

Davison Van Cleve PC

Attorneys at Law

TEL (503) 241-7242 • FAX (503) 241-8160 • mail@dvclaw.com
Suite 400
333 SW Taylor
Portland, OR 97204

July 9, 2008

Via Electronic and U.S. Mail

Public Utility Commission
Attn: Filing Center
550 Capitol St. NE #215
P.O. Box 2148
Salem OR 97308-2148

Re: In the Matter of PORTLAND GENERAL ELECTRIC COMPANY
Request for a General Rate Revision
Docket No. UE 197

Dear Filing Center:

On behalf of the Industrial Customers of Northwest Utilities (“ICNU”) in the above-referenced docket, enclosed please find an original and five copies of:

- Testimony and Confidential Exhibits of Ellen Blumenthal;
- Testimony and Redacted Exhibits of Ellen Blumenthal; and
- Testimony and Exhibits of Dr. Alan Rosenberg.

The confidential pages and exhibits are inserted in separate envelopes and sealed pursuant to the protective order in this proceeding.

Sincerely yours,

/s/ Brendan E. Levenick
Brendan E. Levenick

Enclosures
cc: Service List

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that I have this day served the foregoing documents on behalf of the Industrial Customers of Northwest Utilities upon the parties, on the service list, by causing the same to be deposited in the U.S. Mail, postage-prepaid.

Dated at Portland, Oregon, this 9th day of July, 2008.

/s/ Brendan E. Levenick
Brendan E. Levenick

PORTLAND GENERAL ELECTRIC
DOUGLAS C TINGEY
121 SW SALMON 1WTC13
PORTLAND OR 97204
doug.tingey@pgn.com

JIM DEASON
ATTORNEY AT LAW
1 SW COLUMBIA ST, SUITE 1600
PORTLAND OR 97258-2014
jimdeason@comcast.net

BOEHM KURTZ & LOWRY
KURT J BOEHM (C)
MICHAEL L KURTZ
36 E SEVENTH ST - STE 1510
CINCINNATI OH 45202
kboehm@bkllawfirm.com
mkurtz@bkllawfirm.com

PUBLIC UTILITY COMMISSION
JUDY JOHNSON (C)
PO BOX 2148
SALEM OR 97308-2148
judy.johnson@state.or.us

JANET L PREWITT
1162 COURT ST NE
SALEM OR 97301-4096
janet.prewitt@doj.state.or.us

FISHER SHEEHAN & COLTON (W)
ROGER D. COLTON
34 WARWICK RD
BELMONT MA 02478
roger@fsconline.com

PORTLAND GENERAL ELECTRIC
RATES & REGULATORY AFFAIRS
PATRICK HAGER (C)
121 SW SALMON ST 1WTC0702
PORTLAND OR 97204
pge.opuc.filings@pgn.com

JESSE D. RATCLIFFE (W)
ASSISTANT ATTORNEY GENERAL
1162 COURT ST NE
SALEM OR 97301-4096
jesse.d.ratcliffe@doj.state.or.us

DEPARTMENT OF JUSTICE
STEPHANIE S ANDRUS (C)
ASSISTANT ATTORNEY GENERAL
REGULATED UTILITY & BUSINESS SECTION
1162 COURT ST NE
SALEM OR 97301-4096
stephanie.andrus@state.or.us

COMMUNITY ACTION DIRECTORS OF OREGON (W)
JIM ABRAHAMSON (C)
PO BOX 7964
SALEM OR 97301
jim@cado-oregon.org

LEAGUE OF OREGON CITIES
SCOTT WINKELS
PO BOX 928
SALEM OR 97308
swinkels@orcities.org

OREGON ENERGY COORDINATORS ASSOC (W)
JOAN COTE (C)
2585 STATE ST NE
SALEM OR 97301
cotej@mwvcaa.org

CITIZENS' UTILITY BOARD OF OREGON (W)

LOWREY R BROWN (C)
JASON EISDORFER (C)
ROBERT JENKS (C)
610 SW BROADWAY - STE 308
PORTLAND OR 97205
lowrey@oregoncub.org
jason@oregoncub.org
bob@oregoncub.org

OREGON DEPARTMENT OF ENERGY (W)

KIP PHEIL (C)
625 MARION ST NE – STE 1
SALEM, OR 97301-3737
kip.pheil@state.or.us

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UE 197

In the Matter of)
)
PORTLAND GENERAL ELECTRIC)
COMPANY)
)
Request for a General Rate Revision)
_____)

**DIRECT TESTIMONY AND EXHIBITS OF ELLEN BLUMENTHAL
ON BEHALF OF
THE INDUSTRIAL CUSTOMERS OF NORTHWEST UTILITIES AND
CITIZENS' UTILITY BOARD OF OREGON**

July 9, 2008

1 **I. PROFESSIONAL TRAINING AND EXPERIENCE**

2 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3 **A.** My name is Ellen Blumenthal. My business address is 13517 Queen Johanna Court,
4 Corpus Christi, Texas 78418.

5 **Q. PLEASE OUTLINE YOUR FORMAL EDUCATION.**

6 **A.** I received the degree of Bachelor of Arts in Journalism from the University of Texas
7 at Austin in 1974, but remained at the University to do additional course work in
8 accounting and business. I became a Certified Public Accountant in Texas in 1977.

9 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

10 **A.** I am an Executive Consultant with GDS Associates, Inc. (“GDS”).

11 **Q. PLEASE OUTLINE YOUR PROFESSIONAL EXPERIENCE.**

12 **A.** From 1975 to 1977, I worked in public accounting. My public accounting experience
13 included the preparation of financial statements, tax work, and auditing. In May
14 1977, I became a regulatory accountant with the Public Utility Commission of Texas
15 (“PUC” or “Commission”). I left the Commission in November 1980 to open an
16 office in Austin for C.H. Guernsey & Company, Consulting Architects and
17 Engineers. I became an independent consultant in 1982 and joined GDS in 2002. A
18 copy of my résumé is provided as ICNU-CUB/101.

19 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THIS COMMISSION?**

20 **A.** Yes. Please see my résumé included at Exhibit ICNU-CUB/101 for details of my
21 previous appearances before this and other Commissions.

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II. INTRODUCTION AND SUMMARY

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The Industrial Customers of Northwest Utilities (“ICNU”) and the Citizens’ Utility Board of Oregon (“CUB”) asked me to review Portland General Electric Company’s (“PGE” or “Company”) proposed test year 2009 employee costs. I present and explain the changes I propose to PGE’s requested wages and salaries and payroll related costs such as employee benefits and incentive pay.

Q. PLEASE SUMMARIZE YOUR CONCLUSIONS AND RECOMMENDATIONS.

A. I recommend that PGE’s proposed total wages and salaries of \$222.5 million be reduced by approximately \$19 million to \$203.5 million. I further recommend that the reasonable and necessary payroll related costs that should be included in rates is \$85.3 million rather than the \$123.3 million proposed by PGE. My adjustments are summarized in ICNU-CUB/102, Blumenthal/1-2. The total impact of my adjustments is a reduction in PGE’s filed revenue requirement of \$57 million.

III. 2009 FORECAST WAGES AND SALARIES

Q. PLEASE SUMMARIZE PGE’S REQUESTED 2009 WAGE AND SALARY LEVELS.

A. The test year in this case is calendar year 2009. PGE’s forecasted 2009 wages and salaries are \$222.5 million. PGE/801, Barnett-Bell/1. This level of wages and salaries includes 2,733 full time equivalents (“FTE”). PGE/800, Workpapers/1. According to the Company’s testimony, the increase in wages and salaries is

1 “primarily due to market-driven wage and salary adjustments and FTE growth.”

2 PGE/800, Barnett-Bell/2.

3 **Q. WHAT IS THE MOST RECENT TWELVE MONTH PERIOD FOR WHICH**
4 **ACTUAL AUDITED REVENUE AND EXPENSE INFORMATION IS**
5 **AVAILABLE?**

6 **A.** Audited financial information is available for the calendar year ended December 31,
7 2007.

8 **Q. ARE PGE’S ESTIMATED 2009 WAGES AND SALARIES BASED ON**
9 **ACTUAL CALENDAR YEAR 2007 AMOUNTS?**

10 **A.** No. The information included in PGE’s filing includes 2007 forecast amounts, but
11 not 2007 actual amounts. The 2009 test year amounts are based on budgeted 2009
12 numbers.

13 **Q. HOW DID PGE DETERMINE THE 2009 TEST YEAR WAGES AND**
14 **SALARIES IT INCLUDED IN THIS FILING?**

15 **A.** Table 1, at PGE/800, Barnett-Bell/2, shows wages and salaries, incentives, and
16 benefits for *forecasted* 2007, *budgeted* 2008, and *budgeted* 2009. According to the
17 Company’s response to OPUC Data Request 276, “the 2008 budget was created
18 through a company-wide, bottom-up budget process. For labor, the 2008 budget is
19 based on actual labor costs from Q2-2007” increased by various escalation factors.
20 ICNU-CUB/103, Blumenthal/1. The 2008 labor budget was then escalated by
21 applying the “inflation” rates shown at PGE/200, Tooman-Tinker/5, to determine the
22 2009 proposed test year amounts. The escalation rates used for both years are:

<u>Employee Class</u>	<u>Escalation Factor</u>
Exempt	4.50%
Non-exempt	4.50%
Union	4.00%
Executive	6.00%

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2 ICNU-CUB/103, Blumenthal/1.

3 PGE's test year wages and salaries also include costs for additional FTEs. Of
4 the total \$27.7 million increase over the 2007 *forecast* wages and salaries requested
5 by PGE, approximately \$13.9 million is due to increased wage levels, and \$13.8
6 million is the result of additional FTEs. PGE/800, Barnett-Bell/2.

7 **Q. WHAT IS A FULL TIME EQUIVALENT OR FTE?**

8 **A.** PGE explains how FTEs are calculated as follows:

9 "As part of each annual budgeting process, managers determine the
10 number of labor hours in each position type required to accomplish
11 their departments' work PGE then converts the total labor hours
12 into FTEs. For example, under this process, an employee hired mid-
13 year would be budgeted as one-half (0.5) FTE."

14 PGE/800, Barnett-Bell/5.

15 PGE's 2009 test year includes 2,733 straight time FTEs and 93 overtime FTEs. Id. at
16 Table 2. This is an increase of approximately 266 FTEs over actual end of year 2007
17 total FTEs (full-time, part-time, and temporary employees). ICNU-CUB/104,
18 Blumenthal/4.

19 Employees who are paid a salary, but are not paid for overtime are included in
20 PGE's calculation of FTEs even though there is no cost associated with these FTEs.

1 **Q. DO YOU AGREE WITH PGE'S PROPOSED SALARY AND WAGE**
2 **AMOUNT OF \$222.5 MILLION?**

3 **A.** No. This amount is based on assumptions which are then compounded by further
4 assumptions. It is based on a 2009 budget prepared by the applicant. A budget is
5 comprised of estimates of future costs that are based on certain assumptions and
6 parameters. PGE has provided no testimony regarding the assumptions and
7 parameters that underlie either the 2008 or the 2009 budget. If this Commission were
8 to set rates based on a utility's budget, Oregon utilities would prepare budgets with
9 few constraints. Utility rates are not set based on a utility's wish list. Utility rates are
10 intended to be cost-based and, therefore, must be set based on actual costs incurred to
11 provide utility service adjusted for known and measurable changes. Even if the
12 Commission permits a utility to use a future test year, the costs of providing utility
13 service must be based on reasonable and necessary costs incurred to provide service.
14 The utility must show that its proposed costs are reasonable and necessary and
15 changes from historical costs must be shown to be known and measurable. PGE has
16 not demonstrated that its proposed salaries and wages meet these criteria.

17 **Q. PGE'S PROPOSED \$225.5 MILLION FOR WAGES AND SALARIES**
18 **INCLUDES APPROXIMATELY 266 ADDITIONAL FTEs. WHAT**
19 **GUARANTEE EXISTS THAT PGE WILL FILL ALL OF THESE**
20 **POSITIONS?**

21 **A.** There is no guarantee. In fact, in each of the last six years, 2002 through 2007,
22 PGE's budgeted straight time FTEs exceeded actual straight time FTEs as shown
23 below, using the information provided by PGE in response to ICNU Data Request
24 242. ICNU-CUB/105, Blumenthal/3-4.

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TABLE 1

	2002	2003	2004	2005	2006	2007
Budgeted FTEs	2,643	2,570	2,549	2,562	2,603	2,652
Actual FTEs	2,579	2,517	2,509	2,504	2,540	2,597
Budgeted in excess of Actual	64	53	40	58	63	55

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If rates in this case are set using PGE's budgeted FTEs, it more likely than not that a significant number of these positions will go unfilled.

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Q. SINCE BUDGETED FTE'S SHOULD NOT BE USED AS THE BASIS FOR SETTING RATES, HOW DID YOU COMPUTE SALARIES AND WAGES FOR INCLUSION IN RATES?

