BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UE 197

In the Matter of PORTLAND GENERAL ELECTRIC COMPANY Request for a general rate revision	STAFF'S REPLY BRIEF

INTRODUCTION

Conspicuously absent from Portland General Electric Company's ("PGE") Opening Brief, is any discussion of PGE's burden of proof. Instead, PGE marches to the mantra that any discretionary cuts would compromise service quality and reliability. Staff's adjustments represent cost controls specifically aimed at discretionary spending rather than cuts that would compromise service quality and reliability. PGE's self-proclaimed need for increased discretionary spending is unsupported by the record and should be denied.

As an initial matter, PGE separates its non-power costs issues (UE 197) from power costs issues (UE 198). As PGE states, its direct filing requested $92.9 million for non-power costs issues and its surrebuttal testimony now requests $56.6 million. PGE's illustration ignores the fact that Selective Water Withdrawal was removed from this proceeding pursuant to a stipulation and will be addressed in a separate proceeding. PGE's Selective Water Withdrawal filing requests an additional $12.9 million and has been docketed as UE 204. In any event, the fact that PGE's non-power costs request has been reduced from its original filing is unrelated to whether the Public Utility Commission of Oregon Staff's ("Staff") adjustments result in just and reasonable rates.

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STAFF ADJUSTMENTS

1. Staff's Workforce Adjustment is reasonable and should be adopted.

According to PGE, its managers in each department of the company, budget the number of labor hours required to accomplish their department's work. *See* PGE Opening Brief at 8. As a result, PGE continues to maintain that it is appropriate to include an additional 65 full time equivalents ("FTE") to represent "overtime" for exempt employees. *See* Id. at 11. PGE contends that its approach "takes into account overtime hours to represent the amount of work and effort needed for PGE's regulated operation." *See* Id.

PGE does not pay exempt employees for overtime. "Exempt employee" means that the employee is paid an established salary for their work regardless of whether they work 160 or 200 hours in a month. PGE includes these overtime hours of exempt employees into its FTE count, which operates to inflate PGE's budget for wages and salaries.

PGE agrees with Staff that its initial filing requested 2,733 FTE. However, PGE then states that it "subsequently" included a number of adjustments reducing the forecasted FTEs to 2,706. *See* Id. at 9. The largest of these "subsequent" adjustments was the removal of 30 FTE (20 distribution and 10 customer service positions). This adjustment was performed in the original work papers **prior** to PGE submitting its original application in this case. The sum of the adjustments in Table 2, on page 9, of PGE's opening brief should be as follows:

Original Request	2,733
Removed four FTE's associated with heat pump	-4
Added Seven FTEs to meet FERC/NERC/WECC requirements	7
Adjusted 2009 FTE	2,736

Although PGE asserts that Staff "ignores" overtime for exempt employees by using the 2007 FTE level as the base, this statement is inaccurate. Staff discussed this issue at Staff/800, Owings/13-14.

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In addition, and for purposes of illustration, Staff notes that PGE's true request is represented by the following calculation:

Adjusted 2009 FTE's (from Table 1 above)	2,736
2007 Base FTEs (includes overtime for Exempt FTEs)	2,612
Number of FTE's actually included in test period Wages & Sal.	124

In addition, the difference between Staff's 2007 base FTE of 2,560 and PGE's 2007 base of 2,612 (includes budgeted overtime for exempt employees) is an additional 52 FTE that will be included each year in PGE's budget if the Commission fails to accept Staff's adjustment to remove these excess FTE's. Stated another way, allowing PGE to continue to include 52 straight-time employees that actually do not exist as employees at PGE, overstates PGE's annual wages and salaries expense by approximately $3.9 million. If you include the incremental 124 FTE demonstrated above, PGE's 2009 test period wages and salaries expense is increased by 176 FTE (124 + 52), or an additional $13.2 million[1].

