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January 22, 2016

Via Electronic Filing

Public Utility Commission of Oregon
Attn: Filing Center
201 High St. SE, Suite 100
Salem OR 97301

Re: In the Matter of PUBLIC UTILITY COMMISSION OF OREGON, Application for Deferral Accounting of Excess Pension Costs and Carrying Costs on Cash Contributions
Docket No. UM 1632

Dear Filing Center:

Enclosed for filing in the above-referenced docket, please find the Opening Testimony and Exhibits of Bradley G. Mullins on behalf of the Industrial Customers of Northwest Utilities.

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

Sincerely,

/s/ Jesse O. Gorsuch
Jesse O. Gorsuch

Enclosure

BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UM 1623

In the Matter of	)
	)
PORTLAND GENERAL ELECTRIC COMPANY,	)
	)
Application for Deferral Accounting of Excess Pension Costs and Carrying Costs on Cash Contributions.	)

OPENING TESTIMONY OF BRADLEY G. MULLINS

ON BEHALF OF THE INDUSTRIAL CUSTOMERS OF NORTHWEST UTILITIES

January 22, 2016

I. INTRODUCTION AND SUMMARY

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Bradley G. Mullins, and my business address is 333 SW Taylor Street, Suite 400, Portland, Oregon 97204.

Q. PLEASE STATE YOUR OCCUPATION AND ON WHOSE BEHALF YOU ARE TESTIFYING.

A. I am an independent consultant representing industrial customers throughout the western United States. I am appearing on behalf of the Industrial Customers of Northwest Utilities ("ICNU"). ICNU is a non-profit trade association whose members are large customers served by electric utilities throughout the Pacific Northwest, including Portland General Electric Company ("PGE" or the "Company").

Q. PLEASE SUMMARIZE YOUR EDUCATION AND WORK EXPERIENCE.

A. A summary of my education and work experience can be found at ICNU/101.

Q. WHAT IS THE PURPOSE OF YOUR OPENING TESTIMONY?

A. My testimony responds to the Company's proposal to defer the historical forecast variances associated with its pension expense, calculated pursuant to the Statement of Financial Accounting Standards ("SFAS") 87,[1/] over the approximate 16-month period between August 22, 2012 and December 31, 2013.[2/]

Q. WHAT IS THE COMPANY'S JUSTIFICATION FOR ITS PROPOSAL?

A. The Company claims that, following its 2010 General Rate Case ("GRC"),[3/] it experienced an unforeseen increase to its pension expense, which led to variance between

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1/ See Accounting Standards Codification ("ASC") 715, Compensation—Retirement Benefits.
2/ PGE/100 at 6:20-7:2.
3/ In re Portland General Electric Company, Request for a General Rate Revision, Docket No. UE 215.

actual pension expenses incurred and the amount forecast in the rate case.[4] This variance was not experienced in 2011, the test period used in the 2010 GRC; in 2011, actual pension expenses exceeded the rate case forecast by only $0.3 million.[5] Rather, the variances occurred in 2012 and 2013, when—due in part to the Company's decision not to file subsequent rate cases to update the test period expenses, including its pension expense forecast—the variance increased to $8.5 million and $13.5 million in 2012 and 2013, respectively.[6] This increase was due largely to reductions in the discount rate and rate of return assumptions used by the Company to establish the expense level in those subsequent years.[7] The Company seeks to defer these amounts, prorating 2012 pension expenses based on the timing of its initial deferral request in this proceeding,[8] subject to amortization and recovery in a later ratemaking proceeding.

Q. DO YOU AGREE WITH THE COMPANY'S PROPOSAL?

A. No. The Company's proposal to continue to seek deferral of these variances in this proceeding is improper for several reasons. First, approval of such a deferral would constitute single-issue ratemaking that is generally not permitted by the Commission.[9] Second, the Company had the opportunity, but elected not, to file a rate case subsequent to the 2010 GRC in order to update all aspects of its revenue requirement calculation, including pension expense. Third, the Company's proposal is a case of asymmetrical cherry-picking because the Company proposes to defer costs only over a limited period

[4] PGE/100 at 8:1-12:20.
[5] See ICNU/102 at 1 (The Company's Response to ICNU Data Request ("DR") 002).
[6] PGE/101.
[7] PGE/100 at 8:1-8.
[8] PGE/101.
[9] See In re Northwest Natural Gas, Docket No. UG 221, Order No. 12-437 at 26 (Nov. 16, 2012); In re PGE Request for a General Rate Revision, Docket Nos. UE 180/UE 184, Order No. 07-454 at 5 (Oct. 22, 2007); City of Portland v. PGE, Docket No. UM 1262, Order No. 06-636 at 7 (Nov. 17, 2006).

when the variance is favorable to the Company, even though the Company recognizes that these pension forecast variances have the potential to be offsetting over time.[10/] For these reasons, I recommend that the Commission reject the Company's deferral request.