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A. Rather than base my adjusted salaries and wages on budgeted FTEs, I based my calculation on PGE's historical growth in FTEs. The table below summarizes PGE's actual straight time FTEs and the increase in FTEs year over year for the years 2002 through 2007, using the information provided by PGE in response to ICNU Data Request 242. ICNU-CUB/105, Blumenthal/3.

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TABLE 2

	2002	2003	2004	2005	2006	2007
Actual total FTEs	2,596	2,538	2,531	2,529	2,554	2,560
Change in FTEs from previous year		(58)	(7)	(2)	25	6
Average % growth in FTEs 2005-2007						<u>0.613%</u>

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As this table shows, PGE's workforce declined from 2002 through 2005, increased by 25 employees in 2006 and by 6 employees in 2007. I used the average growth in FTEs from 2005 to 2007, 0.613 percent, in my calculation of test year 2009 salaries and wages. These are the only years during the last five years in which PGE actually

1 had an expanding workforce. In my opinion, this increase provides the most reliable
2 estimate of the increase in FTEs that is likely to occur.

3 **Q. WHAT WAS THE TEST YEAR IN DOCKET NO. UE 180?**

4 **A.** Docket No. UE 180 was based on a “normalized future test period of calendar year
5 2007.” Re PGE, Docket No. UE 180, Pretrial Brief of PGE at 3 (Mar. 15, 2006).

6 **Q. HOW MANY FTEs DID PGE PROJECT FOR CALENDAR YEAR 2007 IN**
7 **DOCKET NO. UE 180?**

8 **A.** According to the Company’s response to Staff’s Data Request 175, PGE projected
9 2,629 FTEs for calendar year 2007. ICNU-CUB/106, Blumenthal/3. This data
10 request also shows that PGE’s 2006 budget included 2,603 FTEs. The 2006 budget
11 overstated the actual FTEs by 49. PGE’s 2007 projected FTEs were overstated by 69.
12 Id.; ICNU-CUB/104, Blumenthal/4.

13 **Q. HOW DID YOU USE THE .613% GROWTH IN FTEs IN YOUR**
14 **CALCULATION?**

15 **A.** I increased the actual 2007 number of straight time FTEs by the .613% and then
16 increased that result by the same .613% to estimate a reasonable and necessary
17 number of FTEs for the future test year 2009. This calculation results in an increase
18 of approximately 31.5 FTEs over the actual 2007 number of 2,560 FTEs.

19 **Q. HAS THERE BEEN A SIGNIFICANT CHANGE IN THE ACTUAL NUMBER**
20 **OF FTES SINCE THE END OF 2007?**

21 **A.** No. According to the responses to ICNU Data Requests 271 and 272, there has been
22 a net increase of 4 FTEs since January 1, 2008. ICNU-CUB/107, Blumenthal/2;
23 ICNU-CUB/108, Blumenthal/2. While the response does not specify, I assume the

1 data provided was as of May 31, 2008, since the response was provided on June 4,
2 2008.

3 **Q. HOW DID YOU CALCULATE THE ANNUAL SALARIES AND WAGES**
4 **ASSOCIATED WITH THE 2,591.5 FTEs YOU CALCULATED?**

5 **A.** PGE has four major groups of employees: officers, exempt, hourly, and union. I
6 computed an average straight time wage per FTE for each of these groups using the
7 actual straight time base wages and straight time FTEs for calendar year 2007
8 provided by PGE in response to Staff Data Request 203. ICNU-CUB/104,
9 Blumenthal/3-4. I increased this 2007 average straight time wage per FTE for hourly
10 FTEs by 3 percent and by 2 percent for exempt and union FTEs for 2008 and again
11 for 2009. I did not increase the average straight time wage per FTE for officers. I
12 multiplied my calculated 2009 average straight time wage per FTE by the adjusted
13 FTEs to determine the adjusted 2009 annual straight time salaries and wages of
14 \$191,704,208 for 2,591.5 FTEs.

15 **Q. WHY DID YOU USE A 3 PERCENT ESCALATION RATE FOR HOURLY**
16 **AND UNION EMPLOYEES?**

17 **A.** The table below shows the actual percent increases in the average salaries and wages
18 per employee excluding overtime, bonuses, and incentive pay for each of the most
19 recent five years. I calculated these rates using the information provided by PGE in
20 response to Staff Data Request 203. ICNU-CUB/104, Blumenthal/3.

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TABLE 3

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Officer	0.906%	-2.945%	3.907%	12.607%	20.600%
Exempt	1.586%	1.991%	4.146%	2.275%	7.515%
Hourly	3.558%	2.297%	3.211%	3.029%	2.837%
Union	4.128%	3.563%	2.023%	4.432%	1.220%

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The average annual wage for hourly and union employees has increased by slightly less than 3 percent over the five years shown in the table. Based on this information, I concluded that 3 percent is a reasonable rate of increase for both of these groups of employees.

As Table 3 illustrates, exempt employees' salaries increased at a greater rate in 2005 and 2007 than hourly and union employees' wages. I excluded these 2005 and 2007 increases because they were unusual when compared to the other years and I assume that these large adjustments will not recur. I used the same methodology to calculate the annual salaries for this group, except that I used a 2 percent increase for 2008 over 2007 and again for 2009 over 2008.

The salaries of PGE's officers increased disproportionately in both 2006 and 2007 compared to all other employee groups. PGE's officers have received substantial bonus and stock compensation. In fact, officers received bonuses that exceeded their salaries in 2007. ICNU-CUB/109, Blumenthal/3. PGE's proposed wages and salaries includes for officers approximately \$3.4 million and incentives of approximately \$3.4 million. Id. at Blumenthal/1. My proposed 2009 salary and wage amount includes no increase for this group of employees.

1 **Q. HOW DID YOU COMPUTE OVERTIME PAY?**

2 **A.** I used the percentage of overtime pay to straight time pay that is reflected in PGE's
3 application. PGE's proposed \$222,519,000 payroll amount is comprised of
4 \$12,909,269 for overtime pay and \$209,609,741 for straight time pay. PGE/800,
5 Barnett-Bell/6, Table 3. This overtime pay is approximately 6.2 percent of the
6 straight time pay. I applied this percentage to my recommended \$191,704,028
7 straight time pay, which results in annual overtime pay of \$11,806,246.

8 **Q. WHAT IS THE TOTAL REASONABLE AND NECESSARY WAGE AND**
9 **SALARY AMOUNT FOR THE TEST YEAR, IN YOUR OPINION?**

10 **A.** Based on my analysis of the information provided by PGE in its filing and in
11 responses to data requests, the reasonable and necessary total wage and salary amount
12 for the 2009 test year is \$203.5 million. Accordingly, PGE's requested revenue
13 requirement for wages and salaries should be reduced by \$19 million.

14 **Q. WHAT PORTION OF THIS AMOUNT SHOULD BE INCLUDED IN PGE'S**
15 **OPERATING AND MAINTENANCE EXPENSES?**

16 **A.** I reviewed the portion of total payroll charged to expense for each of the last five
17 years. I computed the averages for the last two years, the last three years, and the last
18 five years. This information is shown in the table below.

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TABLE 4

	<u>Expense</u>	<u>Capital</u>	<u>Total</u>	<u>% to Expense</u>
2003	\$ 118,395,042	\$ 51,068,698	\$ 169,463,740	69.86%
2004	\$ 125,088,282	\$ 48,909,573	\$ 173,997,855	71.89%
2005	\$ 129,487,799	\$ 52,290,814	\$ 181,778,613	71.23%
2006	\$ 141,121,491	\$ 53,034,087	\$ 194,155,578	72.68%
2007	\$ 151,485,013	\$ 59,636,058	\$ 211,121,071	71.75%
2 Year Avg	\$ 292,606,504		\$ 405,276,649	72.20%
3 Yr Avg	\$ 422,094,303		\$ 587,055,262	71.90%
5 Yr Avg	\$ 665,577,627		\$ 930,516,857	71.53%

Source: FERC Form 1

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3 In my opinion, the three-year average is representative of PGE's actual experience
 4 during the last five years and will result in a known and measurable amount for the
 5 test year. When the three-year average of 71.90% is applied to my adjusted wages
 6 and salaries of \$203.5 million, my recommended test year adjusted payroll *expense* is
 7 \$ 146,024,063.

8 **Q. WHY IS A PORTION OF WAGES AND SALARIES INCLUDED IN**
 9 **OPERATING EXPENSES AND A PORTION INCLUDED IN THE COST OF**
 10 **PLANT?**

11 **A.** The total costs incurred by utilities are categorized as either expenses or they are
 12 capitalized and become part of the cost of self constructed assets. Wages and salaries
 13 related to operating and maintaining the electric system, providing customer service,
 14 and customer accounting are classified in the appropriate expense accounts (Account
 15 500 through 935). Wages and salaries related to the construction or retirement of
 16 fixed assets are generally charged to construction work in progress or retirement work
 17 in progress and are capitalized and included in the cost of self constructed assets.

1 **Q. DO YOU AGREE WITH PGE’S PROPOSED PAYROLL RELATED COSTS?**

2 **A.** No. Payroll related costs include employee benefits, pension costs, incentive
3 compensation, and payroll taxes. These costs are incurred in addition to wages and
4 salaries. In its errata filing on page 4 of Attachment 2, PGE provided corrected
5 loading rates for these costs. PGE’s adjusted loading rate is 55.4 percent. In other
6 words, for every \$1,000 in wages and salaries paid, PGE claims that it incurs \$554 for
7 employee benefits (health and dental, health reimbursement, life insurance,
8 educational assistance, etc.), pension, payroll taxes, incentive compensation, and
9 employee support.

10 I propose no change to PGE’s proposed loading rates for employee benefits
11 and payroll taxes. However, I have excluded pension costs, incentive compensation,
12 and employee support.

13 I excluded pension benefit costs because PGE/800, Barnett–Bell/16, states
14 “PGE requests no pension benefit cost in this proceeding because future benefit
15 obligations are less than the expected value of the assets currently held in the plan.”
16 In its errata filing, PGE provided no information contrary to this statement.

17 I excluded incentive compensation from this part of the calculation because I
18 adjusted this component of total payroll related costs separately.

19 I excluded employee support because there is no testimony or data of any kind
20 in PGE’s filing to support this item, except that a line item is included on PGE/500,
21 Piro-Tooman/2, entitled “HR/Employee Support/Ethics and Compliance” and is again
22 included as a line item at PGE/501, Piro-Tooman/1. These exhibits indicate that this
23 cost is included in administrative and general (“A&G”) expenses. I can see no reason

1 to include an additional amount in the salaries and wages overhead loading rate
2 without an explanation from PGE as to what this cost is and how the 3.13 percent was
3 determined.

4 With these items excluded, my recommended loading rate is 39.38 percent, or
5 16.02 percent lower than PGE's proposed rate of 55.4 percent.

6 **Q. YOU MENTIONED THAT YOU ADJUSTED INCENTIVE COMPENSATION**
7 **SEPARATELY. WHAT ADJUSTMENTS DO YOU RECOMMEND TO THIS**
8 **ITEM OF EXPENSE?**

9 **A.** Details of PGE's proposed 2009 cost of \$14.8 million for incentive compensation are
10 shown on workpaper 12 of PGE/800. I recommend that all stock incentive plan costs
11 and officer annual cash incentives ("ACI") be excluded from rates. The costs for
12 these benefits should be borne by shareholders, not ratepayers. By making them
13 shareholders, stock incentives put officers in the same position as all other
14 shareholders. That is, their primary motivation is to increase the price of the
15 Company's stock. Because this incentive plan primarily benefits shareholders, the
16 cost should be borne by them.

17 Officer ACI was "calculated using PGE's 2008 estimate and an escalation rate
18 of 3 percent." ICNU-CUB/109, Blumenthal/2. As I discussed earlier, adjustments
19 based on estimates and budgets are not known and measurable changes. PGE has
20 offered no basis for the 3 percent escalation rate.

21 I also recommend that ratepayers and shareholders equally share the
22 remaining incentive compensation program costs. After the costs of the stock
23 incentive plan and the officer ACI are removed from PGE's requested amount of

1 \$14.8 million, the remaining amount to be shared is \$10.2 million. The reasonable
2 amount to include in rates, therefore, is \$5.1 million.

3 **Q. DOES PGE OFFER ANY OTHER EMPLOYEE BENEFITS THAT ARE NOT**
4 **INCLUDED IN THE PROGRAMS LISTED ON WORKPAPER 12 OF PGE**
5 **800?**

6 **A.** Yes. PGE offers at least one additional employee benefit – the employee electricity
7 discount. On PGE/1202, Kuns-Cody/1, the employee discount at the proposed rates
8 is \$885,846.

9 **Q. WHO IS ELIGIBLE FOR THIS ELECTRICITY DISCOUNT?**

10 **A.** Full time employees, retired employees, including retired officers, and spouses of
11 deceased retired or regular employees are eligible for a 25 percent discount. Part-
12 time employees who work at least 20 hours a week are eligible for a 12.5 percent
13 discount. ICNU-CUB/110, Blumenthal/3.