PGE argues that Staff's approach is formulaic and makes no attempt to evaluate the basis for the individual positions proposed. *See* Id. Staff's approach establishes the appropriate base (excluding exempt overtime) and then allows for a growth rate for 2008 and 2009 that is larger than the historical average. Staff believes the Commission's role should not be to micromanage PGE's operations, but rather should set an appropriate level of revenues to allow reasonable recovery and leave it to PGE to establish these priorities. *See* Staff/800, Owings/17. Staff's analysis results in a recommended increase of 75 FTE.

2. <u>Staff's Corporate Incentive adjustment is reasonable and should be adopted.</u>

PGE claims that the current non-officer ACI, CIP, and Notables programs bear no resemblance to the officer compensation plans that were reduced in Order No. 87-406. *See* Id. at 17-18. However, Staff's 2005 audit of PGE also recommended a 50 percent disallowance of

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[1] Calculated at the base wages of $75,000 per FTE ($75,000 x 176 FTE). Fully loaded this amount would be a $19.6 million increase to wages and salaries expense) ($75,000 x 48.5%) x 176 FTE.

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these programs based on the fact that both ACI and CIP are based upon PGE's growth and profitability objectives.[2] *See* Staff/100, Owings/18.

In support of its request that the Commission allow PGE 75 percent of its non-officer ACI, CIP, and Notables, PGE provides examples of where these amounts have been previously allowed. Staff objects to these representations as in both cases, UE 115 and UE 180, the adjustments to these programs were within stipulated agreements.

Because the stock incentive plan is based upon the financial performance of PGE, 100 percent of it should be removed. As discussed in Staff's Opening Brief at 7-8, Staff's proposal is to remove the entire stock incentive plan and not just the officers' portion. Were the Commission to adopt PGE's position, it would leave $1.1 million in rates that represents the portion of PGE's Corporate Incentives related to the non-officers' Stock Incentive Program.

3. <u>Staff's Property Tax adjustment is reasonable and should be adopted.</u>

While both Staff and PGE propose deriving the 2009 test year property tax expense using a similar method, there are two differences that remain. First, while PGE proposes to calculate a ratio of property tax of actual average rate base for 2007, Staff proposes to calculate this ratio using actual gross plant net of depreciation rather than actual average rate base. Second, while PGE removes only the 2007 Port Westward tax from the 2007 actual taxes paid in calculating this ratio, Staff proposes to remove the Port Westward tax, <u>as well as</u>, the Port Westward rate base amount in calculating this ratio, and to also remove the Port Westward rate base amount from the 2009 amount to which the ratio is applied. In its opening brief, PGE only addresses the first of these two differences and fails to address the second difference.

First, although PGE's proposed use of actual average rate base contains items that do not influence property taxes (accumulated deferred tax, working cash, etc.), PGE has identified that Staff's proposal to use gross plant net of depreciation excludes items which may influence

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[2] See OPUC Staff Audit Report, Audit 2005-002, May 2005 through September 2005, at 19. Staff respectfully requests that the Commission take official notice of this document pursuant to OAR 860-014-0050(e).

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property taxes (regulatory assets/liabilities, materials, and fuel). While Staff believes that there is likely a more reasonable common ground, for purposes of this case, Staff will concede to using PGE's method of basing the ratio on the actual average rate base rather than gross plant net of depreciation.

The second difference between PGE and Staff is whether or not the net plant associated with Port Westward should be removed from rate base for purposes of this calculation. In PGE's calculation of the ratio between 2007 property taxes and 2007 total average rate base, they remove the property tax expense associated with Port Westward (the numerator) but fail to remove the associated gross plant and depreciation from total average rate base (the denominator). By not removing the associated gross plant and depreciation from total average rate base (the denominator), the resulting ratio is inaccurate due to the cost (property taxes related to Port Westward) being removed from the numerator while the cost driver (the Port Westward rate base amount) remains in the denominator. *See* Staff/901, Ball/7.

Additionally, because we know that PGE will not pay any property taxes on Port Westward during 2009, the gross plant and depreciation amounts related to Port Westward should also be removed from the 2009 average rate base amount to which the calculated ratio will be applied. Staff proposed this adjustment to remove the Port Westward effects on rate base at Staff/900, Ball/26, lines 11-21. In response, PGE describes Staff's proposed adjustment as "reasonable," but continued to support a bottom-line results oriented approach. *See* PGE/2300, Tooman-Tinker/21, lines 11-15.

