



Portland General Electric Company
121 SW Salmon Street • Portland, Oregon 97204
PortlandGeneral.com

July 17, 2013

FedEx

puc.filingcenter@state.or.us

Oregon Public Utilities Commission
Attention: Filing Center
550 Capitol St NE Ste. 215
PO Box 2148
Salem, OR 97301-2551

RE: UE 262 PGE 2014 General Rate Case

Attention: Filing Center

Enclosed for filing in the captioned docket are an original and five copies of:

Rebuttal Testimony of Portland General Electric Company:

- **PGE/1700**
- **PGE/1800**

Also enclosed are an original and three copies of:

- **Exhibits on CD (non-confidential portions)**

These documents are being served upon the UE 262 service list.

This document is being filed by electronic mail with the Filing Center. An extra copy of the cover letter is enclosed. Please date stamp the extra copy and return to me in the envelope provided.

Thank you in advance for your assistance. If you have any questions or require further information, please call Chris Liddle at (503) 464-7458. Please direct all formal correspondence and requests to the following email address: pge.opuc.filings@pgn.com.

Sincerely,

Patrick G. Hager
Manager, Regulatory Affairs

CERTIFICATE OF SERVICE

I hereby certify that I have this day caused **UE 262 GRC REBUTTAL TESTIMONY AND EXHIBITS** to be served by electronic mail to those parties whose email addresses appear on the attached service list for OPUC Docket No. UE 262.

DATED at Portland, Oregon, this 17th day of July 2013.



Patrick G Hager
Manager, Regulatory Affairs
On behalf of Portland General Electric Company
121 SW Salmon St., 1WTC0702
Portland, OR 97204
503-464-7580 Telephone
503-464-7651 Fax
patrick.hager@pgn.com

SERVICE LIST
OPUC DOCKET # UE 262

S Brad Van Cleve (C) (W) DAVISON VAN CLEVE bvc@dvclaw.com	Michael Gorman (C)(W) BRUBAKER & ASSOCIATES INC mgorman@cosultbai.com
Stephanie S. Andrus (C) (W) DEPARTMENT OF JUSTICE stephanie.andrus@state.or.us	Donald W. Schoenbeck (C) (W) REGULATORY & COGENERATION SERVICES dws@r-c-s-inc.com
Judy Johnson (C) (W) PUBLIC UTILITY COMMISSION OF OREGON judy.johnson@state.or.us	Jay Tinker (W) PORTLAND GENERAL ELECTRIC COMPANY pge.opuc.filings@pgn.com
Douglas C. Tingey (W) PORTLAND GENERAL ELECTRIC COMPANY doug.tingey@pgn.com	G. Catriona McCracken (C) (W) CITIZENS UTILITY BOARD OF OREGON catriona@oregoncub.org
OPUC Dockets (W) CITIZENS UTILITY BOARD OF OREGON dockets@oregoncub.org	Robert Jenks (C) (W) CITIZENS UTILITY BOARD OF OREGON bob@oregoncub.org
Lisa Rackner (W) MCDOWELL RACKNER & GIBSON PC dockets@mcd-law.com	E-Filing NORTHWEST NATURAL efiling@nwnatural.com
Mark Thompson (W) NORTHWEST NATURAL mark.thompson@nwnatural.com	Johanna Riemenschneider (C) (W) OREGON DEPARTMENT OF JUSTICE johanna.riemenschneider@doj.state.or.us
Gregory Adams (C) (W) RICHARDSON & O'LEARY greg@richardsonandoleary.com	Kevin Higgins (C) (W) ENERGY STRATEGICS khiggins@energystrat.com
Greg Bass (W) Noble Americas Energy Solutions, LLC gbass@noblesolutions.com	Tommy Brooks (C) (W) CABLE HUSTON BENEDICT HAAGENSEN & LLOYD tbrooks@cablehouston.com
Chad Stokes (C) (W) CABLE HUSTON BENEDICT HAAGENSEN & LLOYD cstokes@cablehouston.com	Paula Pyron (W) Troutdale Energy Center ppyron@cpkinder.com
Tracy Rutten (C) (W) LEAGUE OF OREGON CITIES trutten@orcities.org	Maja Haium (C) (W) LEAGUE OF OREGON CITIES mhaium@orcities.org

SERVICE LIST
OPUC DOCKET # UE 262

Sarah Wallace (W) PACIFCORP, DBA PACIFIC POWER sarah.wallace@pacificorp.com	Oregon Dockets PACIFCORP, DBA PACIFIC POWER oregondocket@pacificorp.com
Kurt J Boehm (W) (C) BOEHM KURTZ & LOWRY kboehm@bkllawfirm.com	Jody Kyler Cohn (W) (C) BOEHM KURTZ & LOWRY jkyler@bkllawfirm.com
Nona Soltero (W) FRED MEYER STORES/KROGER nona.soltero@fredmeyer.com	R. Bryce Dalley (W) PACIFIC POWER bryce.dalley@pacificorp.com
Nancy Werner (W) (C) BEERY, ELSNER & HAMMOND LLP nancy@gov-law.com	Andrew Bartlett (W) (C) City of Hillsboro andrew.bartlett@hillsboro-oregon.gov
Benjam Walters (W) (C) City of Portland Ben.walters@portlandoregon.gov	David Tooze (W) City of Portland david.tooze@portlandoregon.gov
Samuel Roberts (W) (C) Hutchinson Cox Coons Orr & Sherlock sroberts@euegnelaw.com	Steve Chriss (W) (C) Wal-Mart, Inc stephen.chriss@wal-mart.com
Carl Fink (W) cmfink@blueplanetlaw.com	Robert Kahn (W) NW & Intermountain Power Producers Coalition rkahn@nippc.org

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

Revenue Requirements

PORTLAND GENERAL ELECTRIC COMPANY

Rebuttal Testimony and Exhibits of

*Alex Tooman
Christopher Liddle*

July 18, 2013

Table of Contents

I.	Introduction.....	1
II.	Updated NVPC Forecast.....	4
III.	Updated Load Forecast	5
IV.	Updated Cost of Debt.....	7
	List of Exhibits	8

I. Introduction

1 **Q. Please state your names and positions with Portland General Electric ("PGE").**

2 A. My name is Alex Tooman. I am a project manager for PGE. I am responsible, along with
3 Mr. Liddle, for the development of PGE's revenue requirement forecast. In addition, my
4 areas of responsibility include results of operations reporting, power cost adjustment
5 mechanism filings and other regulatory analyses.

6 My name is Chris Liddle. I am a Manager of Regulatory Affairs for PGE. My areas of
7 responsibility include revenue requirement and other regulatory analyses.

8 Our qualifications were previously provided in PGE Exhibit 300.

9 **Q. What is PGE presenting in its rebuttal testimony?**

10 A. On July 10, 2013 stipulations were filed in UE 262 and UE 266 addressing the majority of
11 issues in this general rate case proceeding. Of the remaining issues parties have reached
12 tentative settlement on all but pension-related costs and are in the process of developing a
13 stipulation for submittal after this filing. As such, in addition to this revenue requirement
14 testimony PGE is submitting testimony on the only outstanding issue: pension-related costs.