Q. HOW DOES THE COMPANY'S PROPOSAL CONSTITUTE IMPERMISSIBLE SINGLE-ISSUE RATEMAKING?

A. The Company proposes to collect increases in a single category of expense without recognizing the fact that other expense categories may have declined, offsetting the impact of the expense category that increased. The Commission is well aware of the dangers of single-issue ratemaking and ICNU has already filed comments in this docket concerning this topic.[11/] Accordingly, it is not necessary here to restate all of the problems associated with single-issue ratemaking. It should be noted, however, that the Company's proposal is a particularly unfair form of single-issue ratemaking because, not only does the Company propose to single out and recover a particular line item from its 2010 GRC forecast, it proposes to compare its actual pension expenses in 2012 and 2013 to a forecast developed for calendar year 2011.

Q. WHY IS IT UNFAIR TO COMPARE ACTUAL PENSION EXPENSE IN 2012 AND 2013 TO A FORECAST DEVELOPED FOR 2011?

A. When parties agreed to the revenue requirement in the 2010 GRC, that agreement was based on a forecast of pension expense for 2011. In retrospect, the forecast developed for 2011 actually proved to be quite accurate, falling within only a few hundred thousand dollars of actual pension expense.[12/] It is unfair to compare pension expense in 2012 and 2013 to a forecast for 2011 because pension expense is expected to change subsequent to

[10/] PGE/100 at 5:15-6:3. The Company recognizes that the forecast variances in 2014 and 2015 were "largely offsetting."
[11/] Docket No. UM 1623, Comments in Opposition of ICNU at 3-5 (Oct. 31, 2012).
[12/] See ICNU/102 at 1 (The Company's Response to ICNU DR 002).

the test period. In fact, nearly all aspects of the Company's cost profile are expected to change subsequent to the test period.

Q. WHAT OTHER ASPECTS OF THE COMPANY'S COST PROFILE CHANGED SUBSEQUENT TO THE 2011 TEST PERIOD?

A. As an example, the reduction in discount rate and return assumptions used to calculate pension expense likely was accompanied by a concomitant reduction the Company's cost of debt and equity. The rate reductions associated with these declining financing costs, however, were not reflected in rates until after the Company's 2013 GRC, when the Company's approved cost of equity declined 25 basis points from 10.00% to 9.75%.[13/] Had this reduced cost of equity been reflected in rates in 2012 and 2013, ratepayers would have likely saved approximately $5.8 million per year.[14/] Similarly, load growth that occurred subsequent to the 2011 test period likely also provided the Company with additional revenue, which also offset the impact of increasing pension expense.

Q. IS IT APPROPRIATE TO UNDERGO AN AFTER-THE-FACT REVIEW OF EACH LINE ITEM IN THE COMPANY'S 2011 GRC FORECAST TO DETERMINE IF RATES WERE REASONABLE IN 2012 AND 2013?

A. No. "[I]t is the result reached not the method employed which is controlling."[15/] Accordingly, it is not necessary to undergo an after-the-fact review of every line item in the Company's 2010 GRC revenue requirement calculations to determine which line items exceeded and which items were less than the forecast for 2011. In stipulating to the revenue requirement in the 2010 GRC, parties agreed that the overall rate provided the Company with an opportunity to earn a reasonable return on its investment. Going back,

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13/ ICNU/102 at 3 (The Company's Response to ICNU DR 003); In re Portland General Electric Company, Request for a General Rate Revision, Docket No. UE 262, Order No. 13-459 at 3 (Dec. 9, 2013).

14/ Estimated as follows:
$3{,}000m\ [rate\ base] \times 0.25\%\ [ROE] \div 0.65\ [Tax\ Gross\ up] \times 50\%\ [equity\ \%]$

15/ Federal Power Comm'n v. Hope Natural Gas Co., 320 U.S. 591, 602 (1944).

nearly four years later, to adjust revenues for 2012 and 2013 based on a single line-item in the Company's 2010 GRC revenue requirement calculation would not be appropriate because it would contradict parties' agreement that the overall rates in effect in that period were reasonable.

