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Douglas C. Tingey
Assistant General Counsel

August 4, 2006

Via Electronic Filing and U.S. Mail

Oregon Public Utility Commission
Attention: Filing Center
PO Box 2148
Salem OR 97308-2148

Re: UE 180, UE 181 AND UE 184

Attention Filing Center:

Enclosed for filing on behalf of Portland General Electric in captioned docket are original and five copies:

- Supplemental Direct Testimony of Patrick G. Hager and William J. Valach with supporting exhibits (PGE/1400 through PGE/1401); and
- Workpapers.

These documents are being filed by electronic mail with the Filing Center.

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

Thank you in advance for your assistance.

Sincerely,

A handwritten signature in black ink, appearing to read "D. Tingey", written in a cursive style.

DOUGLAS C. TINGEY

DCT:jbf
enclosures

cc: Service List



I. Introduction

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

2 A. My name is Patrick G. Hager. I am the Manager of Regulatory Affairs at PGE. I am
3 responsible for analyzing PGE's cost of capital, including its Required Return on Equity.
4 My qualifications appear in PGE Exhibit 1100.

5 My name is William J. Valach. Until the Fall of 2005, I was the Manager of Finance
6 and Assistant Treasurer for PGE. I am now the Director of Investor Relations for PGE. I
7 am responsible for managing the relationships and communications with PGE's
8 shareholders and the investing public. My qualifications appear in PGE Exhibit 1100.

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

10 A. The purpose of our supplemental testimony is to explain the updates and corrections we
11 made to PGE Exhibit 1102, PGE's Long Term Cost of Debt for 2007. PGE Exhibit 1401 is
12 our revised exhibit.

13 **Q. Did these updates and corrections change your estimated Long Term Cost of Debt?**

14 A. Yes. Our 2007 estimated Long Term Cost of Debt rose slightly by approximately 13.5 basis
15 points, from 6.689% to 6.826%.

II. Long Term Debt

1 **Q. What updates and corrections did you make to PGE's Long Term Cost of Debt?**

2 A. We made two updates for the May 2006 bond issuances and corrected four items. The
3 corrections are explained below and are incorporated into a revised exhibit, PGE Exhibit
4 1401.

A. Updates

5
6 **Q. Please describe the first update.**

7 A. When PGE originally filed its 2007 cost of debt in March 2006, we assumed that PGE
8 would issue 30-year debt of \$275 million at 6.0% in mid-2006. PGE subsequently issued
9 this debt in May 2006 but in two parts: \$175 million at 6.31% for 30 years and \$100 million
10 at 6.26% for 25 years. The first update reflects the actual rates for these issuances. In our
11 revised exhibit, we incorporate the actual interest rates. The higher actual embedded costs
12 are due to a rise in interest rates between our initial forecast (January 2006) and when the
13 bond prices were fixed (April 2006).

14 **Q. What was the second update?**

15 A. The second update replaces the estimated issuance costs associated with the 6.26% and
16 6.31% series with actual issuance costs. The 6.31% series had issuance costs of \$1.125
17 million while the 6.26% series was \$750,000. These amounts together are lower than the
18 \$3.025 million in issuance costs that we estimated in our original filing.

19 **Q. Why did PGE issues these two series?**

20 A. PGE issued these bonds to redeem the 8.125% series and to provide funds for construction.

21 **Q. Why did PGE redeem the 8.125% series?**

1 A. PGE was concerned with the amount of debt maturing in 2010, exposing PGE to significant
2 refunding and interest rate risk in that year. However, the coupon rates for new 30-year debt
3 were near 30-year historical lows. Therefore, PGE elected to refinance some of that
4 maturing debt, spreading the new maturity dates into the future. The 8.125% series matured
5 in 2010. Our work papers contain excerpts from a presentation made to the OPUC staff in
6 December 2005 discussing this risk and how PGE planned to mitigate it.

7 **Q. Was it cost effective to refinance the 8.125%**

8 A. Yes. Our work papers contain an analysis by Deutsche Bank demonstrating the cost-
9 effectiveness of the redemption.