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

16 A. Our testimony has two purposes. First, we present PGE's revised revenue requirement for
17 2014 consistent with:

- 18 a) The revenue requirement stipulation filed with the Commission in this case.
19 b) PGE's requested treatment of pension-related costs consistent with its initial filing,
20 and as supported in PGE Exhibit 1800.
21 c) An updated 2014 forecast of net variable power costs (NVPC) in UE 266. This
22 update starts with our April 1, 2013 filing, and updates for forward curves and

contracts (as of June 30, 2013) as well as the updated load forecast for 2014. This update is consistent with the schedule set forth by the Administrative Law Judge Ruling/Memoranda filed March 11, 2013. Finally the NVPC update reflects the terms of a NVPC stipulation filed in UE 266.

d) An updated 2014 retail load forecast.

e) An updated cost of debt consistent with the revenue requirement stipulation.

Second, we provide a summary of the changes to PGE's power cost forecast, load forecast, and cost of debt updates.

Q. What is PGE's revised revenue requirement increase in this case?

A. PGE's revised revenue requirement increase for 2014 is \$79.0 million. PGE Exhibit 1701 provides details regarding the revised revenue requirement increase, and summarized below in Table 1. This revised revenue requirement increase compares to PGE's initial rate case filing increase of \$104.8 million.

Table 1
(\$ millions)

	<u>Total</u>
Original Filing	\$104.8
Non-NVPC Stipulation	(\$42.1)
Cost of Debt Update	\$0.3
Load Forecast Update (Revenue)	\$24.4
NVPC Update / Stipulation	<u>(\$8.4)</u>
Total	\$79.0

Q. Is this revised revenue requirement subject to further updates?

A. Yes. PGE's revenue requirement is subject to revision pursuant to: 1) NVPC updates consistent with the schedule set forth in UE 266, the last of which is on November 15; 2) load forecast updates finalized on November 5, 2013; 3) 2013 debt cost updates

1 consistent with the revenue requirement stipulation; and 4) resolution of pension-related cost
2 recovery.

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

4 A. In Section II, we present PGE's updated 2014 NVPC forecast. In Section III, we present
5 PGE's updated 2014 load forecast. In Section IV, we present PGE's updated cost of debt
6 consistent with the terms of the Stipulation filed July 10, 2013.

II. Updated NVPC Forecast

1 **Q. What is PGE's updated forecast of NVPC for 2014?**

2 A. On July 16, 2013 PGE submitted its updated forecast of NVPC in UE 266, which showed
3 that PGE's updated forecast of NVPC is \$631.1 million for 2014. This compares to PGE's
4 initial forecast of 2014 NVPC of \$639.2 million.

5 **Q. Does the updated NVPC forecast reflect any settlements related to NVPC?**

6 A. Yes. The NVPC update reflects a \$4.5 million reduction, which the parties to the stipulation
7 have agreed is a reasonable resolution of the concerns raised regarding NVPC (UE 266).

8 **Q. Does the updated NVPC forecast reflect PGE's updated load forecast?**

9 A. Yes, we incorporated the reduction in PGE's 2014 cost of service (COS) load forecast into
10 the updated NVPC forecast. The update to the COS load forecast is discussed in more detail
11 in Section III.

12 **Q. What is the schedule of remaining NVPC updates to be filed in this case?**

13 A. The schedule in UE 266 requires PGE to file Monet updates of NVPC on: October 1,
14 November 5, and November 15.

III. Updated Load Forecast

1 **Q. What is the basis of PGE's updated load forecast?**

2 A. We updated the load forecast to incorporate the latest economic conditions and forecast, as
3 well as large customers' latest operation plans and business environment that could affect
4 their loads. We used the Office of Economic Analysis' (OEA) June 2013 economic forecast
5 for Oregon and IHS Global Insight's May 2013 US economic forecast. The load model was
6 re-estimated with historical data through April 2013; the initial filing used the model
7 estimated with data from 1985 through July 2012. The re-estimation is necessary because
8 key economic data have also been revised. The Department of Employment revised Oregon
9 non-farm employment for 2011 and 2012 in March 2013 (its annual "benchmark" revision).
10 In addition, the Bureau of Economic Analysis revises estimates of the US Gross Domestic
11 Product (GDP) several times in a quarter. We, however, retained the basic structure of the
12 model. We provide supporting documentation for PGE's revised load forecast in our work
13 papers.

14 **Q. Does the load forecast model reflect any settlements?**

15 A. Yes. The load forecast has been updated consistent with the revenue requirement stipulation
16 filed on July 10, 2013, to reflect a change in demand side management (DSM) shape.
17 Specifically, PGE is making use of two years of historical patterns of Energy Trust of
18 Oregon-related DSM implementation. This change revises the load forecast upward
19 slightly.

20 **Q. What is your updated load forecast for 2014?**

A. PGE projects deliveries to all end-use customers will be 18,894 million kWh for 2014 on a cycle basis. This compares to PGE's prior delivery forecast of 19,233 million kWh, a decrease of approximately 1.8%.

Table 2 below summarizes the cycle kWh delivery forecast, split out between cost of service (COS), energy service supplier (ESS) served load, and total deliveries.

Table 2
Total Deliveries in millions of kWh on a cycle basis

<u>Component</u>	<u>2014 Initial</u>	<u>2014 Revised</u>
COS load	17,749	17,493
<u>ESS load</u>	<u>1,484</u>	<u>1,401</u>
Total Deliveries	19,233	18,894

Q. What is the impact of the updated load forecast on PGE's revised revenue requirement?

A. The revised load forecast has two impacts on PGE's revised revenue requirement. First, there is a reduction in NVPC due to the reduction in COS load. As previously mentioned, we include this impact in PGE's updated NVPC forecast for 2014. The second impact is an update in PGE's 2014 revenues at current prices. This update of revenues results in a \$24.4 million change to PGE's proposed revenue requirement increase.

Q. Have work papers associated with the load forecast update been provided?

A. Yes. PGE provided work papers with its July 16 Monet update in UE 266.

Q. What is the schedule of remaining load forecast updates to be submitted in this case?

A. PGE will file load forecast updates on October 1 and November 5 as part of its Monet updates in UE 266. The November 5 update will be limited to the September 2013 Direct Access window's impact on the allocation of overall loads between ESS and COS.

IV. Updated Cost of Debt

1 **Q. Please summarize the terms of the Partial Stipulation on cost of debt.**

2 A. The Parties to the revenue requirement stipulation agreed that PGE will update its 2013 cost
3 of debt by November 1, 2013 based on its actual issuance(s). Further, the Stipulating Parties
4 agreed that PGE's cost of debt for the test year will include a weighted average cost of debt
5 of 4.15% on projected debt issuances in the test year that will total \$365 million.

6 **Q. Does PGE have an update based on actual issuances?**

7 A. Yes. On June 27, 2013, PGE entered into a Bond Purchase Agreement for First Mortgage
8 Bonds totaling \$225 million with a coupon rate of 4.470%. As a result of the stipulation and
9 this update to debt costs, the estimated cost of debt is 5.508%.

10 **Q. Does PGE anticipate issuing additional debt by November 1, 2013?**

11 A. Yes. As initially forecasted, PGE continues to anticipate issuing another \$155 million of
12 First Mortgage Bonds prior to November 1, 2013, and we will update our cost of debt to
13 reflect actual issuance by November 1, 2013.