14 **Q. SHOULD THE COST OF THIS EMPLOYEE BENEFIT BE INCLUDED IN**
15 **THE DETERMINATION OF RATES?**

16 **A.** No. This employee benefit is discriminatory because not all PGE employees live in
17 PGE's service territory. The discount can result in significant savings to employees
18 who do live in PGE's service territory. Employee benefits should be non-
19 discriminatory.

20 Further, this employee benefit creates a separate customer class, which is not
21 treated as a separate customer class in PGE's cost of service study, and for which
22 there is no tariff.

23 PGE has not supported the reasonableness and necessity of the employee
24 discount in its rate filing. PGE has the burden to show that the employee electricity

1 discount is a reasonable and necessary cost of providing service to its customers,
2 which it is not. While PGE is not prohibited from offering an employee discount,
3 shareholders, and not ratepayers, should bear the cost.

4 PGE witnesses Barnett and Bell discuss PGE's efforts to mitigate increases in
5 employee benefits costs at PGE/800, Barnett-Bell/13. While the \$885,846 cost of this
6 benefit may seem insignificant, it is a hidden cost that could and should be avoided.

7 PGE has implemented a Customer Focus Initiative with the long term goals of
8 achieving gains in customer satisfaction and building the capability for continuous
9 improvement of customer satisfaction. One step toward these goals would be to
10 exclude the costs of this employee benefit from the determination of rates. As a
11 policy matter, there is no reason that PGE employees should be partially insulated
12 from the impacts of PGE's rate increases. Therefore, PGE should consider
13 elimination of the employee discount to better align the interest of employees and
14 customers.

15 **Q. ARE THERE ANY OTHER REASONS WHY THE EMPLOYEE**
16 **ELECTRICITY DISCOUNT SHOULD BE DISCONTINUED?**

17 **A.** Yes. The employee electricity discount does not promote conservation among the
18 group of employees who are eligible for the discount. All utility customers are being
19 urged to conserve energy. Providing discounted rates to any group of customers is
20 contrary to this initiative.

21 **Q. HAVE YOU PREPARED AN EXHIBIT THAT SUMMARIZES YOUR**
22 **RECOMMENDATIONS?**

23 **A.** Yes. ICNU-CUB/102, Blumenthal/1 summarizes the wages and salaries that I
24 recommend be included in rates. ICNU-CUB/102, Blumenthal/2 summarizes my

1 recommended payroll related costs. My recommendation that the cost of the
2 employee electric discount employee benefit is not quantified in this exhibit.

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

4 **A.** Yes, it does.

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UE 197

In the Matter of)
)
PORTLAND GENERAL ELECTRIC)
COMPANY)
)
Request for a General Rate Revision.)

**DIRECT TESTIMONY OF
ELLEN BLUMENTHAL
ON BEHALF OF
THE INDUSTRIAL CUSTOMERS OF NORTHWEST UTILITIES**

**ICNU-CUB/101
RESUME OF ELLEN BLUMENTHAL**

July 9, 2008

EDUCATION: University of Texas at Austin
Bachelor of Arts in Journalism, 1975
Certified Public Accountant in Texas, February 1977

PROFESSIONAL MEMBERSHIPS:
American Institute of Certified Public Accountants
Texas Society of Certified Public Accountants

EXPERIENCE:

GDS Associates, Inc., March 2002 to present

Senior Project Manager of GDS Associates, Inc., Engineers and Consultants, Corpus Christi, Texas. Provides financial analysis for natural gas and electric markets; assists consumers in acquiring power needs in the competitive markets; provides analysis in gas, electric, telephone and water utility rate increase filings and presents expert testimony in regulatory proceedings on behalf of interveners. Issues addressed in testimony include all aspects of revenue requirement determination.

Independent Consultant, June 1982 to February 2002

Financial analysis for natural gas and electric markets; Provided analysis and expert witness revenue requirements testimony in gas, electric, telephone and water utility rate increase applications on behalf of intervenors.

C. H. Guernsey & Co., Consulting Engineers & Architects, November 1980 - June 1982

Title: Regulatory Accountant and Financial Analyst

Duties included preparation of financial and accounting aspects of rate filings for electric cooperatives for presentation before the Public Utility Commission of Texas. Testified as an expert witness on accounting matters before the Public Utility Commission of Texas. Advised electric cooperatives on accounting and regulatory matters. Participated in review of rate increase applications of investor-owned utilities and prepared and presented expert witness testimony based on such review. Participated in special projects such as cost-benefit analyses related to owner participation in power plants and alternative regulatory treatments for nuclear generating stations.

Public Utility Commission of Texas, May 1977 - November 1980

Title: Chief Accountant III

Duties included providing expert witness testimony in investor-owned and cooperative telephone, electric and water utility rate cases filed with the Commission in the following areas: Fuel and purchased power, Operation and maintenance expenses, Federal income taxes, Taxes other than federal income taxes, Affiliate transactions, Oil and gas exploration and development. Reviewed the books and business records of public utilities to determine the reasonableness of rate requests. Reviewed public utilities' implementation of fuel adjustment clause and other rate schedules to determine compliance with tariffs approved by Commission.

Sample List of Testimony Filed and Other Utility Projects:

Petition of PNM Resources, Inc. and Cap Rock Energy Corporation Regarding Merger and Acquisition of Stock, Texas Public Utility Commission Docket No. 35640, June 2008.

Application of Entergy Gulf States for Authority to Change Rates, Texas Public Utility Commission Docket No. 34800, April 2008.

Pacific Power & Light (dba PacifiCorp) to File Tariffs Establishing Automatic Adjustment Clause under the Terms of SB408 on behalf of the Industrial Customers of Northwest Utilities, Public Utility Commission of Oregon Docket No. UE 177, January 22, 2008.

Petition by New Mexico Utilities, Inc. for Authority to Amend Its Wastewater Rates, New Mexico Public Regulation Commission Case No. 07-00435-UT, November 2007.

United Water Connecticut, Inc. Application to Change Rates, Prepare rate filing and testimony. Connecticut Department of Public Utilities Docket No. 07-05-44, June 2007.

Application of AEP Texas Central Company for Authority to Change Rates, Texas Public Utility Commission Docket No. 33309, March 2007.

Application of AEP Texas North Company for Authority to Change Rates, Texas Public Utility Commission Docket No. 33310, March 2007.

Staff's Petition for a Reallocation of Stranded Costs Pursuant to PURA Sec. 139.253(f), Texas PUC Docket No. 32795, August 2006.

Application of Bryan Texas Utilities for Interim Update of Wholesale Transmission Rates Pursuant to Substantive Rule 25.192(g)(1), Texas Public Utility Commission Docket No. 30925, March 2005; Docket No. 32958, June 2006.

Application of AEP Texas Central Company for a Financing Order, Texas Public Utility Commission Docket No. 32475, April 2006.

Application of Texas-New Mexico Power Company to Establish a Competition Transition Charge Pursuant to P.U.C. SUBST. R. 25.263(n), Texas Public Utility Commission Docket No. 31994, March 2006.

Application of the Electric Reliability Council of Texas for Approval of the ERCOT System Administration Fee, Texas Public Utility Commission Docket No. 31824, January 2006.

Application of Entergy Gulf States, Inc. for Recovery of Transition to Competition Costs, Texas Public Utility Commission Docket No. 31544, January 2006.

Application of Sharyland Utilities, L.P. for Interim Update of Wholesale Transmission Rates Pursuant to Substantive Rule 25.192(g)(1), Texas Public Utility Commission Docket No. 31826, October 2005.

Two management audits of the Sempra Energy utilities' compliance with federal and state affiliate rules. October 2005

Advise Nebraska Public Service Commission on gas utility regulatory matters. 2003 to present.

Petition to Inquire into the Reasonableness of the Rates and Services of Cap Rock Energy Corporation, Texas Public Utility Commission Docket No. 28813 on behalf of Pioneer Energy, August 2004.

Application of CenterPoint Energy Houston Electric, LLC, Texas Genco, LP, and Reliant Energy Retail Services, LLC to Determine Stranded Costs and Other Balances, Texas PUC Docket No. 29526, on behalf of the City of Houston and the Coalition of Cities, June 2004.

Application of AEP Texas Central Company for Authority to Change Rates, Texas PUC Docket No. 28840, on behalf of the Coalition of Commercial Ratepayers, February 2004.

Application of the Electric Reliability Council of Texas to Change the ERCOT System Administrative Fee, Texas PUC Docket No. 28832, on behalf of the Office of Public Utility Counsel, January 2004.

TXU Gas Company Statement of Intent to Change Rates in the Company's Statewide Gas Utility System, Texas Railroad Commission Docket No. 9400, on behalf of Allied Coalition of Cities, December 2003.

Application of Southwestern Electric Power Company for Authority to Reconcile Fuel Costs, Texas PUC Docket No. 28045, on behalf of the Cities Served, November 2003.

Kansas Gas Service, a Division of Oneok, Inc. Application to Change Natural Gas Rates, Kansas Corporation Commission Docket 03-KGSG-602-RTS, on behalf of Unified School District No. 259, July 2003

Application of AEP Texas Central Company for Authority to Reconcile Fuel Costs, Texas PUC Docket No. 27035 on behalf of Affected Cities, April 2003.

Application of West Texas Utilities Company for Authority to Reconcile Fuel Costs, Texas PUC Docket No. 26000 on behalf of the Office of Public Utility Counsel, October 2002.

TXU Gas Distribution Application to Change Distribution Rates in its South Region on behalf of affected Texas municipalities, Fall 2002.

Application of Ernest G. Johnson, Director of the Public Utility Division, Oklahoma Corporation Commission to Review the Rates, Charges, Services and Service Terms of Oklahoma Gas & Electric Company and all Affiliated Companies and any Affiliate or Non-Affiliate Transaction Relevant to Such Inquiry, Oklahoma Corporation Commission Cause No. PUD 200100455 on behalf of the Oklahoma Attorney General, June 2002.

Petition of the Electric Reliability Council of Texas for Approval of the ERCOT Administrative Fee, Texas PUC Docket No. 23320 on behalf of Austin Energy, May 2002.

Texas-New Mexico Power Company Application for Approval of Unbundled Cost of Service Rates, Texas PUC Docket No. 22349 on behalf of the Office of Public Utility Counsel, January 2001.

TXU Lone Star Pipeline Application to Change the City Gate Rate, Texas Railroad Commission Docket No. 8976 on behalf of the Aligned Cities, January 2000.

Reliant Energy HL&P Application for Approval of Unbundled Cost of Service Rates, Texas PUC Docket No. 22355 on behalf of the City of Houston and the Coalition of Cities, December 2000.

TXU Electric Company Application for Approval of Unbundled Cost of Service Rates, Texas PUC Docket No. 22350 on behalf of the Office of Public Utility Counsel, October 2000.

Santa Fe Pipeline Partnership, L.P., FERC Docket No. OR92-8-000, *et al* on behalf of Refinery Holding Company, L.P., January 1996.

Peoples Natural Gas Company, Rate Area Three on behalf of the Nebraska Municipalities Served, December 1995.

Compliance review of Southern Union Gas Company's fuel cost recovery in the City of El Paso on behalf of the City of El Paso, Texas, Spring 1995.

Houston Lighting and Power Company, Texas PUC Docket No. 12065 on behalf of Office of Public Utility Counsel, November 1994.

El Paso Electric Company, Texas PUC Docket No. 12700 on behalf of Office of Public Utility Counsel and The City of El Paso, Texas, June 1994.

Application of Central and South West Corporation and El Paso Electric Company For Approval of Acquisition, PUC Docket No. 12700 on behalf of Office of Public Utility Counsel, June 1994.

El Paso Electric Company, Public Utility Regulation Board of The City of El Paso, Texas on behalf of the City of El Paso, Texas, May 1994.

Kansas Pipeline Partnership and Kansas Natural Partnership, Kansas Docket No. 190,362-U on behalf of Citizens' Utility Ratepayer Board, September 1994.

KN Energy, Inc., Kansas Corporation Commission Docket No. 186,363-U on behalf of Citizens' Utility Ratepayer Board, September 1993.

City of Austin Water and Wastewater Utility before City Counsel on behalf of residential and small commercial ratepayers, October 1993.

Texas Utilities Electric Company, Texas PUC Docket No. 11735 on behalf of Certain Cities Served by Texas Utilities Electric Company, September 1993.

Complaint of General Counsel against Cherokee County Electric Cooperative, Inc. regarding application of Cherokee's switchover tariff, Texas PUC Docket No. 11351, on behalf of the Cooperative, June 1993.

Texas Utilities Electric Company, Texas PUC Docket No. 11735 on behalf of the Office of Public Utility Counsel, April 1993.

Application of Entergy Corporation and GSU for Sale, Transfer or Merger, Texas PUC Docket No. 11292, on behalf of Office of Public Utility Counsel, January 1993.

Peoples Natural Gas Company, Kansas Corporation Commission Docket No. 180,416-U, on behalf of the Citizens' Utility Ratepayer Board, August 1992.

Kansas Public Service Company, Kansas Corporation Commission Docket No. 179,484-U, on behalf of the Citizens' Utility Ratepayer Board, April 1992.

Complaint of NBC Telecommunications, Inc. against Southwestern Bell Telephone Company, Texas PUC Docket No. 10762, on behalf of complainant, September 1992.

