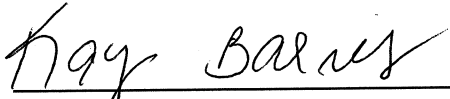
My course work, towards a Master's degree at the University of Wyoming, focused heavily on the regulatory economics of network industries such as electricity, natural gas, and telecommunications.

CERTIFICATE OF SERVICE

UE 204

I certify that I have this day served the foregoing document upon all parties of record in this proceeding by delivering a copy in person or by mailing a copy properly addressed with first class postage prepaid, or by electronic mail pursuant to OAR 860-13-0070, to the following parties or attorneys of parties.

Dated at Salem, Oregon, this 19th day of February, 2009.



Kay Barnes
Public Utility Commission
Regulatory Operations
550 Capitol St NE Ste 215
Salem, Oregon 97301-2551
Telephone: (503) 378-5763

UE 204
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