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

15 A. Yes.

List of Exhibits

<u>PGE Exhibit</u>	<u>Description</u>
1701	PGE Revised Revenue Requirement
1702	Updated Cost of Debt

Portland General Electric Company
2014 Revenue Requirement
Dollars in \$000s

Total Increase: Rev Req 79,018 Percent 4.76%

	At Current Rates (1)	GRC Change for RROE (2)	Proposed 2014 (3)	Non-NVPC Adjustments (5)	NVPC Adjustments (6)	Total Results (7)	Check		
1 Sales to Consumers	1,658,308	126,966	1,785,274	(41,820)	(8,389)	1,735,065	1,735,065	TRUE	OK
2 Sales for Resale	-	-	-	-	-	-	-	TRUE	OK
3 Other Revenues	21,396	-	21,396	749	-	22,145	22,145	TRUE	OK
4 Total Operating Revenues	1,679,704	126,966	1,806,670	(41,071)	(8,389)	1,757,210	1,757,210	TRUE	OK
5 Net Variable Power Costs	639,194	-	639,194	-	(8,077)	631,117	631,117	TRUE	OK
6 Production O&M (excludes Trojan)	121,923	-	121,923	(900)	-	121,023	121,023	TRUE	OK
7 Trojan O&M	60	-	60	-	-	60	60	TRUE	OK
8 Transmission O&M	12,150	-	12,150	-	-	12,150	12,150	TRUE	OK
9 Distribution O&M	93,824	-	93,824	-	-	93,824	93,824	TRUE	OK
10 Customer & MBC O&M	72,063	-	72,063	(7,498)	-	64,565	64,565	TRUE	OK
11 Uncollectibles Expense	8,623	660	9,283	(154)	(42)	8,675	8,675	0.500% TRUE	OK
12 OPUC Fees	5,182	397	5,579	(96)	(26)	5,422	5,422	0.3125% TRUE	OK
13 A&G, Ins/Bene., & Gen. Plant	151,178	-	151,178	(11,546)	-	139,632	139,632	TRUE	OK
14 Total Operating & Maintenance	1,104,198	1,057	1,105,255	(20,194)	(8,145)	1,076,469	1,076,469	TRUE	OK
15 Depreciation	242,918	-	242,918	(39)	-	242,879	242,879	TRUE	OK
16 Amortization	32,109	-	32,109	(1,520)	-	30,589	30,589	TRUE	OK
17 Property Tax	50,380	-	50,380	-	-	50,380	50,380	TRUE	OK
18 Payroll Tax	13,797	-	13,797	(182)	-	13,615	13,615	TRUE	OK
19 Other Taxes	1,840	-	1,840	-	-	1,840	1,840	TRUE	OK
20 Franchise Fees	41,477	3,176	44,653	(768)	(210)	43,397	43,397	2.501% TRUE	OK
21 Utility Income Tax	21,014	48,895	69,908	(4,892)	(10)	65,006	65,006	TRUE	OK
22 Total Operating Expenses & Taxes	1,507,733	53,127	1,560,860	(27,594)	(8,365)	1,524,175	1,524,175	TRUE	OK
23 Utility Operating Income	171,971	73,839	245,809	(13,477)	(24)	233,034	233,034	TRUE	OK
24 Average Rate Base			245,809			233,034			
25 Avg. Gross Plant	7,254,346	-	7,254,346	(63,732)	-	7,190,614	7,190,614	TRUE	OK
26 Avg. Accum. Deprec. / Amort	(3,729,761)	-	(3,729,761)	-	-	(3,729,761)	(3,729,761)	TRUE	OK
27 Avg. Accum. Def Tax	(506,558)	-	(506,558)	-	-	(506,558)	(506,558)	TRUE	OK
28 Avg. Accum. Def ITC	4	-	4	-	-	4	4	TRUE	OK
29 Avg. Net Utility Plant	3,018,031	-	3,018,031	(63,732)	-	2,954,299	2,954,299	TRUE	OK
30 Misc. Deferred Debits	46,932	-	46,932	3,173	-	50,105	50,105	TRUE	OK
31 Operating Materials & Fuel	73,324	-	73,324	-	-	73,324	73,324	TRUE	OK
32 Misc. Deferred Credits	(74,255)	-	(74,255)	(5,279)	-	(79,534)	(79,534)	TRUE	OK
33 Working Cash	60,008	2,114	62,122	(1,021)	(310)	56,394	56,394	3.700% TRUE	OK
34 Average Rate Base	3,124,039	2,114	3,126,153	(66,859)	(310)	3,054,588	3,054,588	TRUE	OK
35 Rate of Return	5.505%	-	7.863%	-	-	7.629%	7.629%		
36 Implied Return on Equity	5.284%	-	10.000%	-	-	9.750%	9.750%		

37 Effective Cost of Debt	5.726%	5.726%	5.726%	5.508%	5.508%	5.508%	5.508%	TRUE	
38 Effective Cost of Preferred	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%	TRUE	
39 Debt Share of Cap Structure	50.000%	50.000%	50.000%	50.000%	50.000%	50.000%	50.000%	TRUE	
40 Preferred Share of Cap Structure	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%	TRUE	
41 Weighted Cost of Debt	2.863%	2.863%	2.863%	2.754%	2.754%	2.754%	2.754%	TRUE	
42 Weighted Cost of Preferred	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%	TRUE	
43 Equity Share of Cap Structure	50.000%	50.000%	50.000%	50.000%	50.000%	50.000%	50.000%	TRUE	
44 State Tax Rate	7.474%	7.474%	7.474%	7.474%	7.474%	7.474%	7.474%	TRUE	
45 Federal Tax Rate	35.000%	35.000%	35.000%	35.000%	35.000%	35.000%	35.000%	TRUE	
46 Composite Tax Rate	39.858%	39.858%	39.858%	39.858%	39.858%	39.858%	39.858%	TRUE	
47 Bad Debt Rate	0.520%	0.520%	0.520%	0.500%	0.500%	0.500%	0.500%	TRUE	
48 Franchise Fee Rate	2.501%	2.501%	2.501%	2.501%	2.501%	2.501%	2.501%	TRUE	
49 Working Cash Factor	3.980%	3.980%	3.980%	3.700%	3.700%	3.700%	3.700%	TRUE	
50 Gross-Up Factor	1.663	1.663	1.663	1.663	1.663	1.663	1.663	TRUE	
51 ROE Target	10.000%	10.000%	10.000%	9.750%	9.750%	9.750%	9.750%	TRUE	
52 Grossed-Up COC	11.177%	11.177%	11.177%	10.860%	10.860%	10.860%	10.860%	TRUE	
53 OPUC Fee Rate	0.3125%	0.3125%	0.3125%	0.3125%	0.3125%	0.3125%	0.3125%	TRUE	
Utility Income Taxes									
54 Book Revenues	1,679,704	126,966	1,806,670	(41,071)	(8,389)	1,757,210	1,757,210	TRUE	OK
55 Book Expenses	1,486,719	4,233	1,490,952	(23,428)	(8,355)	1,459,169	1,459,169	TRUE	OK
56 Interest Deduction	89,441	61	89,502	(1,841)	(9)	84,123	84,123	TRUE	OK
57 Production Deduction	-	-	-	-	-	-	-	TRUE	OK
58 Permanent Ms	(17,560)	-	(17,560)	-	-	(17,560)	(17,560)	TRUE	OK
59 Deferred Ms	21,363	-	21,363	-	-	21,363	21,363	TRUE	OK
60 Taxable Income	99,741	122,673	222,413	(15,802)	(25)	210,115	210,115	TRUE	OK
61 Current State Tax	7,454	9,168	16,622	(1,181)	(2)	15,703	15,703	TRUE	OK
62 State Tax Credits	(3,017)	-	(3,017)	-	-	(3,017)	(3,017)	TRUE	OK
63 Net State Taxes	4,437	9,168	13,605	(1,181)	(2)	12,686	12,686	TRUE	OK
64 Federal Taxable Income	95,304	113,505	208,809	(14,621)	(23)	197,429	197,429	TRUE	OK
65 Current Federal Tax	33,356	39,727	73,083	(5,117)	(8)	69,100	69,100	TRUE	OK
66 Federal Tax Credits	(25,294)	-	(25,294)	-	-	(25,294)	(25,294)	TRUE	OK
67 ITC Amort	-	-	-	-	-	-	-	TRUE	OK
68 Deferred Taxes	8,515	-	8,515	-	-	8,515	8,515	TRUE	OK
69 Total Income Tax Expense	21,014	48,895	69,908	(6,298)	(10)	65,006	65,006	TRUE	OK
70 Regulated Net Income	82,530	-	156,308	-	-	148,911	17.18%		
71 Check Regulated NI	-	-	156,308	-	-	148,911	21.81%		