The only support PGE provides for the claim that the resulting property tax amount is too low, is a high level calculation for which they do not provide adequate supporting information for parties to analyze. *See* PGE Exhibit 2310. This calculation is not based on 2007 actual property taxes and is not an actual representation of what the forecasted property tax expense for 2008, or 2009, is expected to be. Rather, this is an arbitrary calculation that lacks sufficient support.

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The Commission should adopt Staff's proposal to remove the Port Westward rate base effect in calculating the ratio of 2007 property tax expense to 2007 total average rate base, as well as, to remove the rate base effect of Port Westward from the 2009 total average rate base amount to which the calculated ratio is applied. Adopting this proposal would result in accurately setting PGE's 2009 property tax expense based upon the 2007 actual property tax expense. Staff estimates that adopting this proposal would result in a downward adjustment to PGE's forecasted property tax expense of $2,964,767.[3]

4. Staff's combined adjustment for A&G and O&M are reasonable and should be adopted.

Medical

Contrary to PGE's allegation, Staff's adjustment is not based upon a misunderstanding. PGE states that Staff used incorrect base line dollar amounts for its calculation, and that the figures provided in PGE Exhibit 1500 are the correct base line amounts that should be the basis for the Commission's calculation. Staff has attempted in Staff/900, Ball/2 – Ball/3, to explain that the base line dollar amounts used by Staff actually resulted in less of an adjustment than if Staff used PGE's base line dollar amount.

Because PGE continues to address this as a fault in Staff's calculation, Staff proposes that the Commission adopt an adjustment to union medical and dental benefits which is based on the baseline amount proposed by PGE of $9,235,367 for active union employees. An illustration of this calculation can be found in Staff/901, Ball/2. This calculation illustrates that escalating the active union base amount of $9,235,367, in a similar manner to Staff's original proposal, results in a 2009 active union benefit amount of $10,599,315. To this amount, it is then necessary to add the forecasted union retiree benefits of $814,000 which was also projected by PGE. S*ee*

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[3] Staff's estimate is based on Staff/901, Ball/7 and replacing Staff's figures for 2007 Actual Average Net Utility Plant per 2007 ROO of $2,061,635,000 and PGE Filed 2009 Average Net Utility Plant of $2,497,795,000 with PGE's figures for 2007 Actual Average Rate Base per 2007 ROO of $1,939,421,000 and PGE Filed 2009 Average Rate Base of $2,365,737,000, respectively.

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PGE/1500, Barnett-Bell/15, lines 15-21. As Staff/901, Ball/2 illustrates, this results in an adjustment that is $127,911 greater than the $532,674 originally proposed by Staff for a total adjustment of $660,585 ($532,674 + $127,911).

PGE continues to oppose Staff's escalation rate of 8.5 percent, as well as, the apportioning of the 2009 increase to 10 of 12 months without providing any support for their opposition. Staff has provided documentation and a complete explanation regarding its derivation of an 8.5 percent escalation factor of union medical and dental benefits in Staff/300, Ball-Dougherty/3, lines 7-12, including fn 1. Staff has also provided complete explanations regarding its apportioning of the 2009 increase to 10 of 12 months in Staff/900, Ball/4, lines 4-7 as well as in its opening brief. PGE's blanket statements of disagreement, which lack supporting documentation, do not fulfill its burden of proof to demonstrate that its forecasted rate increases are justified, reasonable, and necessary.

Miscellaneous Benefits

PGE has the burden of showing that its forecasted increases are reasonable and justified. While PGE continues to cite the expansion of programs as its cost driver, Staff's analysis has demonstrated that the mere fact that programs are expanded does not always translate into significant cost increases as PGE is requesting. *See* Staff/900, Ball/5 through Ball/9.

Detailed explanations on Staff's adjustment to various miscellaneous benefits have been provided at Staff/300, Ball-Dougherty/5 through Staff 300, Ball-Dougherty/9, as well as, Staff/900, Ball/5 through Staff/900, Ball/10. As justified through testimony, Staff proposes an overall adjustment to miscellaneous benefits in the amount of $509,262.