Central Texas Telephone Company, Texas PUC Docket No. 9981, on behalf of the Office of Public Utility Counsel, December 1991.

Texas-New Mexico Power Company, Texas PUC Docket No. 10200, on behalf of the Office of Public Utility Counsel, December 1991.

Greeley Gas Company, Kansas Corporation Commission Docket No. 177,142-U, on behalf of the Citizens' Utility Ratepayers Board, November 1991.

Peoples Natural Gas Company, Rate Areas Two and Three on behalf of the Nebraska Municipalities Served, November 1991.

Southern Union Gas Company El Paso Service Area, Public Utility Regulatory Board of El Paso on behalf of the City of El Paso, November 1991.

City of Round Rock, Texas Water Commission Docket No. 8600-M, on behalf of Brushy Creek Municipal Utility District, October 1991.

El Paso Electric Company, Texas PUC Docket No. 9945, on behalf of the Office of Public Utility Counsel, April 1991.

Houston Lighting & Power Company, Texas PUC Docket No. 9850, on behalf of the Office of Public Utility Counsel, February 1991.

Greeley Gas Company, Kansas Corporation Commission Docket No. 170,588-U, on behalf of the Citizens' Utility Ratepayers Board, August 1990.

Rio Grande Valley Gas Company, Texas Railroad Commission Docket No. 7604, Consolidated, on behalf of the Intervener Cities, May 1990.

Southern Union Gas Company El Paso Service Area, Public Utility Regulatory Board of El Paso on behalf of the City of El Paso, October 1990.

Texas Utilities Electric Company, Texas PUC Docket No. 9300, on behalf of the Intervener Cities, April 1990.

Gulf States Utilities Company, Texas PUC Docket No. 8702, on behalf of the Intervener Cities, July 1989.

Central Power & Light Company, Texas PUC Docket No. 8646, on behalf of the Intervener Cities, June 1989.

Lower Colorado River Authority, Texas PUC Docket No. 8400, on behalf of several wholesale customers, February 1989.

Lower Colorado River Authority, Texas PUC Docket No. 8032, on behalf of several wholesale customers, June 1988.

Tawakoni Water Utility Corporation, Texas Water Commission Docket No. 7368-R, on behalf of Tawakoni Water Consumers Association, January 1988.

Hill Country Waterworks Company, Texas Water Commission Docket No. 172-W, on behalf of the City of Hill Country Village and the City of Hollywood Park, July 1987.

Detroit Edison Company, Michigan PSC, Case No. U-8683, on behalf of North Star Steel Michigan, May 1987.

Gulf States Utilities Company, Texas PUC Docket No. 7195, on behalf of North Star Steel Texas, January 1987.

Rio Grande Valley Gas Company, Texas Railroad Commission Docket No. 4717, 1984 and Docket No. 3858, on behalf of the Rio Grande Valley Cities, March 1982.

Lower Colorado River Authority, Texas PUC Docket No. 6027, on behalf of several wholesale customers, March 1985.

Ellen Blumenthal
Senior Project Manager

GDS Associates, Inc.

Page 6 of 6

Houston Lighting and Power Company, Texas PUC Docket No. 4540, August 1982, on behalf of the City of Houston.

Houston Lighting & Power Company, Texas PUC Docket No. 3320, September 1980, on behalf of the Texas Public Utility Commission.

Inquiry by Public Utility Commission of Texas into Certain Affiliate transactions of Texas Electric Service Company, Texas Power and Light Company and Dallas Power and light Company, Texas PUC Docket Nos. 1517, 1813 and 1903, February 1979, on behalf of the Texas Public Utility Commission.

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UE 197

In the Matter of)
)
PORTLAND GENERAL ELECTRIC)
COMPANY)
)
Request for a General Rate Revision.)

**DIRECT TESTIMONY OF
ELLEN BLUMENTHAL
ON BEHALF OF
THE INDUSTRIAL CUSTOMERS OF NORTHWEST UTILITIES**

ICNU-CUB/102

**PGE Wage and Salary Adjustment
PGE Employee Benefits, etc.**

July 9, 2008

Portland General Electric
Wage and Salary Adjustment
Docket UE-197

<u>Line #</u>		<u>PGE</u>	<u>ICNU</u>
1	# of FTEs	2,733	2,591
2	Wage per employee	\$ 76,696	73,975
3	Adjusted base wages	\$ 209,609,741	\$ 191,704,028
4	OT wages	12,909,269	11,806,246
5	Total wages	\$ 222,519,010	\$ 203,510,274
6	Portion to expense	76.80%	71.75%
7	Payroll expense	\$ 170,894,600	\$ 146,024,063
8	Payroll capitalized	51,624,410	57,486,211
9	Total payroll	\$ 222,519,010	\$ 203,510,274

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UE 197

In the Matter of)
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PORTLAND GENERAL ELECTRIC)
COMPANY)
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Request for a General Rate Revision.)

**DIRECT TESTIMONY OF
ELLEN BLUMENTHAL
ON BEHALF OF
THE INDUSTRIAL CUSTOMERS OF NORTHWEST UTILITIES**

ICNU-CUB/103

**PGE Response to OPUC
Data Request 276**

July 9, 2008

May 6, 2008

TO: Vikie Bailey-Goggins
Oregon Public Utility Commission

FROM: Randy Dahlgren
Director, Regulatory Policy & Affairs

**PORTLAND GENERAL ELECTRIC
UE 197
PGE Response to OPUC Data Request
Dated April 21, 2008
Question No. 276**

Request:

Please provide the inflation rates used to escalate the 2007 budget to 2008 as well as to 2009 for the following categories:

- a. Union Labor**
- b. Non-Union Labor**
- c. Executive Labor**
- d. Outside Services**
- e. Direct Materials**
- f. Employee Business Expenses**
- g. CPI**

Response:

PGE's 2008 budget is not based on an escalation from the 2007 budget. The 2008 budget was created through a company-wide, bottom-up budget process. For labor, the 2008 budget is based on actual labor costs from Q2-2007, with the following escalation factors:

<u>Employee Class</u>	<u>Escalation Factor</u>
Exempt	4.50%
Non-Exempt	4.50%
Union	4.00%
Executive	6.00%

PGE Response to OPUC Data Request No. 276

May 6, 2008

Page 2

The 2008 budget was used as the basis for the 2009 test year forecast. The inflation rates PGE used to escalate the 2008 budget to 2009 test year are provided in PGE 200 / Tooman-Tinker, page 5.

PGE does not use CPI directly to escalate the 2008 budget to the 2009 forecast because PGE's costs are not tied to CPI. Please see PGE Exhibit 100 / Piro 9-10.

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**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UE 197

In the Matter of)
)
PORTLAND GENERAL ELECTRIC)
COMPANY)
)
Request for a General Rate Revision.)

**DIRECT TESTIMONY OF
ELLEN BLUMENTHAL
ON BEHALF OF
THE INDUSTRIAL CUSTOMERS OF NORTHWEST UTILITIES**

ICNU-CUB/104

**PGE Response to OPUC
Data Request 203**

July 9, 2008

April 25, 2008

TO: Vikie Bailey-Goggins
Oregon Public Utility Commission

FROM: Randy Dahlgren
Director, Regulatory Policy & Affairs

**PORTLAND GENERAL ELECTRIC
UE 197
PGE Response to OPUC Data Request
Dated April 10, 2008
Question No. 203**

Request:

Please provide worksheets in both hard copy and electronically that show the following utility labor-related information for the twelve months ending December 2002, December 2003, December 2006 and December 2007:

- a. Actual Wages and salaries, annualized and as well as end-of-period, separated by employee category (officer, exempt, non-exempt and union). Please include paid time off and exclude overtime, bonuses and incentive pay.
- b. Actual end-of-period employee counts for full-time, part-time FTEs as well as temporary employees for each calendar year of 2002, 2003, 2006, 2007 as well as forecasts for 2008 and 2009.
- c. Overtime data for calendar years 2002, 2003, 2006, 2007 as well as forecasted amounts for 2008 and 2009.
- d. Actual union wage escalation rates for 2002 through 2007 as well as forecasted amounts for 2008 and 2009.
- e. Percentage of total wages and salaries booked to OMAG as well as percentage booked to capital by year for 2002, 2003, 2006 and 2007.

Response:

PGE objects to this request on the basis that it is overly burdensome. Subject to and without waiving its objection, PGE responds as follows:

PGE Response to OPUC Data Request No. 203
April 25, 2008
Page 2

First, PGE does not forecast end-of-period employee counts. Instead, managers forecast required FTEs by estimating the amount of labor hours needed to fulfill their responsibilities. Second, PGE does not have 2008 and 2009 budgeted FTEs broken out by employee category. PGE budgets wages and salaries by escalating at the responsibility center (RC) level based on the employee classes within the RC. Consequently, detail for specific employee classes is not retained within the system.

a) Attachment 175-A provides wages and salaries for 2002, 2003, 2006, and 2007, separated by employee category, omitting overtime, bonus, and incentive pay. Total forecasted wages and salaries for 2008 and 2009 are provided because PGE does not forecast these values by employee category.

b) PGE does not forecast end-of-period employee counts and has not budgeted 2008 and 2009 FTEs by employee category. Subject to and without waiving its objection, Attachment 175-B provides actual FTEs for 2002, 2003, 2006, and 2007, separated by employee category, as well as total FTEs for 2008 and 2009.

c) Attachment 175-C provides overtime expense for 2002, 2003, 2006, and 2007 as well as forecasted overtime expense for 2008 and 2009.

d) Attachment 175-D contains union wage escalation rates for 2002 through 2008 for the main bargaining unit as well as the Coyote Springs/Port Westward. 2009 actual union wage escalation rates are not known at this time. The 2009 IBEW Main Agreement is not yet signed and annual wage increases for Coyote Spring and Port Westward are based on changes in the IPP market per the IPP wage survey and will not be known until the end of the year.

e) Attachment 175-E provides the percentage of total wages and salaries booked to O&M and A&G as well as percentage booked to capital by year, for 2002, 2003, 2006, and 2007.

UE 197

PGE's Response to OPUC Data Request No. 203

Attachment 203-A

Wages and Salaries by Employee Class

	Exempt	Hourly	Officer	Union	Grand Total
2002 Actual	85,364,000	19,818,741	2,634,000	49,312,370	157,129,111
2003 Actual	83,665,772	20,887,774	2,480,666	49,780,966	156,815,178
2006 Actual	94,529,364	22,682,115	2,817,048	53,066,886	173,095,413
2007 Actual	100,248,092	23,790,819	3,174,109	54,466,831	181,679,851
2008 Budget	n/a	n/a	n/a	n/a	198,409,900
2009 Forecast	n/a	n/a	n/a	n/a	209,609,741

UE 197
PGE's Response to OPUC Data Request No. 203
Attachment 203-B

FTE by Employee Class

	Exempt	Hourly	Officer	Union	Grand Total
2002 Actual	1,165	564	15	852	2,596
2003 Actual	1,124	574	14	826	2,538
2006 Actual	1,169	573	14	798	2,554
2007 Actual	1,153	584	13	809	2,560
2008 Budget	n/a	n/a	n/a	n/a	2,692
2009 Forecast	n/a	n/a	n/a	n/a	2,733

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UE 197

In the Matter of)
)
PORTLAND GENERAL ELECTRIC)
COMPANY)
)
Request for a General Rate Revision.)

**DIRECT TESTIMONY OF
ELLEN BLUMENTHAL
ON BEHALF OF
THE INDUSTRIAL CUSTOMERS OF NORTHWEST UTILITIES**

ICNU-CUB/105

**PGE Response to ICNU
Data Request 5.242**

July 9, 2008

May 20, 2008

TO: Brad Van Cleve
Industrial Customers of NW Utilities

FROM: Randy Dahlgren
Director, Regulatory Policy & Affairs

**PORTLAND GENERAL ELECTRIC
UE 197
PGE Response to ICNU Data Request 5.242
Dated May 7, 2008
Question No. 242**

Request:

For each of the calendar years 2001 through 2007, provide a list of the positions authorized to be filled at the end of each year. Provide by job title the number of positions authorized, the number filled, the number vacant, and the approved salary range.

Response:

PGE objects to this request on the basis that it is overly burdensome. Without waiving objection, PGE replies as follows:

PGE's Human Resources system maintains a master list of vacancies that includes authorized and non-authorized positions. The HR electronic system does not specify which positions are authorized. PGE's budgets reflect authorized positions only. Reviewing many budget spreadsheets for each of the past seven years to isolate all vacant authorized positions is overly burdensome. Attachment 242-A provides a comparison of actual and budgeted FTEs for calendar years 2002 through 2007, summarized by functional area. This comparison was also provided in the UE 197 FTE Workshop on May 08, 2008.