Cost of Long-Term Debt

Expected December 31, 2014 - 2014 Test Year
Updated 07.02.2013

(A)	AWO (B)	Type (C)	Description (D)	Issue Date (E)	Maturity Date (F)	Term (G)	Coupon (H)	Gross Proceeds (I)	DD&E Issue Costs (J)	Call Premium & Unamort. DD&E of Refunded Issue (K)	F/N	Net Proceeds (L) [I - J - K]	Embedded Cost (M)	Net to Gross Rate (N) [L / I]	Face Amount Outstanding (O)	Net Outstanding (P) [N * O]	Face Amount Weight (Q) [O / Total]	Weighted Rate (R) [Q * M]
1	7000000037	Series MTN	9.310% Series	12-Aug-91	11-Aug-21	30	9.310%	\$20,000,000	\$176,577	\$0		\$19,823,423	9.399%	99.117%	\$20,000,000	\$19,823,423	0.904%	0.085%
4	7000000021	Series VI MTN	5.625% Series	4-Aug-03	1-Aug-13	10	0.000%	\$50,000,000	\$0	\$0	2	\$0	0.000%	0.000%	\$0	\$0	0.000%	0.000%
5	7000000022	Series VI MTN	6.750% Series	4-Aug-03	1-Aug-23	20	6.523%	\$50,000,000	\$521,342	\$1,946,809	2	\$47,531,849	6.985%	95.064%	\$50,000,000	\$47,531,849	2.261%	0.158%
6	7000000023	Series VI MTN	6.875% Series	4-Aug-03	1-Aug-33	30	6.648%	\$50,000,000	\$521,342	\$1,946,809	2	\$47,531,849	7.046%	95.064%	\$50,000,000	\$47,531,849	2.261%	0.159%
7	7000000024	FMB	6.310% Series	26-May-06	1-May-36	30	6.310%	\$175,000,000	\$1,270,865	\$6,199,472	3	\$167,529,663	6.640%	95.731%	\$175,000,000	\$167,529,663	7.914%	0.525%
8	7000000025	FMB	6.260% Series	26-May-06	1-May-31	25	6.260%	\$100,000,000	\$723,857	\$4,132,982	3	\$95,143,161	6.662%	95.143%	\$100,000,000	\$95,143,161	4.522%	0.301%
9	7000000433	FMB	5.800% Series	16-May-07	1-Jun-39	32	5.800%	\$170,000,000	\$1,447,420	\$50,969	4	\$168,501,611	5.861%	99.119%	\$170,000,000	\$168,501,611	7.687%	0.451%
10	7000000027	FMB	5.810% Series	19-Sep-07	1-Oct-37	30	5.810%	\$130,000,000	\$1,627,092	\$0		\$128,372,908	5.899%	98.748%	\$130,000,000	\$128,372,908	5.879%	0.347%
11	7000000266	FMB	5.800% Series	12-Dec-07	1-Mar-18	10	5.800%	\$75,000,000	\$637,500	\$0		\$74,362,500	5.912%	99.150%	\$75,000,000	\$74,362,500	3.392%	0.201%
12	7000000267	FMB	4.450% Series	15-Apr-08	1-Apr-13	5	0.000%	\$50,000,000	\$0	\$0	5	\$0	0.000%	0.000%	\$0	\$0	0.000%	0.000%
14	7000000693	FMB	6.800% Series	15-Jan-09	15-Jan-16	7	6.800%	\$67,000,000	\$438,180	\$0		\$66,561,820	6.919%	99.346%	\$67,000,000	\$66,561,820	3.030%	0.210%
15	7000000181	FMB	6.100% Series	13-Apr-09	15-Apr-19	10	6.100%	\$300,000,000	\$2,608,223	\$0	6	\$297,391,777	6.218%	99.131%	\$300,000,000	\$297,391,777	13.566%	0.844%
16	7000000182	FMB	5.430% Series	3-Nov-09	3-May-40	30.5	5.430%	\$150,000,000	\$1,034,283	\$0		\$148,965,717	5.477%	99.310%	\$150,000,000	\$148,965,717	6.783%	0.372%
17	7000010695	FMB	3.460% Series	15-Jan-10	15-Jan-15	5	3.460%	\$70,000,000	\$0	\$0	7	\$70,000,000	3.609%	0.000%	\$0	\$0	0.000%	0.000%
18	7000000185	PCB	Clstrp 98A Fixed	11-Mar-10	1-May-33	23	5.000%	\$97,800,000	\$688,885	\$1,521,911	8	\$95,589,204	5.168%	97.739%	\$97,800,000	\$95,589,204	4.423%	0.229%
19	7000000036	PCB	Brdm 98A Fixed	11-Mar-10	1-May-33	23	5.000%	\$23,600,000	\$166,234	\$912,065	8	\$22,521,701	5.346%	95.431%	\$23,600,000	\$22,521,701	1.067%	0.057%
20	7000001028	FMB	3.810% Series	15-Jun-10	15-Jun-17	7	3.810%	\$58,000,000	\$351,307	\$0		\$57,648,693	3.910%	99.394%	\$58,000,000	\$57,648,693	2.623%	0.103%
21	2013-1	FMB	4.47% Series	27-Jun-13	14-Jun-44	30	4.470%	\$150,000,000	\$1,135,600	\$0		\$148,864,400	4.516%	99.243%	\$150,000,000	\$148,864,400	6.783%	0.306%
22	2013-2	FMB	4.47% Series	29-Aug-13	14-Aug-43	30	4.470%	\$75,000,000	\$566,400	\$0		\$74,433,600	4.516%	99.245%	\$75,000,000	\$74,433,600	3.392%	0.153%
23	2013-3	FMB	2043 Forecast	30-Sep-13	30-Sep-43	30	4.280%	\$50,000,000	\$487,500	\$0	9	\$49,512,500	4.338%	99.025%	\$50,000,000	\$49,512,500	2.261%	0.098%
24	2013-4	FMB	2043 Forecast	30-Nov-13	30-Nov-43	30	4.280%	\$105,000,000	\$1,023,750	\$0	9	\$103,976,250	4.338%	99.025%	\$105,000,000	\$103,976,250	4.748%	0.206%
25	2014-1	FMB	2044 Forecast	31-May-14	31-May-44	30	4.428%	\$80,000,000	\$780,000	\$0	9	\$79,220,000	4.488%	99.025%	\$80,000,000	\$79,220,000	3.618%	0.162%
27	2014-2	FMB	2044 Forecast	30-Jun-14	30-Jun-24	10	3.300%	\$90,000,000	\$877,500	\$0	9	\$89,122,500	3.416%	99.025%	\$90,000,000	\$89,122,500	4.070%	0.139%
27	2014-3	FMB	2044 Forecast	31-Aug-14	31-Aug-44	30	4.428%	\$60,000,000	\$585,000	\$0	9	\$59,415,000	4.488%	99.025%	\$60,000,000	\$59,415,000	2.713%	0.122%
27	2014-4	FMB	2044 Forecast	31-Oct-14	31-Oct-44	30	4.428%	\$50,000,000	\$487,500	\$0	9	\$49,512,500	4.488%	99.025%	\$50,000,000	\$49,512,500	2.261%	0.101%
28	2014-5	FMB	2044 Forecast	30-Nov-14	30-Nov-44	30	4.428%	\$85,000,000	\$828,750	\$0	9	\$84,171,250	4.488%	99.025%	\$85,000,000	\$84,171,250	3.844%	0.172%