Porcelain Insulator Replacement

Staff's proposed adjustment to Porcelain Insulator Replacement focuses on the non-labor component and proposes to continue the "status-quo" in terms of funding the project for 2009. PGE's total expenses for this program during 2007 totaled $525,789 ($144,158 of PGE labor and $381,631 of non-labor expenses). Staff's proposal is strictly related to the non-labor component

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of this project and escalates the non-labor portion of this expense to 2009 for a total allowed non-labor expense of $396,267, as shown in Staff/302, Ball-Dougherty/9. In its brief, PGE attempts to compare Staff's proposed level of funding for non-labor expenses to previous year's funding which includes <u>both</u> labor and non-labor expenses. This is an inaccurate comparison.

For the 2009 test year, PGE is proposing to replace PGE labor for this project with contract labor (a non-labor expense). Essentially, if the Commission were to allow funding of this project as proposed by PGE, it would be similar to granting PGE an additional labor expense, on top of the substantial increase which they have requested elsewhere in the case. While Staff's proposal would be for PGE to continue the "status quo" related to this project, PGE is requesting that the Commission allow them to replace their PGE labor component of this program with contract labor. This would essentially grant PGE a discretionary labor expense, which would be freed up by the hiring of contract labor. This is an unreasonable request by PGE which has been poorly supported in this case. If PGE chooses to use contract labor <u>for this program</u> as opposed to PGE labor, they should fund such a decision with the reduced PGE labor expense <u>for this program</u>. The Commission should adopt Staff's proposal to continue the "status quo," adjusted for inflation, and to reduce PGE's Porcelain Insulator Replacement <u>non-labor</u> expenses by $287,496.

<u>Locating Expenses</u>

Contrary to PGE's assertions, Staff's adjustment to locating expenses is not based on incorrect assumptions. As Staff has continuously reiterated, this adjustment is based solely on the information that PGE has provided in this case. As shown in Staff/302, Ball-Dougherty/10, Staff's adjustment isolates contract costs for locates. PGE has yet to demonstrate that Staff's <u>adjustment to contract costs</u> is inaccurate or contains poorly formed methodology. Instead, PGE continues to make the argument that Staff should have looked at other cost drivers of the overall locating costs. Again, this is a baseless argument, one which Staff believes the issue at hand is PGE's forecasted increase to <u>locating contract costs</u>, which PGE has clearly described as

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95 percent of $700,000 requested income. *See* Staff/902, Ball/19. PGE has yet to dispute this fact, but instead chooses to try and redirect the Commission's attention with the argument that Staff should have analyzed additional cost drivers, many of which were not mentioned in the original filing. Essentially, PGE's argument is that Staff should have looked to find other cost increases for PGE to use to offset their overestimation of locating contract costs. This is an irrational argument. The Commission should adopt Staff's proposal to reduce PGE's 2009 forecasted locating expense by $271,135.

<u>Tree Trimming</u>

Staff's proposed adjustment to PGE's tree trimming expense <u>is not</u> based upon a misunderstanding. This adjustment is based on facts, and the fact is that the tree trimming cost per line mile, which was the driver of 95 percent of all tree trimming costs in 2007, is expected to <u>decrease substantially</u> (by approximately 17 percent for 2009) and yet, PGE continues to request a <u>substantial increase</u> (of approximately 13 percent for 2009) in funding. PGE has stated in data requests, testimony, and its brief that the estimated number of line miles to be trimmed in 2009 is similar to actual line miles trimmed in recent years. However, PGE has failed to justify their request to increase tree trimming funding when the actual cost to trim the same number of miles is expected to decrease from $2,532 per line mile in 2007 to $2,100 per line mile in 2009.

In 2007, PGE trimmed 4,112 line miles at a cost of $2,532 per line mile, totaling $10.4 million. This accounted for approximately 95 percent of the total 2007 tree trimming expense of $10.9 million. In 2009, PGE is projecting to trim 4,100 line miles at an estimated cost per line mile of $2,100, for a total of $8.6 million. This represents substantial cost savings in the major cost component of all tree trimming expenses and yet PGE continues to request, when they should see cost savings of $1.7 million, that rate payers fund an <u>increase</u> of 1.9 million for tree trimming expense which it has failed to justify.