Q. DID THE COMPANY HAVE THE OPPORTUNITY TO EARN A REASONABLE RETURN IN 2012 AND 2013?

A. Yes. In 2012, the Company earned a return on equity ("ROE") of approximately 9.48%,[16/] or approximately 52 basis points less than the ROE approved in the 2010 GRC. For the Company's Power Cost Adjustment Mechanism, the Commission has applied an earnings test, where the utility is not allowed to defer excess power costs to the extent that its earnings are within 100 basis points of its authorized ROE.[17/] If a similar earnings test were applied to the Company's proposed pension deferral in 2012, such an earnings test would not allow for any incremental deferral in 2012.

In 2013, the Company claims that it earned an ROE of 6.43%. That return, however, included, among other things, a $52 million write-off associated with the abandoned Cascade Crossing Transmission Project and a $17 million write-off associated with replacement power expenses necessitated by an extended outage at unit 4 of the Colstrip Generating Station.[18/] After adjusting for these two extraordinary items, the Company's ROE would have been approximately 9.42%,[19/] well within a reasonable range of its authorized ROE. Notably, in reporting its 2013 financial results to its

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[16/] PGE/101.

[17/] See Docket Nos. UE 180, UE 181, UE 184, Order No. 07-015 at 26-27 (Jan 12, 2007).

[18/] ICNU/103 at 1.

[19/] Estimated as follows:
$9.42\% = 6.43\% + (\$69m\ [extraordinary\ expense] \times 0.65\ [tax\ effect] \div 50\%\ [equity\ \%] \div 3{,}000m\ [rate\ base])$

investors, the Company did not specifically mention its pension expense as a key driver of the year-to-year changes in expense levels.[20/]

Q. COULD THE COMPANY HAVE FILED A RATE CASE FOR 2012 AND 2013?

A. Yes. To the extent that the Company believed that the rates approved in the 2010 GRC were insufficient to provide the opportunity to earn a reasonable return, it could have filed subsequent rate cases based upon 2012 and 2013 test periods. Because the Company did not make such filings, however, it should be presumed that the Company, in evaluating the various offsetting cost impacts that would traditionally be evaluated in a general rate case, believed that its overall rates provided it with an opportunity to earn reasonable returns in 2012 and 2013.

Q. WHY IS IT "CHERRY-PICKING" TO SINGLE OUT THIS APPROXIMATE 16-MONTH PERIOD FOR DEFERRAL?

A. The Company recognizes, in proposing to exclude pension expense variances in 2014 and 2015, that the forecast variance associated with pension expense has the potential to be offsetting over time.[21/] Provided that the forecast established in a rate case represents the median expectation of future pension expense, it should be expected that actual pension expense will exceed the forecast fifty percent of the time and be less than the forecast the remaining fifty percent of the time.

The Company's proposal is cherry-picking because it requests to defer the pension forecast variance over a very limited period when actual expense exceeded the forecast. Because the deferral period is limited, ratepayers will be foreclosed from

[20/] ICNU/103 at 1.
[21/] PGE/100 at 5:15-6:3.

receiving the offsetting benefit of periods when actual expense is less than the forecast. This asymmetry in the Company's proposal is unfair and should not be permitted.

Q. HAVE THERE BEEN PERIODS WHEN THE COMPANY OVER-FORECAST PENSION EXPENSE?

A. Yes. As detailed in the Company's response to ICNU DR 002, there have been periods when the Company has over-forecast the pension expense included in rates, leading to additional recovery for the Company.[22/] For example, in 2003 and 2004, the Company incurred pension expense approximately $11.1 million less than included in the rate case forecast.[23/] Thus, it would be unfair to ratepayers to fund the forecast variance now, when the Company has recognized a material benefit as a result of these forecast variances in the past, which have not been returned to ratepayers. In addition, SFAS 87 is a long-term method of accounting and the costs and benefits of the pension plan should, accordingly, be considered over the long term, not in a 16-month isolated period.