	\$365,000,000	4.428%		
Annual expense from loss on reacquired debt	4.15%	4.15%	\$167,007	(\$167,007)
Totals	\$2,746,400,000	\$18,985,107	\$16,878,024	\$2,245,536,869
				\$2,211,400,000
				\$2,175,703,876
				100.00%
				5.500%

Cost of LT Debt	
(includes annual expense from loss on reacquired debt)	5.508%

Losses on Other Reacquired Debt	Issue Date	Mat. Date	Reacquisition Date	Gross Proceeds	Total Gain/Loss to Amortize	2014 Expense
70000000 5.450% Colstrip 98B Fixed PCB due	1-May-03	1-May-33	1-May-09	\$21,000,000	\$411,622	\$17,139
70000000 Trojan 90A Fixed	1-Jul-98	1-Aug-14	15-Jan-11	\$9,600,000	\$63,836	\$10,459
70000000 6.500% Series	15-Jan-09	15-Jan-14	29-Dec-11	\$63,000,000	\$7,448,429	\$139,409
						\$167,007

Footnote

- On 7/1/98, the Trojan variable rates were fixed, although not extended. These bonds were redeemed at par in January 2011. Includes partial-year 2014 amortization of reacquisition cost.
- \$5.8 million in call premia resulting from acquisition of 9.46% and 7.75% issues was allocated evenly among August 2003 issues (see UE 180, PGE Exhibit 1400, page 3). 5.625% Series moves to due w/in one-year in August 2012.
- There was a \$12 million call premium on the 8.125% redeemed issue. A portion was disallowed in UE 180. The remainder is rolled into the new debt and will be paid over the period of the May 2006 issuances.
- \$5.1 million Trojan 1990B PCBs redeemed early in June 2007. Unamortized loss of \$50,969 was added to the 5.80% series \$170MM issued in May 2007 used to redeem the PCBs.
- In February 2008, PGE repurchased the 5.279% issue due 04/01/2013. The issue was subsequently reissued on 04/15/2008 at 4.45% for a period of 5 years (due on original maturity date of 04/01/2013). Moves to due w/in one-year in April 2012.
- "DD&E Issue Costs" (column J) was updated to reflect \$222,000 discount to par at issuance.
- "DD&E Issue Costs" (column J) was updated to reflect actual issuance expenses.
- PCB issues put-back to PGE in May 2009. PGE re-marketed in March 2010 (due on original maturity date of 05/01/2033).

2014

25	4.428%	\$80,000,000	3,542,545
27	3.300%	\$90,000,000	2,970,000
27	4.428%	\$60,000,000	2,656,909
27	4.428%	\$50,000,000	2,214,091
28	4.428%	\$85,000,000	3,763,955
		\$365,000,000	15,147,500
			4.15%

BEFORE THE PUBLIC UTILITY COMMISSION
OF THE STATE OF OREGON

Pension

PORTLAND GENERAL ELECTRIC COMPANY

Rebuttal Testimony of

Patrick G. Hager
Jardon Jaramillo

July 18, 2013

Table of Contents

I.	Introduction.....	1
II.	Pension Components.....	3
A.	FAS 87 Expense.....	3
B.	Prepaid Asset.....	7
III.	Pension Proposal.....	11
IV.	PGE’s Response to CUB’s and ICNU’s Proposals	13
V.	UM 1633.....	17
VI.	Summary.....	19

I. Introduction

1 **Q. Please state your names and positions with Portland General Electric (“PGE”).**

2 A. My name is Patrick G. Hager. I am a Manager of Regulatory Affairs at PGE. I am
3 responsible for analyzing PGE’s cost of capital.

4 My name is Jardon Jaramillo. My position is Senior Investment Analyst in the
5 Corporate Finance Department.

6 Our qualifications were previously provided in PGE Exhibits 500 and 1100.

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

8 A. The purpose of our testimony is three-fold. First, we discuss some misconceptions
9 regarding the components of pension costs and its funding. Second, we provide additional
10 detail regarding PGE’s pension. Finally, we address CUB’s and ICNU’s counter proposals;
11 specifically how their proposals will cause PGE to under-recover its pension costs.

12 **Q. Is pension accounting an easy subject to understand?**

13 A. No. Pension is a complicated subject involving numerous laws, regulations, and standards.
14 Before forming opinions and making assumptions regarding how pensions operate and are
15 accounted for, one must first understand the components and how they interrelate.
16 Unfortunately, understanding pensions only became more complicated with the passage of
17 the Pension Protection Act (PPA) in 2008. Before the enactment of the PPA, using just
18 FAS 87 expense in the regulatory construct was incomplete but the shortcomings in the
19 regulatory construct were relatively minor. However, after the PPA was enacted, the
20 regulatory inconsistencies became material, forcing PGE to seek a change in its pension
21 recovery to include the cash component, specifically a return on its prepaid asset
22 (contributions greater than expense). PGE, PacifiCorp and Northwest Natural have pushed

1 for changes to the regulatory treatment of pension costs, leading to the opening of a generic
2 docket seeking to examine and address the issues.

3 **Q. What is PGE's request in this docket regarding pension cost recovery?**

4 A. PGE requests that the Commission authorize the use of a balancing account as originally
5 filed in our direct testimony (PGE Exhibit 500). This balancing account will track the
6 differences between forecasted and actual pension expense and include the carrying costs of
7 the prepaid asset. The balancing account would refund or collect the differences to
8 customers and would be formally revisited during a general rate case. Alternatively, if the
9 Commission rejects making any changes to pension regulation, then PGE believes that
10 pension costs should be set at our forecasted 2014 test year FAS 87 pension expense of
11 \$23.6 million, along with the removal of the accumulated deferred tax benefit associated
12 with the prepaid asset.