UE 197
Attachment 242-A

Budget and Actual FTE

Actual and Budget FTE 2000 - 2009

Actual Straight-Time FTE	2002	2003	2004	2005	2006	2007
Administrative and General	596	586	585	594	635	650
Customer Accounts	473	478	495	502	503	506
Customer Service	74	68	72	70	73	80
Generation	465	438	411	387	391	405
Transmission and Distribution	<u>972</u>	<u>947</u>	<u>946</u>	<u>951</u>	<u>937</u>	<u>957</u>
Total	2,579	2,517	2,509	2,504	2,540	2,597

Budget Straight-Time FTE	2002	2003	2004	2005	2006	2007	2008	2009	UE 180 2007
Administrative and General	586	580	584	591	609	643	656	665	611
Customer Accounts	484	480	489	508	512	524	526	535	520
Customer Service	68	69	70	63	69	68	76	81	67
Generation	469	456	422	399	415	423	431	437	428
Transmission and Distribution	<u>1,036</u>	<u>985</u>	<u>984</u>	<u>1,001</u>	<u>998</u>	<u>994</u>	<u>1,003</u>	<u>1,007</u>	<u>1,003</u>
Total	2,643	2,570	2,549	2,562	2,603	2,652	2,692	2,725	2,629

2006 actuals include 4 FTE for RC 929, 2007 Actuals include 6 FTE for RC 929, and 2007 Budget includes 1 FTE for RC 929. RC 929 is Advanced Metering Infrastructure, which is included in the category 'Customer Service'.

Actual Overtime FTE	2002	2003	2004	2005	2006	2007
Administrative and General	3	2	2	2	2	2
Customer Accounts	20	14	17	9	13	11
Customer Service	0	0	0	0	0	0
Generation	17	17	16	14	16	21
Transmission and Distribution	<u>68</u>	<u>66</u>	<u>79</u>	<u>72</u>	<u>95</u>	<u>82</u>
Total	108	99	113	97	126	116

Budget Overtime FTE	2002	2003	2004	2005	2006	2007	2008	2009	UE 180 2007
Administrative and General	3	3	3	2	2	2	2	2	2
Customer Accounts	11	9	10	10	9	10	10	10	9
Customer Service	0	0	0	0	0	0	0	0	0
Generation	23	24	21	20	20	24	24	24	23
Transmission and Distribution	<u>58</u>	<u>63</u>	<u>56</u>	<u>57</u>	<u>61</u>	<u>59</u>	<u>57</u>	<u>58</u>	<u>58</u>
Total	95	100	90	90	93	95	92	93	92

Total Actual FTE	2002	2003	2004	2005	2006	2007
Administrative and General	599	588	587	595	637	652
Customer Accounts	492	492	512	511	517	517
Customer Service	74	68	72	70	73	80
Generation	482	455	427	402	407	426
Transmission and Distribution	<u>1,040</u>	<u>1,013</u>	<u>1,025</u>	<u>1,023</u>	<u>1,032</u>	<u>1,038</u>
Total	2,687	2,616	2,623	2,602	2,666	2,713

Total Budgeted FTE	2002	2003	2004	2005	2006	2007	2008	2009
Administrative and General	589	583	587	593	611	645	658	667
Customer Accounts	495	489	499	518	522	534	535	544
Customer Service	68	69	70	63	69	68	76	81
Generation	492	480	443	419	435	447	455	461
Transmission and Distribution	<u>1,094</u>	<u>1,048</u>	<u>1,040</u>	<u>1,058</u>	<u>1,060</u>	<u>1,054</u>	<u>1,059</u>	<u>1,066</u>
Total	2,739	2,669	2,639	2,652	2,696	2,747	2,784	2,818

Variances Between Actual and Budget (Budget - Actual)

Straight-Time FTE	2002	2003	2004	2005	2006	2007	2004 - 2007
							Average
Administrative and General	-10	-5	-1	-3	-26	-7	-9
Customer Accounts	11	2	-6	6	9	18	7
Customer Service	-6	0	-2	-7	-4	-12	-6
Generation	5	18	11	12	23	18	16
Transmission and Distribution	<u>64</u>	<u>38</u>	<u>38</u>	<u>50</u>	<u>61</u>	<u>38</u>	<u>47</u>
Total	64	53	40	58	63	55	54

Overtime FTE	2002	2003	2004	2005	2006	2007	04-07 Ave
	Administrative and General	0	1	1	1	0	0
Customer Accounts	-8	-5	-6	1	-4	-1	-3
Customer Service	0	0	0	0	0	0	0
Generation	5	7	5	6	4	3	4
Transmission and Distribution	<u>-10</u>	<u>-3</u>	<u>-23</u>	<u>-15</u>	<u>-33</u>	<u>-22</u>	<u>-23</u>
Total	-13	1	-23	-8	-33	-21	-21

Total FTE	2002	2003	2004	2005	2006	2007	04-07 Ave
	Administrative and General	-10	-4	0	-2	-26	-7
Customer Accounts	3	-3	-12	7	5	17	4
Customer Service	-6	0	-2	-7	-4	-12	-6
Generation	10	25	16	17	27	20	20
Transmission and Distribution	<u>54</u>	<u>35</u>	<u>15</u>	<u>35</u>	<u>28</u>	<u>16</u>	<u>23</u>
Total	51	54	17	50	30	34	33

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UE 197

In the Matter of)
)
PORTLAND GENERAL ELECTRIC)
COMPANY)
)
Request for a General Rate Revision.)

**DIRECT TESTIMONY OF
ELLEN BLUMENTHAL
ON BEHALF OF
THE INDUSTRIAL CUSTOMERS OF NORTHWEST UTILITIES**

ICNU-CUB/106

**PGE Response to OPUC
Data Request 175**

July 9, 2008

May 4, 2006

TO: Vikie Bailey-Goggins
Oregon Public Utility Commission

FROM: Patrick G. Hager
Manager, Regulatory Affairs

**PORTLAND GENERAL ELECTRIC
UE 180
PGE Response to OPUC Data Request
Dated March 31, 2006
Question No. 175**

Request:

Please provide worksheets in both hard copy and electronically that show the following utility labor-related information for the twelve months ending December 2004 and December 2007, respectively:

- a. Wages and salaries, annualized as of the end-of-period, separated by employee category (officer, exempt, non-exempt and union). Please include paid time off and exclude overtime, bonuses and incentive pay.**
- b. End-of-period employee counts for full-time, part-time FTEs as well as temporary employees for each calendar year of 2004 and 2005 as well as forecasts for 2006 and 2007.**
- c. Overtime data for calendar years 2004 and 2005 as well as forecasted amounts for 2006 and 2007.**
- d. Weighted average union wage escalation rates for 2005, 2006 and 2007.**
- e. Percentage of total wages and salaries booked to OMAG as well as percentage booked to capital.**

Response:

PGE objects to this request on the basis that it is overly burdensome. First, PGE does not forecast end-of-period employee counts. Instead, managers forecast required FTEs by estimating the amount of employee work needed to fulfill their responsibilities. Second, PGE does not have 2006 and 2007 budgeted FTEs broken out by employee category. Subject to and without waiving its objection, PGE responds as follows:

PGE's Response to OPUC Data Request No. 175

May 4, 2006

Page 2

- a. Attachment 175-A provides wages and salaries for 2004 and 2005, separated by employee category. Total forecasted wages and salaries for 2006 and 2007 are provided because PGE does not forecast these values by employee category.
- b. PGE does not forecast end-of-period employee counts and has not budgeted 2006 and 2007 FTEs by employee category. Subject to and without waiving its objection, Attachment 175-B contains actual FTEs for 2004 and 2005, separated by employee category, as well as total forecasted FTEs for 2006 and 2007.
- c. Attachment 175-C provides overtime expense for 2004 and 2005 as well as forecasted overtime expense for 2006 and 2007.
- d. Attachment 175-D contains weighted average union wage escalation rates for the 2005 budget and estimates for 2006 and 2007 for the primary bargaining group.
- e. Values from 2004 and 2005 reflect percentages calculated from data in FERC Form 1. FERC Form 1 data are not available for 2006 and 2007. Creating an analysis to forecast how the 2006 and 2007 labor would be reflected in FERC Form 1 is an overly burdensome task. Therefore, for 2006 and 2007, PGE isolated utility ledgers in the budget and classified them as O&M or A&G expenses. Attachment 175-E provides the percentage of total wages and salaries recorded to OMAG and percentage recorded to capital for 2004 and 2005, calculated using FERC Form 1 data, and a calculation of forecasted percentages for 2006 and 2007, calculated from the individual ledgers.

UE 180
PGE's Response to OPUC Data Request No. 175
Attachment 175-B

FTE by Employee Class

Class	2004 Actual	2005 Actual	2006 Budget	2007 Test Year
Exempt	1,134	1,150	n/a	n/a
Hourly	574	570	n/a	n/a
Officer	13	13	n/a	n/a
Union	<u>810</u>	<u>795</u>	<u>n/a</u>	<u>n/a</u>
Grand Total	2,531	2,529	2,603	2,629

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UE 197

In the Matter of)
)
PORTLAND GENERAL ELECTRIC)
COMPANY)
)
Request for a General Rate Revision.)

**DIRECT TESTIMONY OF
ELLEN BLUMENTHAL
ON BEHALF OF
THE INDUSTRIAL CUSTOMERS OF NORTHWEST UTILITIES**

ICNU-CUB/107

**PGE Response to ICNU
Data Request 8.271**

REDACTED VERSION

July 9, 2008

June 23, 2008

TO: Brad Van Cleve
Industrial Customers of NW Utilities

FROM: Randy Dahlgren
Director, Regulatory Policy & Affairs

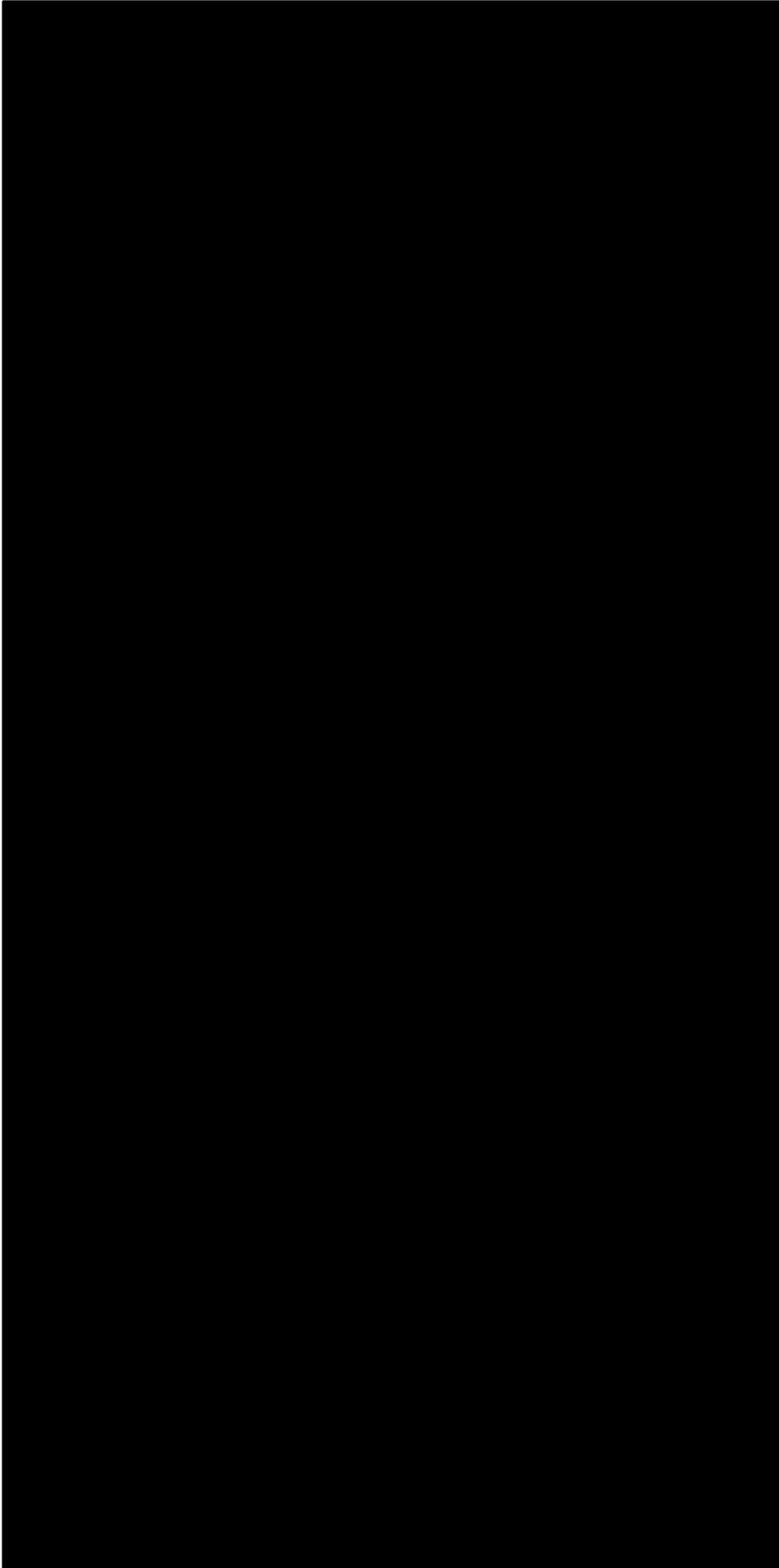
**PORTLAND GENERAL ELECTRIC
UE 197
PGE Response to ICNU Data Request 8.271
Dated June 04, 2008
Question No. 271**