10 **B. Corrections**

11 **Q. What was the first correction?**

12 A. The first correction is to include a call premium that we inadvertently did not include in our
13 initial filing. This call premium, in the amount of \$12.9 million, arose from refinancing the
14 8.125% series with proceeds from the 6.31% and 6.26% series. This premium is split 60/40
15 between the two series and will be amortized over the lives of the two series (*i.e.*, 30 and 25
16 years).

17 **Q. What was the second correction?**

18 A. For the three \$50 million issuances in August 2003 (*i.e.*, 5.625%, 6.75%, and 6.875%), we
19 did not include a \$5.8 million call premium related to two reacquired series: (1) a 9.46%
20 issuance (approximately \$1.0 million) and (2) a 7.75% issuance (approximately \$4.5
21 million). This premium is split evenly among the three August 2003 issuances (*i.e.*, \$1.946
22 million allocated to each issuance) and amortized over the life of the three \$50 million
23 issues.

1 **Q. Was it cost effective to call the 9.46% series and the 7.75% series?**

2 A. Yes. PGE was able to issue the new debt at a lower embedded cost, including the call
3 premium. The analyses for the cost-effectiveness of these refundings are in our work
4 papers.

5 **Q. What was the third correction?**

6 A. We removed the \$115.1 million 7.75% issuance from Loss on Reacquired Debt as well as its
7 associated amortization of losses of \$1.946 million. This amortization should have been,
8 and is now, tied to the August 2003 debt issuances as discussed above.

9 **Q. What was the fourth correction?**

10 A. We removed the \$25 million 9.46% issuance from Loss on Reacquired Debt as well as its
11 associated amortization of losses of \$17.9 million. These losses were associated with, and
12 rolled into, several debt issuances over the years and have since been removed from PGE's
13 financial books. The associated premium to be amortized is \$1.0 million, which is tied to
14 the call premiums in the August 2003 issuances, as discussed above.

15 **Q. Have you prepared a revised exhibit that incorporates these changes?**

16 A. Yes. PGE Exhibit 1401 is a revised version of PGE exhibit 1102 that incorporates the
17 updates and corrections described above. It demonstrates that PGE's cost of debt is 6.826%.

18 **Q. Does this conclude your supplemental testimony?**

19 A. Yes.

Cost of Long-Term Debt
December 31, 2007

Gross Proceeds (I)	DD&E Issue Costs (J)	Call Premium & Unamort. DD&E of Refunded Issue (K)	Net Proceeds (L) [I-J-K]	Embedded Cost (M)	Net to Gross Rate (N)	Face Amount Outstanding (O)	Net Outstanding (P) [N*O]	Face Amount Weight (Q) [O/Total]	Weighted Rate (R) [Q*M]
\$100,000,000	\$12,217,227	\$0	\$87,782,773	7.420%	87.783%	\$100,000,000	\$87,782,773	10.018%	0.743%
\$50,000,000	\$4,209,517	\$0	\$45,790,483	6.434%	91.581%	\$50,000,000	\$45,790,483	5.009%	0.322%
\$50,000,000	\$408,842	\$1,946,809	\$47,644,349	6.266%	95.289%	\$50,000,000	\$47,644,349	5.009%	0.314%
\$50,000,000	\$521,342	\$1,946,809	\$47,531,849	7.220%	95.064%	\$50,000,000	\$47,531,849	5.009%	0.362%
\$50,000,000	\$521,342	\$1,946,809	\$47,531,849	7.282%	95.064%	\$50,000,000	\$47,531,849	5.009%	0.365%
\$20,000,000	\$176,577	\$0	\$19,823,423	9.399%	99.117%	\$20,000,000	\$19,823,423	2.004%	0.188%
\$175,000,000	\$1,125,000	\$7,740,000	\$166,135,000	6.704%	94.934%	\$175,000,000	\$166,135,000	17.531%	1.175%
\$100,000,000	\$750,000	\$5,160,000	\$94,090,000	6.753%	94.090%	\$100,000,000	\$94,090,000	10.018%	0.677%
\$54,166,667	\$850,000	\$0	\$53,316,667	6.565%	98.431%	\$54,166,667	\$53,316,667	5.426%	0.356%
\$149,250,000	\$1,472,800	\$1,266,000	\$146,511,200	8.128%	98.165%	\$149,250,000	\$146,511,200	14.952%	1.215%
\$23,600,000	\$85,850	\$1,267,030	\$22,247,120	5.544%	94.267%	\$23,600,000	\$22,247,120	2.364%	0.131%
\$97,800,000	\$355,835	\$1,617,373	\$95,826,792	5.336%	97.982%	\$97,800,000	\$95,826,792	9.797%	0.523%
\$21,000,000	\$76,420	\$438,143	\$20,485,437	5.620%	97.550%	\$21,000,000	\$20,485,437	2.104%	0.118%
\$20,200,000	\$218,352	\$244,162	\$19,737,486	5.058%	97.710%	\$20,200,000	\$19,737,486	2.024%	0.102%
\$16,700,000	\$180,519	\$184,473	\$16,335,008	5.046%	97.814%	\$16,700,000	\$16,335,008	1.673%	0.084%
\$9,600,000	\$103,771	\$184,980	\$9,311,249	5.537%	96.992%	\$9,600,000	\$9,311,249	0.962%	0.053%
\$5,100,000	\$163,234	\$0	\$4,936,766	7.412%	96.799%	\$5,100,000	\$4,936,766	0.511%	0.038%
\$5,800,000	\$159,350	\$0	\$5,640,650	3.671%	97.253%	\$5,800,000	\$5,640,650	0.581%	0.021%
		\$374,581	(\$374,581)						
\$998,216,667	\$23,595,977	\$24,317,169	\$950,303,521			\$998,216,667	\$950,678,102	100.00%	6.789%
									6.826%