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

14 A. In Section II, we clarify the components of FAS 87 expense and PGE's prepaid asset. We
15 then discuss their relationship with each other and to PGE's business. Section III details our
16 proposed balancing account and why it represents the fairest outcome for both PGE and
17 customers. Section IV addresses the issues with both CUB's and ICNU's analyses and
18 proposals and why the Commission should reject them. Finally, Section V discusses the
19 ongoing generic pension docket (UM 1633), Staff's position, and PGE's alternative
20 proposal.

II. Pension Components

A. FAS 87 Expense

1 **Q. Please describe the components of FAS 87 expense used to calculate pension expense.**

2 A. As stated in PGE's direct testimony (PGE Exhibit 500), there are five components used to
3 calculate pension expense. These components are service cost, interest cost, expected return
4 on assets, amortization of prior service costs/credits, and amortization of actuarial
5 gains/losses.

6 • Service cost – The service cost is a calculation of the annual pension benefits accrued by
7 active participants in the pension plan. Put simply, it is the amount current participants
8 earn for the current year.

9 • Interest cost - Added to service cost is the interest cost for the year. Interest cost reflects
10 the increase in the Pension Benefit Obligation (PBO) for the passage of time (i.e., time
11 value of money), using the current discount rate.

12 • Expected return on assets - From these amounts, the estimated return on assets
13 (calculated by multiplying the expected market return by the Market Related Value of
14 Assets), is subtracted.

15 • Amortization of prior period service costs - Then the amortization of prior service costs,
16 which represents any changes to the plan, is added. For PGE, this small amount will be
17 fully amortized by 2015.

18 • Amortization of actuarial gains/losses - Finally, the amortization of any actuarial gains
19 or losses is included. This calculation determines the difference between what was
20 previously forecasted to happen by the actuary and what actually happened, then spreads
21 the gain or loss over the remaining service life of the plan.

1 **Q. Who calculates the annual FAS 87 expense?**

2 A. Consistent with standard accounting practices, PGE uses a professional third party actuary to
3 determine our pension liabilities and expenses. The Financial Accounting Standards Board
4 (FASB) requires that pension expense be actuarially determined and that it reflect the
5 service component of expense over the period during which employees render services.
6 These third party actuaries have years of education and experience specific to pension
7 accounting, making them uniquely suited to the task of forecasting and determining PGE's
8 pension liabilities and expense.

9 **Q. What is the purpose of FAS 87?**

10 A. The intended purpose of FAS 87 is to smooth a company's pension expense over the life of
11 its pension plan. This smoothing can be seen in the amortization components of pension
12 expense. If this smoothing feature did not exist, PGE would need to contribute an additional
13 \$243 million dollars because PGE's pension plan is currently in an underfunded FAS 87
14 status.

15 **Q. Is PGE's FAS 87 expense a real cost to PGE?**

16 A. Yes. Consistent with Generally Accepted Accounting Principles (GAAP), FAS 87 expense
17 is recorded on PGE's income statement and does represent a real cost to the company. This
18 expense reflects the costs associated with the benefits that employees earned during the
19 period and, hence, the entries appropriately match costs and the associated benefits. This
20 recorded expense directly affects our earnings as do other expenses that PGE incurs.

21 **Q. Is the FAS 87 expense an "actual cost" for PGE?**

22 A. Definitely.

1 **Q. Why does CUB claim that PGE's FAS 87 expense is "not an actual cost" (CUB Exhibit**
2 **100, page 4, line 15)?**

3 A. Apparently CUB believes that if the expense is not a current one (i.e., within the period), it
4 is not an actual cost but "merely a book keeping record." There appears to be confusion
5 between an incurred expense and an accrued expense.

6 **Q. Can you explain the difference between an incurred and accrued expense?**

7 A. Certainly. An incurred expense is one where an expense has taken place (e.g., products or
8 services have been delivered) and PGE is now liable for the costs associated with the
9 expense. An example of this type of expense is the timesheets submitted by PGE
10 employees. Services have been performed and so the company now incurs the costs
11 associated with them.

12 An accrued expense is one where an expense has been incurred (i.e., PGE is now liable
13 for the expense) but PGE has not yet paid for the expense. An example of this type of
14 expense is bills received but not yet paid for by PGE's Accounts Payable department. These
15 bills represent a charge to the company for products or services rendered and PGE is liable
16 for the costs associated with these bills.

17 So, just as PGE is liable for wages and salaries incurred by its employees, it is liable for
18 the pension costs incurred. The difference between these two costs is that the wages and
19 salaries are paid out directly following the service rendered, while the pension costs are
20 accrued and paid out upon retirement.

21 PGE, like almost all large companies, operates on an accrual basis for its accounting,
22 meaning that it has both incurred and accrued expenses. GAAP recognizes both types of
23 expenses as actual expenses.

1 **Q. Are the benefit payments PGE makes included in expense?**

2 A. Yes. The expected benefit payments for the year for which the expense is determined are
3 used in the calculations of the interest cost and the expected return on assets.

4 **Q. What was the amount of benefit payments that PGE made in 2012?**

5 A. In 2012, PGE's pension plan paid out approximately \$28 million in benefits to recipients.

6 **Q. How has PGE's pension asset performed relative to the market?**

7 A. PGE's pension asset has consistently outperformed similar sized pension plans for the last
8 five years, being in the top 1% of funds over the five years ending March 31, 2013.
9 Additionally, from 2000 through 2011, PGE's pension plan performance outpaced the
10 average pension returns of the nation's largest companies (companies listed in the 2012
11 *Fortune* 1000) by an average of 1.2%.

12 **Q. Have PGE's customers benefitted from PGE's pension plan performance?**

13 A. Yes. Better plan management and performance reduces PGE's FAS 87 expense, which
14 directly benefits customers in two specific ways. First, during years when there is a rate
15 case, our FAS 87 expense forecast is lower than it otherwise would be as a result of our
16 effective plan management. Second, in the years between rate cases, if FAS 87 expense is
17 lower than what is in rates, PGE is able to increase investments in our infrastructure
18 elsewhere, benefiting customers through the improvement and maintenance of PGE's
19 systems without an associated increase in rates.

20 **Q. Is the use of FAS 87 expense similar to any other accounting practices?**

21 A. Yes. The costs of PGE's pension plan are similar to the standard accounting practice of
22 depreciating physical assets, where the capital cost of the asset is amortized over the life of
23 the plan, matching the overall capital costs with the multiyear benefits. Pension expense

1 does not represent “short-term changes” (CUB Exhibit 100, page 3, line 3); rather it
2 represents the actual long-term cost of providing pension benefits, amortized over the life of
3 the plan participants. While market fluctuations do affect the present value of future
4 benefits and the value of plan assets, the recognition of expense through FAS 87 helps
5 smooth out these fluctuations by amortizing the gains and losses over the service life of
6 participants.

B. Prepaid Asset

7 **Q. Please explain what PGE’s prepaid asset is comprised of?**

8 A. Simply put, PGE’s prepaid asset is comprised of contributions in excess of FAS 87 expense.
9 The two main determinants to the amount in the prepaid asset are direct cash contributions
10 and the amount of FAS 87 expense incurred. Cash contributions increase the assets, while
11 FAS 87 expense may increase or decrease the prepaid asset. Because of these effects,
12 PGE’s prepaid asset can be impacted by direct cash contributions and by the market
13 performance of PGE’s pension assets via its impact on FAS 87 pension expense.