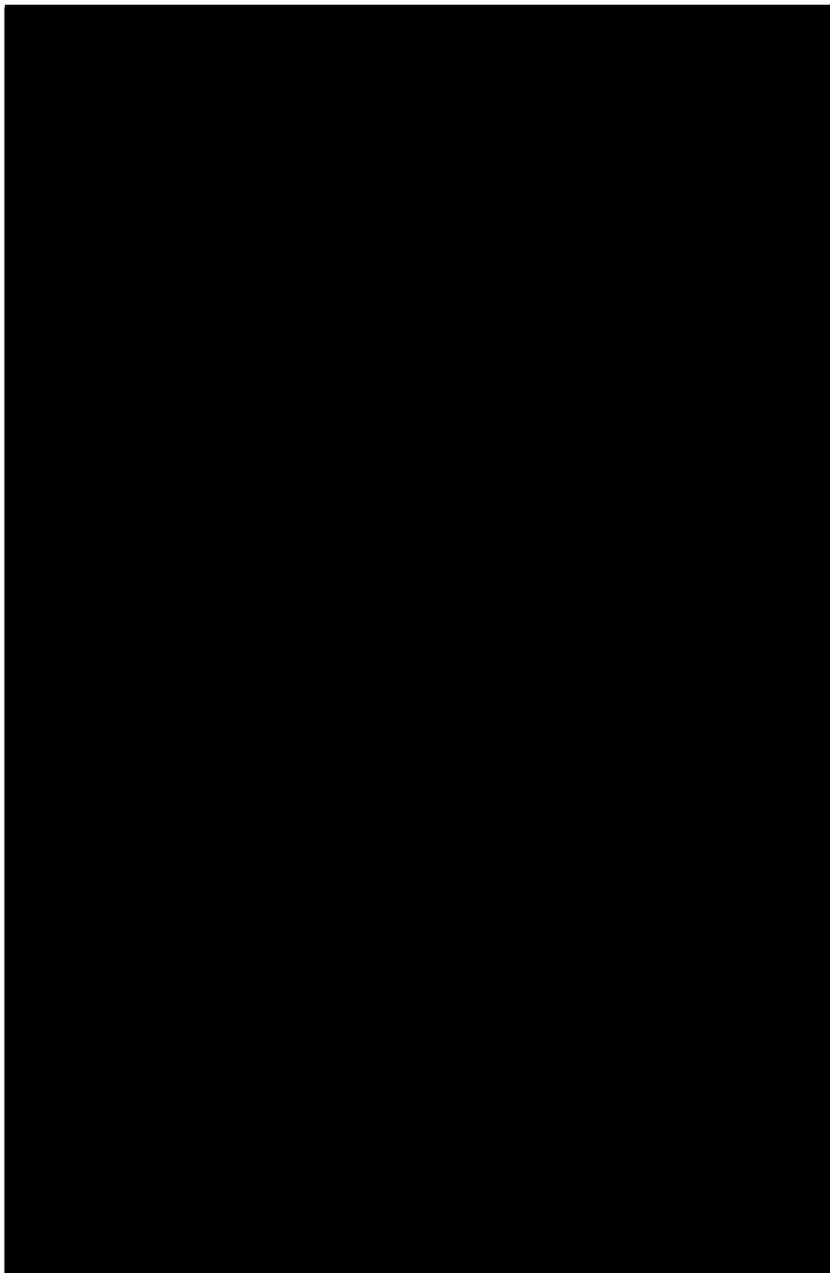
Request:

Please provide the number of employees who have left PGE employment since January 1, 2008. Provide the job title and salary for each former employee.

Response:

Attachment 271-A is list of those employees, by title and salary, who have left PGE employment since January 1, 2008. Attachment 271-A is confidential and subject to Protective Order No. 08-133.





**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UE 197

In the Matter of)
)
PORTLAND GENERAL ELECTRIC)
COMPANY)
)
Request for a General Rate Revision.)

**DIRECT TESTIMONY OF
ELLEN BLUMENTHAL
ON BEHALF OF
THE INDUSTRIAL CUSTOMERS OF NORTHWEST UTILITIES**

ICNU-CUB/108

**PGE Response to ICNU
Data Request 8.272**

REDACTED VERSION

July 9, 2008

June 23, 2008

TO: Brad Van Cleve
Industrial Customers of NW Utilities

FROM: Randy Dahlgren
Director, Regulatory Policy & Affairs

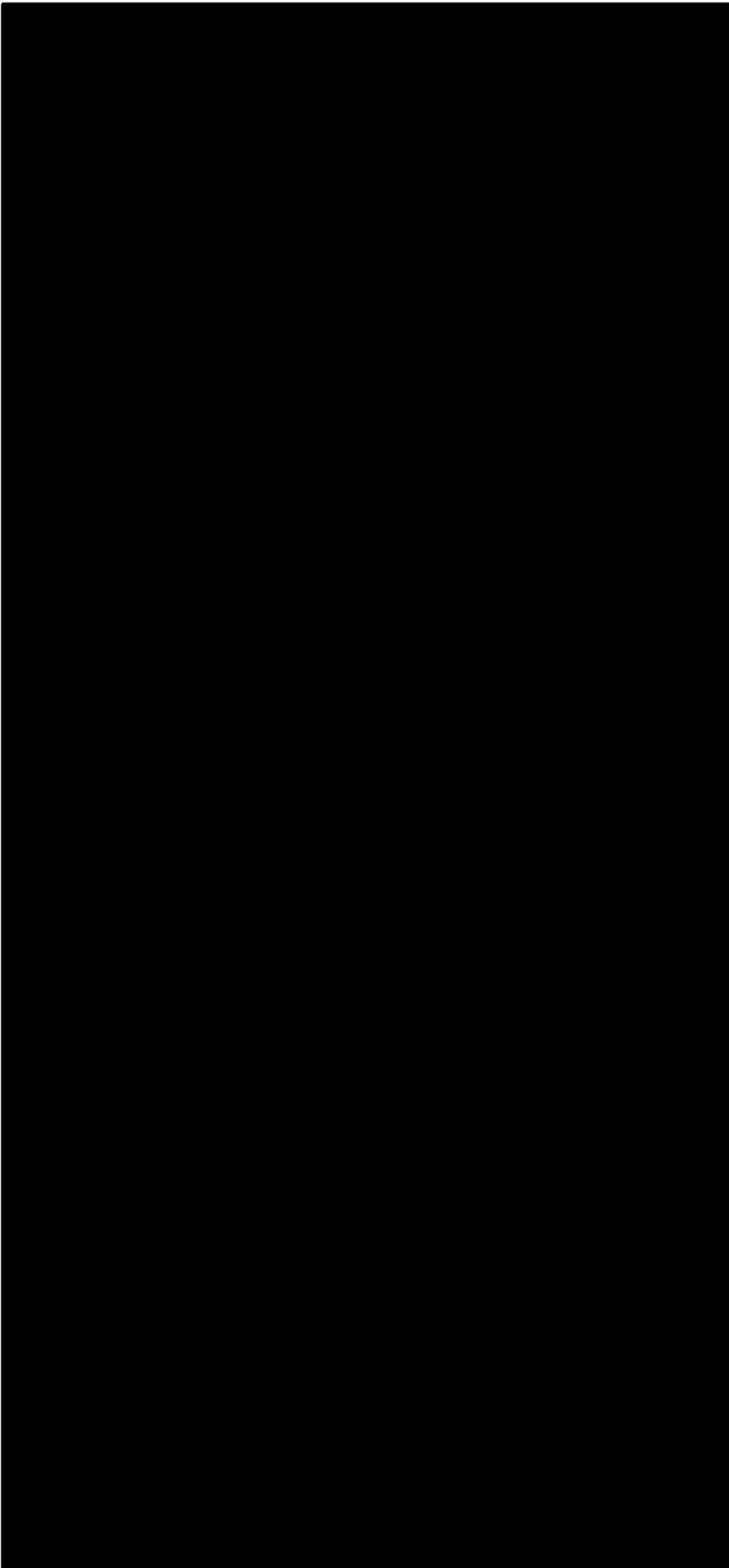
**PORTLAND GENERAL ELECTRIC
UE 197
PGE Response to ICNU Data Request 8.272
Dated June 04, 2008
Question No. 272**

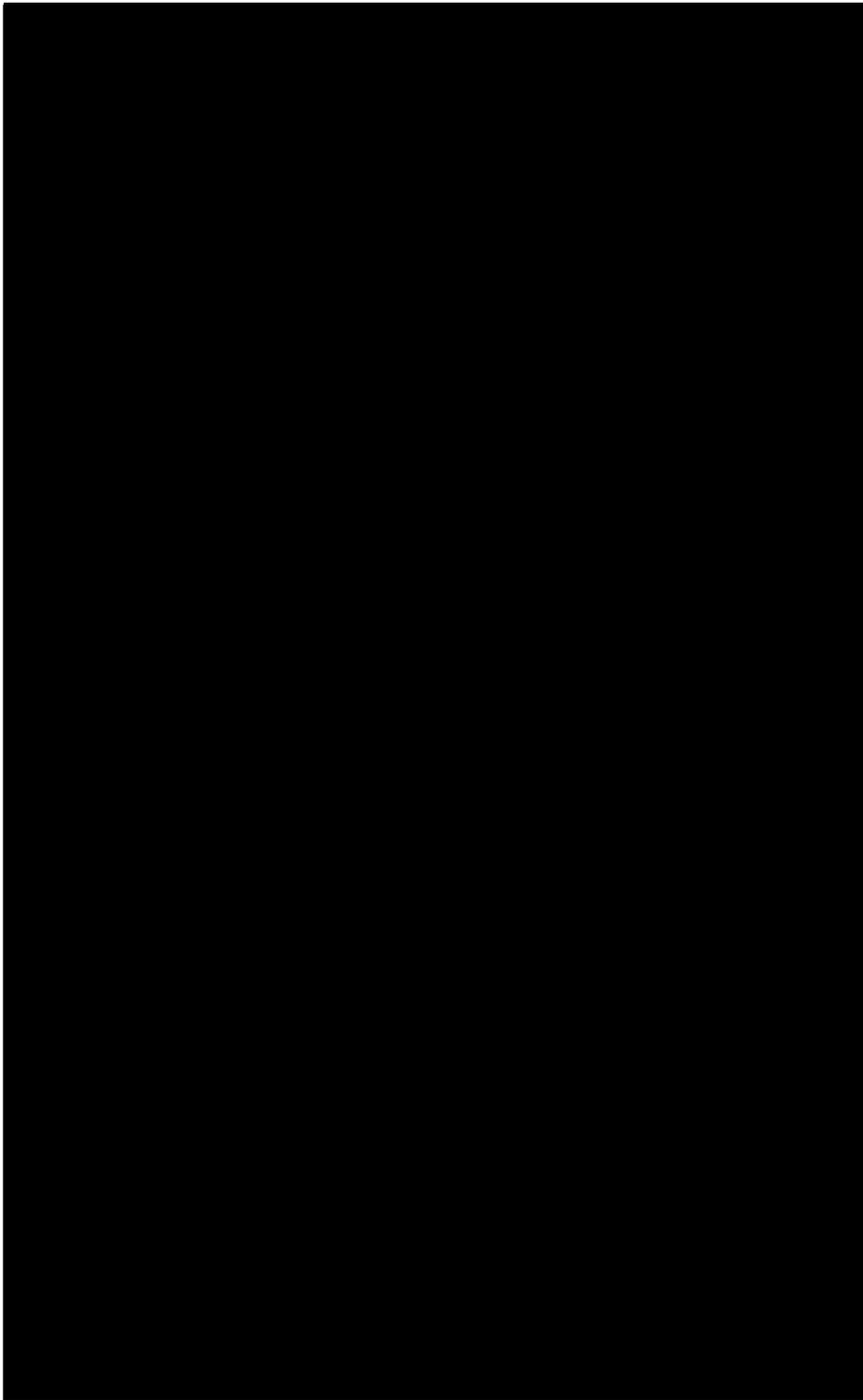
Request:

Please provide the number of employees who have been hired by PGE since January 1, 2008. Provide the job title and salary for each new hire.

Response:

Attachment 272-A is list of those employees, by title and salary, who have been hired by PGE since January 1, 2008. Attachment 272-A is confidential and subject to Protective Order No. 08-133.





**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UE 197

In the Matter of)
)
PORTLAND GENERAL ELECTRIC)
COMPANY)
)
Request for a General Rate Revision.)