Q. PLEASE SUMMARIZE YOUR TESTIMONY.

A. In summary, I recommend that the Commission reject the Company's proposed deferral. Pension expense calculations under SFAS 87 represent a long-term method of accounting for the costs and benefits of the Company's pension plan and the Company's rate recovery associated with that accounting method should likewise be considered over a long time frame. Doing so shows that the Company has over-recovered pension expense in some years and under-recovered in other years, precisely what one would expect. By now proposing to limit the deferral to the 16-month period between August 22, 2012 and December 31, 2013, however, the Company has unfairly cherry-picked a period that

22/ ICNU/102 at 1-2.
23/ Id. at 1.

produces variances in its favor, ignoring the fact that variances have favored ratepayers in other periods. In addition, the request represents impermissible single-issue ratemaking, which ignores the fact that the overall rates approved in the 2010 GRC provided the Company with an opportunity to earn a reasonable return in 2012 and 2013. Certainly, if the Company believed the rates were insufficient over that period, it had the opportunity to file a rate case, where all aspects of its costs could be reviewed.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.

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EXHIBIT ICNU/101

QUALIFICATION STATEMENT OF BRADLEY G. MULLINS

Q. PLEASE SUMMARIZE YOUR EDUCATION AND WORK EXPERIENCE.

A. I received Bachelor of Science degrees in Finance and in Accounting from the University of Utah. I also received a Master of Science degree in Accounting from the University of Utah. After receiving my Master of Science degree, I worked as a Tax Senior at Deloitte Tax, LLP, where I provided tax compliance and consulting services to multi-national corporations and investment fund clients. Subsequently, I worked at PacifiCorp Energy as an analyst involved in regulatory matters primarily surrounding power supply costs. I began performing independent consulting services in September 2013 and provide consulting services to large utility customers, and independent power producers on matters ranging from power costs and revenue requirement to power purchase agreement negotiations.

Q. PLEASE PROVIDE A LIST OF YOUR REGULATORY APPEARANCES.

A. I have sponsored testimony in regulatory proceedings throughout the Western United States, including the following:

- Wy.PSC, 20000-469-ER-15 In The Matter of the Application of Rocky Mountain Power for Authority of a General Rate Increase in Its Retail Electric Utility Service Rates in Wyoming Of $32.4 Million Per Year or 4.5 Percent
- Wa.UTC, UE-150204: In re Avista Corporation, General rate increase for electric services

- Wy.PSC, 20000-472-EA-15: In re the Application of Rocky Mountain Power to Decrease Rates by $17.6 Million to Recover Deferred Net Power Costs Pursuant To Tariff Schedule 95 to Decrease Rates by $4.7 Million Pursuant to Tariff Schedule 93
- Wa.UTC, UE-143932: Formal complaint of The Walla Walla Country Club against Pacific Power & Light Company for refusal to provide disconnection under Commission-approved terms and fees, as mandated under Company tariff rules
- Or.PUC, UE 296: In re PacifiCorp, dba Pacific Power, 2016 Transition Adjustment Mechanism
- Or.PUC, UE 294: In re Portland General Electric Company, Request for a General Rate Revision
- Or.PUC, UM 1662: In re Portland General Electric Company and PacifiCorp dba Pacific Power, Request for Generic Power Cost Adjustment Mechanism Investigation
- Or.PUC, UM 1712: In re PacifiCorp, dba Pacific Power, Application for Approval of Deer Creek Mine Transaction
- Or.PUC, UM 1719: In re Public Utility Commission of Oregon, Investigation to Explore Issues Related to a Renewable Generator’s Contribution to Capacity
- Bonneville Power Administration, BP-16: 2016 Joint Power and Transmission Rate Proceeding
- Wa.UTC, UE-141368: In re Puget Sound Energy, Petition to Update Methodologies Used to Allocate Electric Cost of Service and for Electric Rate Design Purposes
- Wa.UTC, UE-140762: In re Pacific Power & Light Company, Request for a General Rate Revision Resulting in an Overall Price Change of 8.5 Percent, or $27.2 Million