14 **Q. How long has PGE held the prepaid asset on its financial books?**

15 A. PGE’s prepaid asset has existed since the inception of FAS 87.

16 **Q. If the prepaid asset has been on PGE’s financial books for over 25 years, why is it an**
17 **issue now?**

18 A. Through the 1980s and 1990s, PGE’s prepaid asset has fluctuated but remained small and
19 immaterial to PGE’s operations. However, the prepaid asset began to grow significantly
20 during the last decade, driven primarily by the Pension Protection Act (PPA) and the 2008
21 financial crisis.

22 **Q. Please describe the effects the PPA had on the prepaid pension asset.**

1 A. First, the PPA created an amortization schedule for cash contributions, which is
2 considerably shorter in length than the amortization schedule under FAS 87. This shorter
3 schedule significantly increased the difference between the build-up of the prepaid asset and
4 its reduction through FAS 87 expense. Second, the PPA increased funding requirements,
5 which required larger contributions to the plan than were previously required. Therefore, in
6 order to meet these annual funding status requirements, PGE (as for others' pension plans) is
7 required to make large cash contributions in excess of FAS 87 expense, which flow into the
8 prepaid asset. This federally required increase in cash contributions, can affect our overall
9 financing ability. These changes have contributed substantially to the size of the prepaid
10 asset and will continue to play a role for the remainder of the pension plan's existence.

11 While, as CUB suggests, "regulatory treatment (of the prepaid asset) is priced into
12 PGE's stock price" (CUB Exhibit 100, page 13, line 10), enactment of the PPA has
13 materially changed the way pension costs are managed, resulting in pension-related costs
14 that are material to PGE and are not addressed by current regulatory treatment. Absent
15 regulatory treatment of these costs, PGE's opportunity to earn its allowed Return on Equity
16 will be limited, as we discuss below.

17 **Q. You stated that PGE's prepaid asset has grown significantly over the last several years.**

18 **What is the financial impact of this prepaid asset on PGE's balance sheet?**

19 A. PGE uses cash to finance investments in its plants, in fuel inventory, and its pension. In
20 large part due to the PPA, the pension plan has required large cash contributions that could
21 be used for other investments. While PGE's other investments receive regulatory treatment,
22 such as the recovery of as well as return on plant investment, pension investments receive
23 disparate regulatory treatment. Under the current regulatory framework, PGE receives a

1 recovery of its investment (via FAS 87 expense) over time but not a return on it. As a
2 result, PGE does not recover the return costs associated with financing the pension plan,
3 which limits PGE's ability to earn its allowed ROE.

4 **Q. You noted that PGE's prepaid pension asset has grown rapidly over the last several**
5 **years. Is the prepaid asset expected to continue growing at this rate?**

6 A. No. PGE chose to close its union pension plan in 1999 and its non-union pension plan in
7 2009 and although we expect to have a higher level of pension expense than in the past, we
8 expect the balance of the prepaid asset to decline. Confidential PGE Exhibit 503 provides a
9 long-term forecast. That forecast shows that PGE's prepaid asset will be \$74.1 million in
10 2014 compared to \$128.8 million in 2011.

11 **Q. Please explain the relationship between the prepaid asset and pension expense.**

12 A. There is a direct relationship between the prepaid asset and pension expense. The prepaid
13 asset is amortized through PGE's pension expense. That is, as PGE incurs FAS 87 pension
14 expense, the prepaid asset is reduced by that amount, offset by cash contributions, if any.
15 The prepaid asset effectively amounts to a difference in timing between the two: pension
16 expense and cash contributions

17 **Q. If FAS 87 expense is reduced every time a cash contribution is made to the prepaid**
18 **asset, how does the prepaid asset diminish?**

19 A. While cash contributions reduce FAS 87 expense by increasing the asset base and therefore
20 the expected return on assets component of FAS 87 expense, PGE continues to incur service
21 cost, interest cost, amortization of prior service cost, and amortization of actuarial gain/loss.
22 The remaining FAS 87 expense components, particularly the amortization of actuarial
23 gain/loss, will continue to reduce the prepaid asset over time. Additionally, as PGE's

1 pension asset moves closer to fully funded status, the Employee Retirement Income Security
2 Act (ERISA) mandated cash contributions will taper off, while FAS 87 expense will
3 continue to be incurred, further reducing the prepaid asset.

4 **Q. Will this prepaid asset eventually reach a zero balance?**

5 A. Yes. As discussed, FAS 87 expense will reduce the prepaid asset, so as cash contributions
6 start to taper off and PGE continues to incur FAS 87 expense, the prepaid asset will continue
7 to shrink in size, eventually reaching a zero balance.

III. Pension Proposal

1 **Q. What is PGE's proposal for treatment of pension-related costs?**

2 A. PGE is proposing a balancing account that includes our FAS 87 expense along with a return
3 on our prepaid pension asset.

4 **Q. Why is PGE proposing this kind of treatment?**

5 A. PGE proposes a balancing account because it serves a number of purposes. First, it reduces
6 the 2014 revenue requirement impact of PGE's pension expense and the carrying charges of
7 PGE's prepaid asset. It is also worth noting that the balancing account reduces the 2014
8 revenue requirement impact by approximately \$7.7 million relative to FAS 87 expense alone
9 (under the existing regulatory treatment). It also ensures that PGE neither over- nor under-
10 recovers pension costs. As CUB states in their initial testimony, market returns are one of
11 "the most important factors influencing pension funding" (CUB Exhibit 100, page 7, lines
12 11-12). And, as we have discussed elsewhere, fluctuating discount rates also impact pension
13 assets. Together, these factors cause significant volatility in pension assets and thus, in
14 pension costs. While PGE's third party actuaries have been accurate in forecasting PGE's
15 near-term pension expense, long-term projections are by nature more difficult and less
16 accurate. This is simply the nature of defined benefit plans and is a feature all pensions
17 have and must consider. A balancing account helps to smooth the inherent market volatility
18 and thus the costs for both customers and PGE.

19 **Q. Do other Commissions allow a return on the prepaid asset?**

20 A. Yes. A 2013 OPUC Staff survey of pension recovery methods found that 46% of all utility
21 commissions allow some form of return on the prepaid asset in addition to the recovery of

- 1 FAS 87 expense. Additionally, 29% of all utility commissions have recently performed or
- 2 are currently performing an investigation into pension related costs.

1 **Q. Please describe CUB's cash based recovery proposal.**

2 A. CUB proposes that beginning in 2014, the recovery of pension costs in rates should be based
3 on a five-year amortization of cash contributions to the plan and that FAS 87 pension
4 expense would no longer be used to set rates.

5 **Q. Are there issues with this method of recovery?**

6 A. Yes. If PGE were to switch to a cash-based form of pension cost recovery, the prepaid asset
7 would still need to be addressed in some way. CUB's proposal fails to do this. As
8 discussed above, the buildup of the prepaid asset represents timing differences between
9 contributions to PGE's pension plan and when these contributions are expensed. If PGE
10 were to move from including FAS 87 expense in rates to cash-based recovery, as CUB
11 proposes, PGE would forego the recovery of the prepaid asset.