**DIRECT TESTIMONY OF
ELLEN BLUMENTHAL
ON BEHALF OF
THE INDUSTRIAL CUSTOMERS OF NORTHWEST UTILITIES**

ICNU-CUB/109

**PGE Response to ICNU
Data Request 8.267**

REDACTED VERSION

July 9, 2008

July 2, 2008

TO: Brad Van Cleve
Industrial Customers of NW Utilities

FROM: Randy Dahlgren
Director, Regulatory Policy & Affairs

PORTLAND GENERAL ELECTRIC
UE 197
PGE Supplemental Response to ICNU Data Request 7.267
Dated May 23, 2008
Question No. 267

Request:

Please provide the total annual remuneration included in PGE's proposed rates in this docket for each employee who holds the following positions in the company. Please break down this amount by annual salary, stock bonuses, incentive compensation, etc.

- a. **President**
- b. **Chief Executive Officer**
- c. **Vice-president**
- d. **Executive vice president**
- e. **Chief financial Officer**
- f. **Chief operating officer**
- g. **Chief information officer.**

Response:

PGE objects on the basis that the request is overly burdensome. PGE does not have an analysis breaking down total remuneration by the positions listed in parts (a) through (g). Notwithstanding this objection, PGE responds as follows:

PGE's proposed revenue requirement for this docket includes officers' salaries, estimated at approximately \$3.4 million, and incentives, which are also estimated at approximately \$3.4 million.

First Supplemental Response July 2, 2008

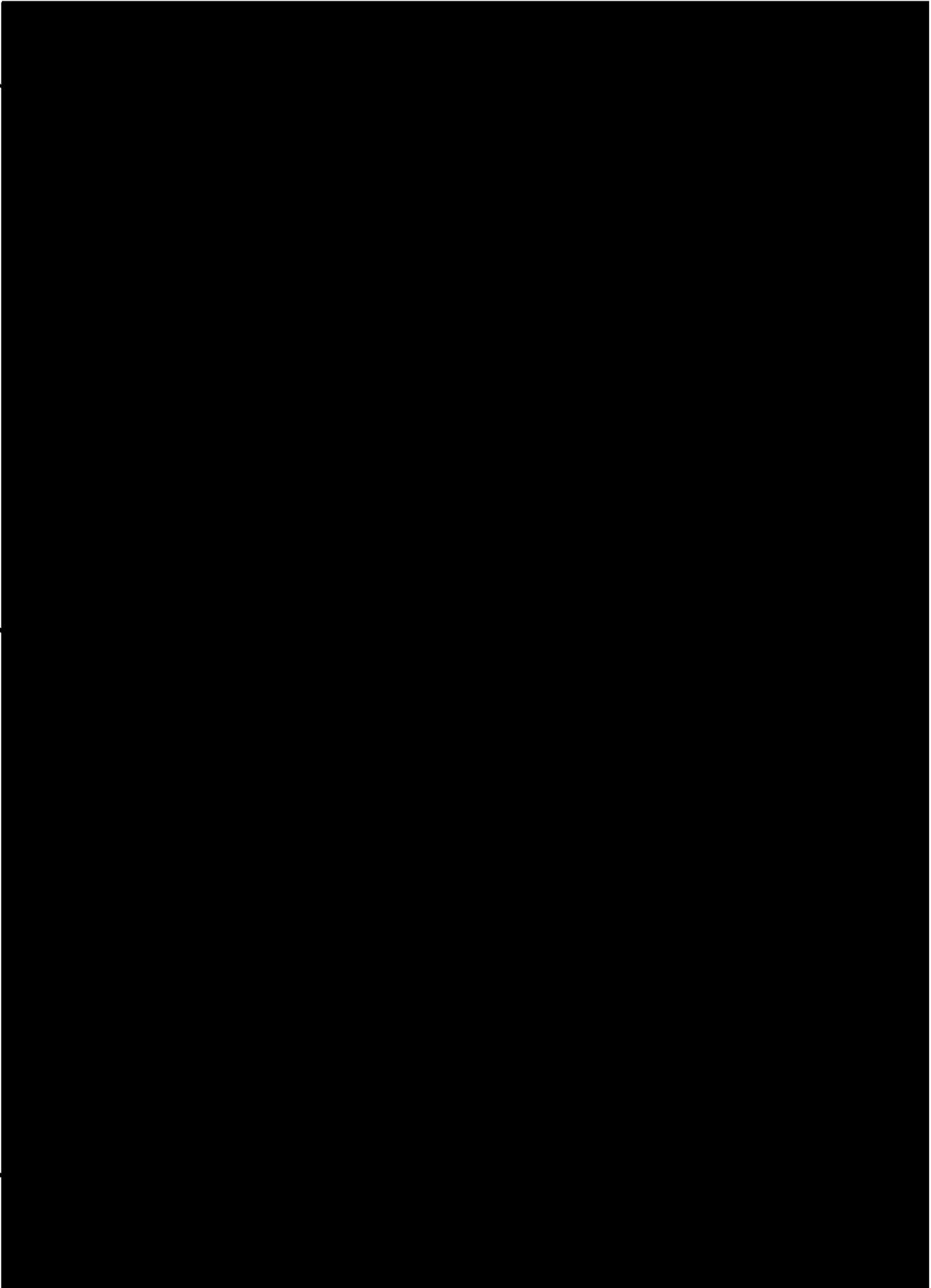
When developing estimates for the 2009 test year, PGE budgeted for salaries at the individual employee level for 2008 then escalated to 2009 at the Responsibility Center (RC) level. However, PGE used a 6 percent escalation rate for officers who are identifiable within their RC by their unique title. This calculation results in a total that is consistent with our aggregate 2009 estimate of \$3.4 million provided earlier. Attachment 267-A contains PGE's current estimates for officers' salaries and incentives for 2009.

Officers receive the following incentives:

1. ACI. This was calculated using PGE's 2008 estimate and an escalation rate of 3 percent.
2. Performance Unit grants. This is an annual grant of PGE stock that is awarded in future periods based on four criteria: (1) customer satisfaction, (2) electric service power quality and reliability, (3) generation plant availability, and (4) net income. The estimate for 2009 was based on an assumption that the Performance Unit grants for 2008 and 2009 would match those grants made in 2007.
3. Restricted Unit grants. This was a one-time grant made in 2006 with a 36 month vesting period. 2009 includes the last six months of value for the 2006 Restricted Unit grants.

The combination of Performance Unit value and Restricted Unit value in 2009 totals to approximately \$3.4 million as provided in our initial response.

Attachment 267-A is confidential and subject to Protective Order No. 08-133. Please also note that Attachment 267-A, in Excel format, is password protected using the same password as for confidential information in PGE's power cost filing (UE-198).



**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UE 197

In the Matter of)
)
PORTLAND GENERAL ELECTRIC)
COMPANY)
)
Request for a General Rate Revision.)

**DIRECT TESTIMONY OF
ELLEN BLUMENTHAL
ON BEHALF OF
THE INDUSTRIAL CUSTOMERS OF NORTHWEST UTILITIES**

ICNU-CUB/110

**PGE Response to ICNU
Data Request 8.275**

July 9, 2008

July 2, 2008

TO: Brad Van Cleve
Industrial Customers of NW Utilities

FROM: Randy Dahlgren
Director, Regulatory Policy & Affairs

**PORTLAND GENERAL ELECTRIC
UE 197
PGE Response to ICNU Data Request 9.275
Dated June 30, 2008
Question No. 275**

Request:

For each PGE officer and director from 2000-2007, please identify the amount of their annual employee electricity discount.

Response:

Attachment 275-A is a list of the eligibility requirements for the employee electricity discount. PGE's directors and active officers are not eligible for the electricity discount.

UE 197
Attachment 275-A

Eligibility Requirements for the
Employee Electricity Discount

UE 197
PGE Response to ICNU Data Request No. 275
Attachment 275-A

ELIGIBILITY

- Full-time PGE employees who have completed their trial-service period (usually six to nine months) are eligible for a 25 percent discount.
- Retired PGE employees, including retired PGE officers and spouses of deceased regular or retired PGE employees (as long as the spouses do not remarry) are also eligible for a 25 percent discount.
- Regular part-time or reduced-hour PGE employees who have completed their trial-service period and who work 20 hours or more per week are eligible for a 12.5 percent discount.
- PGE officers and temporary employees are not eligible.

NOTE: Only PGE employees are eligible for the Electric Service Discount.

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UE 197

In the Matter of)
)
PORTLAND GENERAL ELECTRIC)
COMPANY)
)
Request for a General Rate Revision)
)
_____)

DIRECT TESTIMONY OF DR. ALAN ROSENBERG

ON BEHALF OF

THE INDUSTRIAL CUSTOMERS OF NORTHWEST UTILITIES

July 9, 2008

1 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 **A.** My name is Alan Rosenberg, 1215 Fern Ridge Parkway, Suite 208, St. Louis, Missouri
3 63141. I am employed by the firm of Brubaker & Associates, Inc. (“BAI”), regulatory
4 and economic consultants with corporate headquarters in St. Louis, Missouri. My
5 qualifications are described in Exhibit ICNU/201.

6 **Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS PROCEEDING?**

7 **A.** I am testifying on behalf of the Industrial Customers of Northwest Utilities (“ICNU”).
8 ICNU is a non-profit trade association whose members are large industrial customers
9 served by electric utilities throughout the Pacific Northwest, including Portland General
10 Electric Company (“PGE” or the “Company”).

11 **Q. WHAT IS THE SUBJECT MATTER OF YOUR TESTIMONY?**

12 **A.** My testimony addresses the accuracy of PGE’s marginal cost of service study
13 (“MCOS”), in particular its allocation of marginal production costs. I should note that
14 because PGE uses an MCOS to allocate all of the functional (i.e., unbundled) costs
15 independently, the modifications that I suggest have no impact on the proposed recovery
16 of transmission, distribution or customer costs.

17 **Q. ARE YOU SPONSORING ANY EXHIBITS IN CONNECTION WITH YOUR**
18 **TESTIMONY?**

19 **A.** Yes. I am sponsoring Exhibits ICNU/201 to ICNU/204.

20 **Q. COULD YOU PLEASE SUMMARIZE YOUR RECOMMENDATIONS?**

21 **A.** Yes. I conclude that the MCOS submitted by PGE is deficient for a number of reasons
22 which I will explain in my testimony. I recommend that the PGE study be tempered with
23 the use of an alternative study, which allocates fixed production costs based on a

1 coincident peak methodology. Based on a combination of my cost study and PGE's cost
2 study, I recommend the rate spread proposed in Exhibit ICNU/202, Rosenberg/1.

3 **Q. HOW DOES THE PGE MCOS ALLOCATE THE PRODUCTION COST**
4 **REVENUE REQUIREMENT?**

5 **A.** The totality of the production cost revenue requirement is allocated in proportion to each
6 class's share of market energy costs, as determined by monthly on-peak and off-peak
7 energy costs. In other words, the process can be described as follows:

- 8 • Divide the year into 24 periods, one on-peak and one off-peak period for each
9 month;
- 10 • Determine the average market energy price for each of those 24 periods;^{1/}
- 11 • Determine each class's energy usage for each of those 24 periods;
- 12 • Multiply the average energy price in each period times the class's energy
13 usage in that period;
- 14 • Sum the products of the price and the usage (that is, the costs) in each of those
15 24 periods for each class; and
- 16 • Allocate the totality of the production cost revenue requirement in proportion
17 to the class sums determined in Step 5 above.

18 **Q. WHAT ARE THE PROBLEMS WITH PGE'S ALLOCATION**
19 **METHODOLOGY?**

20 **A.** The general problem is that it is inaccurate, and thus fails to capture the full interaction
21 between a customer's usage patterns and the impact of these usage patterns upon PGE's
22 cost of production. More specifically, the allocation method is deficient because:

- 23 • It is too broad brushed, and thus misses much relevant information;
- 24 • It neglects the role of reliability or capacity in the electrical planning process
25 and cost causation;
- 26 • It fails to distinguish between fixed costs and variable costs; and
- 27 • It is shortsighted in that it focuses exclusively on short-term costs and ignores
28 the long-term implications of customer usage patterns.

^{1/} The average cost of wheeling the power is added to the Mid-Columbia market price.

1 **Q. WHAT ARE THE CONSEQUENCES OF THESE SHORTCOMINGS?**

2 **A.** First, consumers will be given inaccurate or misleading price signals. This could induce
3 customers to make less efficient consumption/conservation decisions than they would
4 otherwise have made. This, in turn, will lead to higher costs for PGE and its customers.
5 Second, there will be a greater disconnect between rates and cost causation. This could
6 lead to revenue instability, or more accurately, profit instability, as customers invariably
7 are added to or dropped from the system, or change their usage patterns. Third, rates that
8 are not predicated on cost causation, at least to the largest extent that is practicable, are
9 not generally considered fair or reasonable.

10 **Q. THE FIRST DEFICIENCY YOU NOTED IS THAT PGE'S METHOD IS TOO**
11 **BROAD BRUSHED AND THUS LOSES OR IGNORES A LOT OF**
12 **INFORMATION. COULD YOU PLEASE ELABORATE ON THAT POINT?**

13 **A.** Yes. PGE divides the year into just 24 periods, when in reality prices can vary widely
14 from day to day. For example, each "marginal on-peak cost" is an average of
15 approximately 30 different daily on-peak costs. Those costs can vary widely, even in a
16 single month. All this information is lost in the averaging process. Thus, when all of this
17 information is distilled, the result is that PGE's production cost allocation is barely
18 distinguishable from a method that allocates all of these costs strictly on energy. Such a
19 result is inaccurate and inconsistent with cost causation. PGE's production costs are not
20 simply a function of total energy consumed. In reality, PGE's production costs are
21 determined both by *when* consumers use energy and at *what rate* consumers use energy.^{2/}

^{2/} The rate at which consumers use energy is called demand, and is measured in kilowatts, whereas total energy consumption is measured in kilowatthours.