Additionally, while PGE stated that their forecasted 2009 expense included trimming of approximately 4,500 distribution line miles, they later discovered that this estimated number of

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miles was overstated by approximately 400 miles. *See* PGE/2500, Hawke/7, Lines 13-17. However, in light of uncovering this overstatement, PGE has made no adjustment to reduce their requested increase by the cost savings of not having to trim the 400 miles of distribution lines by which their forecast was overstated.

In fact, as the above information indicates, during 2009 PGE will likely see a decrease in tree trimming expenses from the 2007 level, which makes Staff's first method shown in Staff/301, Ball-Dougherty/11 more accurate. If Staff's first method were adopted, it would result in a larger adjustment of $2.5 million rather than the $1.3 million adjustment proposed under Staff's second method. *See* Staff/302, Ball-Dougherty/11.

<u>Underground FITNES</u>

Staff does not support PGE's proposal to change the underground FITNES program to a ten-year cycle. This is a Service Quality Measure (SQM) which is under Commission Order. Any changes to the frequency of this program would require changing the SQM and would be more appropriately handled outside of the UE 197 proceeding through discussions with interested parties and OPUC Safety Staff. However, if the Commission were to decide to move to a ten-year cycle for this program, Staff would propose an adjustment of $1,029,918 rather than the $900,000 adjustment proposed by PGE. Staff calculated this adjustment by spreading the cost of the previous four-year cycle, adjusted for inflation, over a ten-year period.

Staff's proposal to keep the underground FITNES program on a four-year cycle and to set costs at the average cost per year of the last four-year cycle, adjusted for inflation, is reasonable and should be adopted by the Commission. This proposal results in an adjustment of $311,855 as shown in Staff/901, Ball/5.

<u>Insurance</u>

Staff has proposed several adjustments to PGE's Insurance premiums for the 2009 test year. These adjustments have been explained in detail by Staff, and the arguments raised by

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PGE fail to demonstrate that these adjustments are unjustified and that PGE's forecast is reasonable and justified.

Specifically, Staff made an adjustment to remove 50 percent of the excess D&O insurance as a shareholder cost. Although PGE states its disagreement with this adjustment, the Company fails to address the relationship, or lack thereof, between shareholders and the excess D&O insurance, which is the basis of Staff's disallowance of this cost.

As described in our opening brief, not only has PGE attempted to bring new information into this case related to additional insurance policies at this late date, it has also failed to provide any documentation that Staff actually disallowed these insurance policies through its original proposed adjustments. Not only is PGE inappropriately attempting to bring in new insurance policies, it is also attempting to remove a policy holder credit from the rate case. PGE estimates that they will no longer receive this credit, but there has been no definitive indication that this credit will not be received in 2009. The Commission should not allow PGE to selectively add or remove items from the rate case at this late juncture.

Additionally, Staff has proposed to apply a utility allocation to the overall insurance premiums in order to allocate costs between utility and non-utility aspects of PGE's operations from the time of filing its direct testimony on July 9, 2008. *See* Staff/302, Ball-Dougherty/4, comment 8. Instead of addressing Staff's allocation method at that point, PGE denied that any such allocation was necessary in its rebuttal testimony filed August 15, 2008. *See* PGE/1900, Piro-Tooman/17, lines 12-16. PGE finally acknowledged that an adjustment was necessary in its sursurrebuttal testimony filed on October 1, 2008. *See* PGE/2700, Piro-Tooman/9, lines 13-16. Based upon the information provided in PGE's sursurrebuttal testimony, it is possible that it may not be appropriate to apply the utility allocation to all insurance policies. Nonetheless, Staff does not agree with the utility allocation method proposed by PGE. Due to the late nature of PGE raising this argument, Staff is unable to perform any further analysis on the non-utility coverage of the various policies. Based upon information available for Staff's review, Staff's proposal (a

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reduction to insurance in the amount of $1,833,961, as shown in Staff/901, Ball/3) is reasonable and should be adopted.