12 **Q. What impact would this have on PGE's books?**

13 A. The amounts in Accumulated Other Comprehensive Loss (AOCL) related to pension that
14 PGE has recognized on its balance sheet would no longer be recoverable through the
15 inclusion of FAS 87 expense costs in customer rates. Therefore, PGE would be required to
16 write off the associated regulatory asset. If this sort of treatment were to occur in 2014 for
17 example, it is estimated that PGE would incur a \$316 million charge to the equity
18 component of its balance sheet, which would change its capital structure from approximately
19 50% equity and 50% long-term debt to 42.5% equity and 57.5% long-term debt.

20 **Q. Would there be consequences from this change in capital structure?**

21 A. Yes. A capital structure change of this magnitude would drastically reduce PGE's financial
22 leverage and greatly increase our risk. PGE would most likely experience an immediate
23 downward shift in its credit ratings, significantly raising our cost of debt. This, in turn,

1 **Q. Please describe CUB's cash based recovery proposal.**

2 A. CUB proposes that beginning in 2014, the recovery of pension costs in rates should be based
3 on a five-year amortization of cash contributions to the plan and that FAS 87 pension
4 expense would no longer be used to set rates.

5 **Q. Are there issues with this method of recovery?**

6 A. Yes. If PGE were to switch to a cash-based form of pension cost recovery, the prepaid asset
7 would still need to be addressed in some way. CUB's proposal fails to do this. As
8 discussed above, the buildup of the prepaid asset represents timing differences between
9 contributions to PGE's pension plan and when these contributions are expensed. If PGE
10 were to move from including FAS 87 expense in rates to cash-based recovery, as CUB
11 proposes, PGE would forego the recovery of the prepaid asset.

12 **Q. What impact would this have on PGE's books?**

13 A. The amounts in Accumulated Other Comprehensive Loss (AOCL) related to pension that
14 PGE has recognized on its balance sheet would no longer be recoverable through the
15 inclusion of FAS 87 expense costs in customer rates. Therefore, PGE would be required to
16 write off the associated regulatory asset. If this sort of treatment were to occur in 2014 for
17 example, it is estimated that PGE would incur a \$316 million charge to the equity
18 component of its balance sheet, which would change its capital structure from approximately
19 50% equity and 50% long-term debt to 42.5% equity and 57.5% long-term debt.

20 **Q. Would there be consequences from this change in capital structure?**

21 A. Yes. A capital structure change of this magnitude would drastically reduce PGE's financial
22 leverage and greatly increase our risk. PGE would most likely experience an immediate
23 downward shift in its credit ratings, significantly raising our cost of debt. This, in turn,

1 would limit PGE's ability to access funds, raising the risk of financing critical infrastructure
2 projects. PGE would also expect to see a significant reduction in its stock price.
3 Additionally, moving to this sort of treatment without addressing the prepaid asset would
4 guarantee the under recovery of our pension costs over the life of the plan.

5 **Q. Please explain how this change ensures that PGE under-recovers its pension costs.**

6 A. For the sake of this example, assume that Utility A's pension costs \$500 million over its
7 life. At a point in time, Utility A has a \$75 million prepaid asset. Also, assume that the
8 prepaid asset is the result of \$300 million of cash contributions and \$225 million of pension
9 expense. If the utility in this example were to switch to cash recovery, as proposed by CUB,
10 the utility would recover \$200 million (\$500 million less \$300 million of cash contributions
11 to date) rather than \$275 million (\$500 million less \$225 million of pension expense
12 incurred to date). The utility would effectively forego recovery of the \$75 million prepaid
13 asset.

14 **Q. Are there other alternative methods proposed by the parties?**

15 A. Yes. In lieu of a cash based recovery method, CUB proposes using a three year average of
16 historical pension expense to calculate PGE's test year pension costs. ICNU proposes
17 similar treatment by using PGE's 2012 pension expense for the 2014 test year.

18 **Q. Why is this treatment inappropriate?**

19 A. CUB's and ICNU's proposals introduce regulatory lag where none has existed since the
20 introduction of FAS 87. This would unnecessarily erode test year rate making and is a
21 deviation from prior Commission practice. Furthermore, these proposals appear to be
22 results based, with both parties appearing to match their analyses with the amounts they
23 have decided are acceptable for rate recovery.

1 Both amounts proposed by CUB (\$10.9 million) and ICNU (\$13.9 million) are well
2 below PGE's 2014 pension expense forecast of \$23.6 million. PGE also notes that each
3 proposal disregards the impact of reverting to pension expense only; that of removing an
4 accumulated deferred tax item of approximately \$33 million associated with the prepaid
5 asset from rate base. Finally, their proposed treatment continues to ignore the issues related
6 to the prepaid pension asset.

V. UM 1633

Q. Please explain the effect Docket No. UM 1633 has on this case.

A. Docket No. UM 1633 is an on-going investigation into the treatment of pension costs in utility rates. This docket is a generic investigation involving all investor owned utilities operating in Oregon. The purpose of this docket is to investigate and address the current rate making treatment of pension costs.

Q. How has UM 1633 affected Staff's recommendation regarding PGE's pension proposal?

A. As UM 1633 is still in its initial phase, Staff is still working with PGE and other parties to determine the potential effects of various pension recovery methodologies. Staff does state that they may be amenable to a change in the current recovery method of pension costs but they do not have a recommendation or propose an alternative in their opening testimony.

Q. In light of the UM 1633 proceeding, does PGE have an alternative proposal?

A. Yes. With the real possibility of UM 1633 remaining unresolved at the conclusion of UE 262, PGE's alternate proposal is to revert back to the current treatment of our pension costs. This would mean using the 2014 test year forecast of FAS 87 pension expense and removing the above-mentioned accumulated deferred tax item from rate base.

Q. What is the reason for this proposal?

A. Understanding that the Commission may prefer to have the outcome of UM 1633 serve as the basis for any change in pension recovery methods, the fairest alternative to our initial proposal is to revert back to the traditional treatment of pension costs. This would mean using our 2014 test year forecast for FAS 87 pension expense, which is approximately \$23.6 million after capitalization, and removing the approximate \$33 million accumulated

- 1 deferred tax item. This represents an approximate increase of \$7.7 million to PGE's
- 2 originally filed revenue requirement.

VI. Summary

1 **Q. Please summarize your testimony.**

2 A. PGE agrees with CUB that there is a disconnect between FAS 87 expense and cash
3 contributions made to the pension plan. We disagree however on how to solve this
4 disconnect. Any reasonable solution to this disconnect must address the prepaid asset. Both
5 CUB and ICNU fail to do this. While the prepaid asset has been in existence since the
6 enactment of FAS 87, the PPA funding rules have dramatically changed the buildup of this
7 asset, with PGE absorbing the cost. Not only does PGE absorb the costs associated with
8 financing the prepaid asset, the cost of future equity issuances is also affected, which can
9 lead to an increase in customer prices.

10 The creation of a balancing account for FAS 87 expense and carrying costs on our
11 prepaid asset provides the opportunity to PGE for fair recovery of its pension plan costs,
12 while also smoothing out the volatility in customer prices. The balancing account also
13 ensures that PGE neither over- nor under-recovers the full cost of our pension plan. Earning
14 a return on the prepaid asset is a fair way of compensating PGE for the risks of holding this
15 asset. This benefits customers through lower pension expense and it is consistent with many
16 other Commissions' treatment of pension costs.