Gross Proceeds	Total Gain/Loss to Amortize	Annual Expense
\$75,000,000	\$8,989,952	\$374,581
		\$374,581

FOOTNOTES

5 PCB Series Due 4/1/84-11 - PGE refunded its \$25.45m Fixed Rate Port of Morrow PCB scheduled to expire serially from 1984-2011 with 26 year variable rate PCB due 6/1/13. Unamortized debt expense and call premium totaled \$1,395,954, which is being recovered over the life of the replacement PCB.

16 On 5/28/98, PGE re-marketed and extended the Boardman 88A (now Boardman 98A), the Colstrip 83A-D, the Colstrip 84 (these issues combined to form Colstrip 98A), and the Colstrip 86 (now colstrip 98B). The previous issue costs and premiums were amortized to 5/28/98 and included in the call premium column. The remarketing costs are included in the Issue Costs column. All of the above issues' coupon costs were fixed. On 7/1/98, the Trojan variable rates were fixed, although not extended.

17 One time buydown event of \$750,000 in July 2002.

18 Ledger # changed between 2000&2001 when interest rate swaped from floating to fixed.

19 \$100 million planned issuance in June 2007. The amount and weighted value is based on the average monthly balance over the 2007 calendar year.

Year End 2006	Jan-07	Feb-07	Mar-07	Apr-07	May-07	Jun-07	Jul-07	Aug-07	Sep-07	Oct-07	Nov-07	Dec-07	Average of Averages
\$0	\$0	\$0	\$0	\$0	\$0	\$100,000,000	\$100,000,000	\$100,000,000	\$100,000,000	\$100,000,000	\$100,000,000	\$100,000,000	\$100,000,000
Average Monthly Balance	\$0	\$0	\$0	\$0	\$0	\$50,000,000	\$100,000,000	\$100,000,000	\$100,000,000	\$100,000,000	\$100,000,000	\$100,000,000	\$54,166,667

20 There was a \$12.9 million call premium on the 8.125% redeemed issue. This premium is rolled into the new debt and will be paid over the period of the May 2006 issuances.

CERTIFICATE OF SERVICE

I hereby certify that I have this day caused the foregoing **SUPPLEMENTAL DIRECT TESTIMONY OF PATRICK G. HAGER AND WILLIAM J. VALACH WITH SUPPORTING EXHIBITS (PGE/1400 THROUGH PGE/1401) and WORKPAPERS** to be served by First Class US Mail, postage prepaid and properly addressed, and by electronic mail, upon each party on the attached service list from OPUC Docket UE 180, UE 181, and UE 184.

Dated at Portland, Oregon, this 4th day of August 2006.



DOUGLAS C. TINGEY

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