Miscellaneous Adjustments

Again, through its review of various expenses, Staff identified and made adjustments to remove several expenses that were either discretionary, or not directly related to the generation, transmission, and distribution of energy or were incurred during 2007, at a level that is not representative of what will be incurred during 2009. These adjustments include items such as 1) 50 percent of certain meals and entertainment expenses; 2) 50 percent of office refreshments and catering; 3) 50 percent of gifts such as flowers and awards; 4) 100 percent of civic activities such as contributions to charities and community affairs; 5) rent and legal expenses which were incurred during 2007 at a level which is not representative of what will be incurred during 2009. *See* Staff/300, Ball-Dougherty/13 through Ball-Dougherty/15 and Staff/900; Ball/14 through Ball/16.

The Commission should adopt Staff's adjustment to miscellaneous O&M and A&G expenses in the amount of $707,997.

5. Staff's treatment of Fixed Plant Costs is reasonable and should be adopted.

PGE asserts that Staff's proposal does not account for the time value of money and insures that PGE will not recover its prudently incurred costs. *See* PGE Opening Brief at 28. As a result, PGE requests that these costs be treated as a regulatory asset. *See* Id. At a facial level, PGE's claim that it should get the time value of money seems to make sense. However, a closer look at the underlying expense reveals why a return on excess maintenance expenses is inappropriate.

PGE originally proposed inclusion of all of the extra forecast expenses in the O&M expense budget. *See* PGE/400, Quennoz-Lobdell/9. Because "above average" forecast expenses are not typical or known and measurable, but in consideration of the fact that PGE may experience above average O&M costs for certain plants, Staff recommended that PGE be

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allowed to increase the forecasted expense by ten percent going forward in recognition that PGE may have some above average O&M expenses. *See* Staff/1000, Durrenberger/6.

Contrary to PGE's assertion, Staff is not effectively disallowing a potion of prudently incurred costs. Rather, Staff is generously including an increase of ten percent for costs that are not known and measurable. *See* Id. PGE should not be allowed to create a regulatory asset and earn an additional return on equity for estimated costs that are not even known and measurable. In essence, PGE's proposal takes advantage of Staff's generosity. Because Staff recommended including an additional ten percent increase in unknown costs, PGE argues it should also get a return on what are essentially one-time extra expenses. Staff's proposal to include above average costs in future rates is reasonable, but it is unreasonable to also allow PGE to earn a return on equity for unknown future costs.

6. <u>Staff's Rate Design proposal is necessary to move PGE's seasonal rates in the right direction and the Commission should reject PGE's efforts to deal with the merits of the issue by stalling consideration of Staff's Rate Design proposal.</u>

In its opening brief and regarding Staff's rate design proposals, PGE made three points that warrant a response. *See* PGE Opening Brief at 41-42. PGE argues: "First, the central premise of the Staff proposal [i.e., that the summer is the season with the highest prices] is false." *See* Id. at 42. PGE's "evidences" are *historical* 2003-2007 monthly mid-C market price data and the "higher *overall* [emphasis added] market prices" projected for the fourth quarter (compared to the third, or summer, quarter) for 2009. *See* Id. at 42.

PGE's argument fails for several reasons. First, it attributes undue attention on past experience as opposed to projections regarding the future. Second, its focus regarding the future is on quarterly *overall* price averages rather than on the *on-peak* averages, which are the most germane. Historical data should be given little weight if it is not consistent with economic trends and how those trends are reflected in the best projections for the rate-effective period, i.e., beginning in 2009. *See* Staff's Opening Brief at 20-21.