- Wa.UTC, UE-141141: In re Puget Sound Energy, Revises the Power Cost Rate in WN U-60, Tariff G, Schedule 95, to reflect a decrease of $9,554,847 in the Company's overall normalized power supply costs
- Wy.PSC, 20000-446-ER-14: In re The Application of Rocky Mountain Power for Authority to Increase Its Retail Electric Utility Service Rates in Wyoming Approximately $36.1 Million Per Year or 5.3 Percent
- Wa.UTC, UE-140188: In re Avista Corporation, General Rate Increase For Electric Services, RE: Tariff WN U-28, Which Proposes an Overall Net Electric Billed Increase of 5.5 Percent Effective January 1, 2015
- Or.PUC, UM 1689: In re PacifiCorp, dba Pacific Power, Application for Deferred Accounting and Prudence Determination Associated with the Energy Imbalance Market
- Or.PUC, UE 287: In re PacifiCorp, dba Pacific Power, 2015 Transition Adjustment Mechanism.
- Or.PUC, UE 283: In re Portland General Electric Company, Request for a General Rate Revision
- Or.PUC, UE 286: In re Portland General Electric Company's Net Variable Power Costs (NVPC) and Annual Power Cost Update (APCU)
- Or.PUC, UE 281: In re Portland General Electric Company 2014 Schedule 145 Boardman Power Plant Operating Adjustment
- Or.PUC, UE 267: In re PacifiCorp, dba Pacific Power, Transition Adjustment, Five-Year Cost of Service Opt-Out (adopting testimony of Donald W. Schoenbeck).

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EXHIBIT ICNU/102

COMPANY RESPONSES TO ICNU DATA REQUESTS

January 12, 2016

TO: Tyler Pepple
Davison Van Cleve, PC (ICNU)

FROM: Patrick Hager
Manager, Regulatory Affairs

PORTLAND GENERAL ELECTRIC
UM 1623
PGE Response to ICNU Data Request No. 002
Dated January 7, 2016

Request:

For each year from 2003 to the present, please identify the amount of FAS 87 pension expense included in the Company's rates and the Company's actual net FAS 87 pension expense after capitalization.

Response:

The table below provides the amount of FAS 87 expense approved in PGE's rates for 2003 through 2015 along with PGE's actual FAS 87 expense after capitalization for 2003 through 2014. See Attachment 002-A for PGE's 2015 actual FAS 87 expense after capitalization for 2015.

Attachment 002-A is confidential and subject to Protective Order No. 12-327 until PGE files its SEC Form 10-K for the fiscal year ended December 31, 2015. The expected filing date is February 12, 2016.

Year	Actual expense after capitalization (in millions)	Amount authorized in rates (in millions)
2003	(6.7)	-
2004	(4.4)	-
2005	-	-
2006	3.9	-
2007	2.3	1.1
2008	(2.4)	1.1
2009	0.4	-
2010	3.7	-
2011	5.4	5.1

2012	13.2	5.1
2013	18.6	5.1
2014	16.0	19.5
2015	See Attachment 002-A	13.8

January 12, 2016

TO: Tyler Pepple
Davison Van Cleve, PC (ICNU)

FROM: Patrick Hager
Manager, Regulatory Affairs

PORTLAND GENERAL ELECTRIC
UM 1623
PGE Response to ICNU Data Request No. 003
Dated January 7, 2016

Request:

For each year from 2003 to the present, please identify the Company's authorized return on equity and its actual return on equity.

Response:

The table below provides the requested detail. Please note that PGE has not yet calculated its 2015 Regulated Adjusted Return on Equity. This is scheduled to be included with PGE's Results of Operations Report on or before May 1, 2016.

Year	Regulated Adjusted	Allowed per Rate Case
2003	7.69%	10.50%
2004	11.67%	10.50%
2005	6.64%	10.50%
2006	5.02%	10.50%
2007	11.58%	10.10%
2008	10.19%	10.10%
2009	8.27%	10.00%
2010	9.06%	10.00%
2011	11.00%	10.00%
2012	9.48%	10.00%
2013	6.43%	10.00%
2014	9.51%	9.75%
2015		9.68%

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EXHIBIT ICNU/103

EXCERPT OF PGE EARNINGS CONFERENCE CALL – FOURTH QUARTER AND FULL YEAR 2013

Full Year Financial Results

NI in millions	2012	2013
Net Income	$141	$105
Diluted EPS	$1.87	$1.35
Non-GAAP Adjusted Operating EPS(1)		*$1.84*

Key Year over Year Drivers		($ millions)
Customer billing refund	↓	$(9)
Incremental replacement power costs for plant outages	↓	$(17)
Operations and maintenance expense	↓	$(17)
Cascade Crossing Transmission Project	↓	$(52)
AFDC primarily due to generation projects	↑	$10
Non-qualified benefit plan trust asset gains and interest expense	↑	$7
Taxes related to PTC increase and 2012 change in deferred taxes	↑	$9

(1) Excludes the negative impact of the Cascade Crossing write-off ($0.42) and the industrial customer refund ($0.07).