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In regards to the monthly and quarterly projections for 2009 that are shown in PGE's own Exhibit/2801, Kuns-Cody-Lynn/1, it is demonstrated that the highest single monthly *on-peak* figure occurs in August, and the highest *on-peak* <u>quarterly</u> average figure is for the Jul-Sep third quarter, *not* the corresponding average figure for the fourth quarter (or for any other quarter). While the third quarter is shown in that exhibit as not having the highest *off-peak* projected prices, Staff's super-peak rate proposal for Schedule 89 and its inverted block rate proposal for Schedule 7 *target on-peak*, <u>not</u> *off-peak* electricity consumption. Furthermore, over the next few years (2010 through 2012), the highest on-peak quarterly average market prices are expected to occur during the summer quarter. *See* Staff Cross Exhibit 4 (Attachments 452-A and -B to PGE Response to OPUC D.R. No. 452). Therefore, the central premise of Staff's principal future-period rate design reform proposals stands unrebutted. On a quarterly average basis, and relying upon PGE's own (third-party-provided) projections, the expectation for the next few years is for the summer season (i.e., July-Sept.) to experience peak-period market prices that are higher than the equivalent average for any other quarter.

PGE's objects to the "undue administrative and practical burden" of Staff's seasonal and time-of-day rate design initiatives. *See* PGE Opening Brief at 42. However, considering the seasonal and super-peak, time-of-day rates for other utilities in the west, Staff asks: if other states' utilities and regulators are capable and willing to impose seasonal and super-peak, time-of-day rates in the interest of instituting rates that better reflect costs, why can't PGE do the same?" *See* Staff Cross Exhibit 3. The answer, of course, is that PGE can and it will, if the Commission requires it.

PGE's final substantive objection on this general subject has to do with possible undesirable interactions between the proposed summer inverted-block residential rate and PGE's residential time-of-day (or use) rate. *See* PGE Opening Brief at 42. Notably, the PGE brief states, "One utility (Pacific Power of Oregon) with three separate energy pricing blocks and a TOU rate had to resort to negative off-peak *energy* [emphasis added] pricing in order to not

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inappropriately entice customers to the TOU option....Such negative energy prices send the wrong price signal to customers and should be avoided."

PGE's argument is misleading. While the energy portion of the off-peak per-kWh charge is indeed negative, when combined with the distribution and transmission portions of that charge the net is still a positive charge, of about 2.4 cents per kWh. *See* Pacific Power's Oregon Schedules 4 and 210. Indeed, the off-peak rate is small, but PacifiCorp is not paying customers to use electricity. In addition, it should be noted that the proximate cause of the low net *off-peak* energy charge was undoubtedly the desire to have a high *on-peak* charge *in the summer*, where Pacific Power's on-peak TOU rate exceeds the winter on-peak rate by 2.8 cents/kWh. *See* Staff Cross Exhibit 3; Pacific Power's Oregon Schedule 210. For a given (and sometimes arbitrary) sub-schedule revenue requirement, to achieve a policy objective of making one tariff item relatively aggressive requires that one or more other tariff items be set at a low level. PGE already has an aggressive residential TOU on-peak rate and a compensatory *negative* first-250-kWh-block-adjustment that is larger (at 1.775 cents/kWh) than Pacific Power's off-peak adjustment (at 1.125 cents/kWh). *See* Id.; PGE Schedule 7 (issued June 12, 2007) and Pacific Power's Oregon Schedule 210.

The Industrial Customers of Northwest Utilities (ICNU) opening brief raised a couple of issues. The first of which was that "PGE noted that the proposal could negatively impact agricultural and water uses, without adequate justification." *See* ICNU Opening Brief at 23. This concern was thoroughly discredited in Staff/1200 Compton/7-8 – and need not be reiterated here.

ICNU's second issue was that "there was insufficient data on which to base significant changes in either rate spread or rate design." *See* ICNU Opening Brief at 25. In fact, evidence was presented by Staff that demonstrated that high market prices/marginal energy costs occur in the summertime, and the highest prices in that season occur during the afternoon and early evening. That evidence is not remarkable in the sense that the existence of an afternoon and

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early evening air conditioning peak in the western United States is common knowledge. Residential billing determinants necessary for constructing an inverted-block energy rate for targeting air-conditioning (the root cause of the high summer on-peak prices) have been supplied by PGE. *See* Staff/506 Compton/1. Billing determinants necessary to construct the summertime super-peak and shoulder-peak rates for Schedule 89 can also be developed. *See* Staff's Opening Brief at 26. In sum, it is not necessary to wait two years (i.e., after a workshop and pursuant to the next PGE general rate case) to produce rates that improve upon the status quo with regard to reflecting cost causation.

7. <u>PGE's proposed decoupling and revenue recovery mechanisms afford additional shareholder protections to the detriment of ratepayers.</u>

PGE's hypothesis that "if PGE's residential customers reduce loads by just 0.5% per year, we estimated lost margins of approximately $2 million in the first year" (S*ee* PGE's opening brief on page 46) has not been challenged. The relevant point to illuminate is PGE's reasoning by extension that "these one-year impacts do not begin to address the overall impact on PGE and its shareholders." *See* PGE Opening Brief at 46; PGE/2100, Cavanagh/7 at line 12. However, any impact is limited to those years between the test periods of general rate cases (*See* Staff's Opening Brief at 28 *citing* Staff/1300, Storm/20 and Staff/600, Storm/22 lines 5 through 17), as "base rates" are adjusted as the truing-up mechanism in general rate cases. For example, should PGE file general rate cases every other year over the next several years, only the impacts of the one year periods existing between test periods would need addressing—*should they need addressing at all*.

Another point that requires clarification is that PGE's analysis cited above (i.e., estimated lost margins of approximately $2 million should residential customers decrease usage by 0.5 percent per year) calculates the 0.5% volume reduction (equaling 38,564 MWhs), and, therefore, the $2 million (38,564 MWhs times 1,000 times $0.05082 per kWh) in "lost margin," is <u>after</u> the load forecast has been increased by 1.2% (equivalently, by 91,455 MWhs) for customer growth.

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In other words, PGE first increases margin by $4.7 million, when valued at the same rate used by PGE ($0.05082 per kWh) in calculating the "lost margin," to reflect a 1.2 percent growth in the number of customers. PGE then applies the 0.5% (38,564 MWhs) reduction to calculate the $2 million "lost margin" reduction due to customer conservation. While not apparent in PGE's analysis, these margins have, on a net basis, increased by $2.7 million, as the effect of customer growth, which more than offsets the effect of customer conservation.

PGE has enjoyed 22 consecutive years of growth in residential customers, a fact which is without contradiction in the record. *See* Staff/1300, page 13 at lines 3 through 6. In fact, all years in the period 1986 through 2007 provided PGE residential customer growth at a rate equaling or exceeding one percent. *See* Staff/1301, page 2. Algebraically, in terms of total residential energy usage, a one percent year-over-year growth in the number of PGE residential customers more than offsets PGE's hypothetical one-half percent year-over-year decline in energy usage per residential customer.

A history of residential load increases reveals PGE's analysis, as cited above, for the "straw horse" it really is: PGE's total residential customer usage has declined in only four years during the period 1986 through 2007. PGE typically has not distinguished between usage per residential customer and total residential usage in testimony provided in this docket. Yet it is the total residential usage which provides volumetric revenues for covering fixed costs; i.e., usage per customer times the number of customers equals total usage, and total usage times the rate per usage unit (kWh) equals revenues produced via a volumetric charge which is available to cover fixed costs. In other words, it is the combination of the change in usage per residential customer and the number of residential customers which determines whether PGE receives sufficient revenues, billed on a volumetric basis, to cover the relevant portion of PGE's fixed costs.

PGE's proposed three decoupling and revenue recovery mechanisms – which are opposed by Staff, CUB, and ICNU – are unreasonable and not supported by the record. As a

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result, Staff recommends that PGE's proposed decoupling and revenue recovery mechanisms be rejected.

CONCLUSION

For the foregoing reasons, Staff respectfully requests that the Commission adopt Staff's revenue adjustments, adopt Staff's forward-looking rate design proposal, and reject PGE's proposed decoupling and revenue recovery mechanisms.

DATED this 4th day of November 2008.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I certify that on November 4, 2008, I served the foregoing Reply Brief upon all parties of record in this proceeding by delivering a copy by electronic mail and by mailing a copy by postage prepaid first class mail or by hand delivery/shuttle mail to the parties accepting paper service.

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