1 **Q. IN YOUR PREVIOUS ANSWER, YOU STATED THAT MARKET COSTS CAN**
2 **VARY WIDELY. DO PGE'S PRICE CURVES CAPTURE THOSE**
3 **DIFFERENCES?**

4 **A.** No, they do not, at least not adequately. For example, in the PGE MCOS model, the ratio
5 between the highest on-peak price and the lowest off-peak price is less than 3 to 1.^{3/}
6 However, over a year, the ratio between the highest and lowest price period can be in the
7 neighborhood of 100 to 1, perhaps more. ICNU/203, Rosenberg/1. In my experience,
8 the marginal cost of producing electricity, and hence the price of energy, can vary
9 markedly, even from hour to hour. Indeed, PGE does offer an optional real-time pricing
10 schedule where customers can receive a more accurate price signal during critical peak
11 hours. However, I recognize that it may be difficult to allocate costs using more granular
12 data, such as hourly pricing and loads. Nevertheless, there can be no question that PGE's
13 study understates the cost of serving the customers who use more energy during peak
14 periods as compared to the system average usage pattern.

15 **Q. THE SECOND PROBLEM YOU NOTED IS THAT PGE'S COST OF SERVICE**
16 **MODEL NEGLECTS THE ROLE OF RELIABILITY OR CAPACITY IN THE**
17 **ELECTRICAL PLANNING PROCESS AND COST CAUSATION. WHY IS**
18 **THAT A PROBLEM?**

19 **A.** Electricity, with some exceptions, cannot be stored. However, most customers expect
20 and demand that their appliances go on instantaneously at the flick of a switch. Indeed,
21 the supply and use of electricity must be kept closely in balance or system stability and
22 reliability can be jeopardized. The North American Electric Reliability Council
23 ("NERC") demands that utilities maintain reserve margins sufficient to cover changes in
24 demand or unplanned outages of generating facilities. These reserve margins impose
25 capacity costs that regulated utilities serving end-use customers must incur. Many

^{3/} The highest monthly price in the Company's cost of service workpapers was \$86.25 per MWh and the lowest was \$30.25 per MWh.

1 organized electric markets, such as PJM and the New York and New England ISOs,
2 establish capacity requirements that must be met by load-serving entities, with
3 consequential costs for non-compliance. PGE, on the other hand, simply ignores this
4 very real cost in its MCOS.

5 **Q. THE GENERATION RESOURCES IN THE NORTHWEST APPEAR**
6 **ADEQUATE AT THIS TIME. SHOULD THE COST MODEL NEVERTHELESS**
7 **TAKE INTO ACCOUNT RELIABILITY?**

8 **A.** Yes. Reliability is still needed. For example, in July 2006 a severe heat wave stressed
9 the Pacific Northwest power grid and prices soared to over \$350 per MWh for a time.
10 Even last June (2007), the average daily price reached almost \$200 per MWh. Lower
11 hydro conditions can cause the system to stress. Further, the inexorable growth in
12 consumer demand, over time, will require new generation. Customers should be given
13 the proper price signals now regarding the need for capacity so that they can
14 appropriately respond.

15 **Q. HAS PGE INDICATED THAT CAPACITY/RELIABILITY CONSIDERATIONS**
16 **WILL BE RELEVANT GOING FORWARD?**

17 **A.** Yes. PGE and the Pacific Northwest have not historically been capacity-constrained
18 because they have benefited from abundant hydro resources. Nevertheless, PGE now
19 acknowledges:

1 . . . few new hydro resources are being developed, and PGE's hydro
2 resources are decreasing with the expiration of the Mid-Columbia
3 contracts. This, combined with increasing loads and additions of
4 non-hydro resources, has resulted in PGE's hydro resources becoming
5 smaller as a percentage of either total PGE resources or load. Therefore,
6 PGE's planning for growth requirements has become more focused on
7 capacity resources than in the past. PGE expects this to continue, as loads
8 and total resources continue to increase, and PGE's hydro resources
9 continue to decrease.

10 ICNU/204, Rosenberg/2.

11 **Q. THE THIRD PROBLEM YOU NOTE WITH THE COMPANY'S COST**
12 **ANALYSIS IS THAT IT FAILS TO DISTINGUISH BETWEEN FIXED COSTS**
13 **AND VARIABLE COSTS. COULD YOU PLEASE EXPLAIN THAT CONCERN**
14 **IN MORE DETAIL?**

15 **A.** Yes. A fixed cost is one that does not vary in response to annual energy consumption.
16 By contrast, a variable cost, by definition, is one that is more or less proportional to the
17 quantity of energy that customers use. This distinction is fundamental to not only the
18 electric industry, but to business in general. For example, when you rent a car, rental
19 companies will normally charge you X dollars per day, with unlimited mileage. The only
20 charge for the mileage is the cost of the gas for the car. This is because the rental
21 companies realize that the cost of their cars is fixed and does not (with small exceptions
22 like wear and tear) vary with the distance traveled. In contrast, the cost of gas is roughly
23 directly proportional to the mileage traveled. The rental companies charge accordingly.
24 That is only good business sense. Electric utilities should do the same.

25 **Q. ARE ALL OF PGE'S PRODUCTION COSTS VARIABLE?**

26 **A.** No, they are not. Out of \$1.165 billion in total production costs, only \$807 million, or
27 69.23 percent, is variable. The balance of \$358 million, or 30.77 percent, is fixed.^{4/}

^{4/} For purposes of this testimony, I have used the fixed and variable production costs as filed by the Company in PGE/1204, Kuns-Cody/2. Any adjustment to those fixed/variable production costs either through settlement or Commission decision would naturally change the results of the cost study, but the general principles of proper cost allocation remain unchanged.

1 However, the PGE model essentially treats 100 percent of these costs as variable. In fact,
2 when I ran a regression analysis between the production costs allocated to each class in
3 the Company's MCOS against the energy consumption of each class, the resulting
4 correlation coefficient^{5/} was an R² of 0.9999765. Essentially, this means that, according
5 to PGE's cost of service model, annual energy use explains 99.9765 percent of
6 production cost causation. That is simply unrealistic.

7 **Q. THE LAST PROBLEM THAT YOU NOTED WITH PGE'S COST ALLOCATION**
8 **METHOD IS THAT IT SHORTSIGHTEDLY FOCUSES ON SHORT-RUN**
9 **MARGINAL COSTS INSTEAD OF LONG-RUN MARGINAL COSTS. COULD**
10 **YOU PLEASE ELABORATE ON THAT PROBLEM FOR US?**

11 **A.** Yes. This issue is very much related to the issue of capacity and fixed costs. Rates in
12 Oregon, and elsewhere, typically consider both short-run marginal costs and long-run
13 marginal costs. Short-run costs exclude the element of capacity and the fixed capital
14 costs associated with those investments, whereas long-run costs include those costs.
15 Regulators and economists also recognize that consumers make consumption decisions
16 that have both short-run implications, such as whether to turn their thermostat up or down
17 or whether or not to put on an extra production shift, as well as decisions that have long-
18 run implications. Examples of decisions with long-run implications are whether to install
19 an air-conditioner with a Seasonal Energy Efficiency Ratio ("SEER") rating of 10 or a
20 SEER rating of 15, or whether to expand a factory. A proper cost of service analysis
21 should adequately reflect both short-run as well as long-run cost considerations. The
22 PGE study focuses on short-run considerations only.

^{5/} Statistically speaking, this is termed square of the Pearson Coefficient or more frequently the "R squared."

1 **Q IS IT REASONABLE TO ASSUME THAT ALL OF THE COMPANY'S**
2 **LONG-TERM FIXED PRODUCTION CAPACITY COSTS ARE FULLY**
3 **REFLECTED IN SHORT-TERM, ON-PEAK ENERGY PRICES?**
4

5 **A.** No. While some fixed capital cost recovery may be embedded in on-peak energy prices
6 through scarcity costs, such scarcity pricing will only appear for a relatively brief period
7 of time that may well not permit full recovery of the substantial fixed capital costs needed
8 to preserve system reliability. Moreover, recovery of fixed capital costs through energy
9 prices can be constrained by factors such as price or offer caps in wholesale markets and
10 the deployment of short-term operating reserves to repress scarcity prices when regional
11 energy markets are under stress.

12 **Q. PLEASE SUMMARIZE THE PROBLEMS WITH PGE'S MCOS.**

13 **A.** PGE's MCOS does not accurately reflect cost causation, because it relies on average
14 marginal costs that smooth out the cost of peak period energy. In addition, the MCOS
15 does not distinguish between fixed costs and variable costs. Finally, the MCOS does not
16 properly consider or allocate the costs of long-term capacity necessary to meet system
17 peaks and maintain reliability.

18 **Q. HOW CAN THE PROBLEMS WITH PGE'S COST STUDY BE RESOLVED?**

19 **A.** I suggest tempering the use of the PGE method of allocating production costs with an
20 alternative method that recognizes fixed capacity costs and the element of reliability.
21 Specifically, I recommend that fixed production costs be allocated on the basis of a
22 weighted five coincident peak ("5 CP") method. Under this approach, the five monthly
23 coincident peaks should be weighted in proportion to the number of hours in the
24 applicable month that appear in the top 100 hours of the year. (The top 100 hours only
25 appear in the months of January, February, July, August and December.) Thus, for
26 example, December contains 39 out of the top 100 hours of peak load, so the December

1 peak is given a weight of 39 percent. This recognizes that there is a likelihood of the
2 peak hour appearing in any of these months and also lends an element of stability to the
3 method. My alternative model allocates the Net Variable Power Costs on the same basis
4 proposed by the Company, which is the sum of the monthly peak and off-peak marginal
5 power costs for each class. Mathematically, this alternative method is equivalent to
6 allocating the totality of the production costs by weighting the Company allocation factor
7 by 69.23 percent and weighting the 5 CP method by 30.77 percent.

8 **Q. ARE THE FIVE MONTHS THAT YOU USED TO DEVELOP THE 5 CP**
9 **ALLOCATOR THE RELEVANT MONTHS FOR SYSTEM PLANNING**
10 **PURPOSES?**

11 **A.** Yes. As PGE recently acknowledged:

12 Our recent resource planning indicates greatest need for capacity resources
13 in the December-February period. Given that some of our capacity
14 resources only cover this winter period, we also have capacity
15 considerations for the July-August period. Recent history bears this out.

16 ICNU/204, Rosenberg/2.

17 **Q. YOU STATED THAT YOU ARE PROPOSING TO TEMPER THE PGE**
18 **METHOD WITH THE ALTERNATIVE METHOD YOU JUST DESCRIBED.**
19 **BASED ON THIS OBJECTIVE, HOW DO YOU RECOMMEND THAT THE**
20 **REVENUE INCREASE IN THIS PROCEEDING BE ALLOCATED TO THE**
21 **CUSTOMER CLASSES?**

22 **A.** I recommend that the increase be allocated using the halfway point of the class
23 allocations emanating from the Company model and my alternative model. In other
24 words, my recommended class allocation assigns a 50 percent weighting factor both to
25 the Company's cost allocation method and to my alternative model. This approach
26 reasonably reflects the impact of both peak demands and energy consumption on the
27 Company's incurrence of production costs. The results of this approach are depicted on

28 ICNU/202, Rosenberg/1.

1 **Q. ICNU/202, ROSENBERG/1 SHOWS THAT THE DERIVED INCREASES FOR**
2 **THE IRRIGATION AND DRAINAGE PUMPING CLASSES (RATE**
3 **SCHEDULES 47 AND 49) ARE EXACTLY THE SAME UNDER THE COMPANY**
4 **METHOD AS UNDER YOUR ALTERNATIVE COST OF SERVICE METHOD.**
5 **WHY IS THAT?**

6 **A.** The reason is that my alternative method only modifies the Company model with regard
7 to the allocation of fixed production costs, as described previously. I have not modified
8 the gradualism constraints proposed by PGE. The Company model limited the
9 percentage increase to any one class (excluding the impact of supplemental revenues^{6/}) to
10 two times the system average increase, or 17.7 percent. Under both the PGE cost of
11 service model and my alternative model, those classes deserved increases greater than
12 17.7 percent. I would note, however, that under my alternative cost of service method,
13 the Irrigation and Drainage Pumping classes are allocated less generation costs relative to
14 the Company method. Hence, the cap and reallocation step has a smaller impact on the
15 other classes.

16 **Q. WHY ARE YOU PROPOSING THIS BLENDED APPROACH IN THIS CASE?**

17 **A.** There are several factors that persuaded me that a blended approach was reasonable.
18 First, there is the issue of continuity. The Company method had been applied in prior
19 rate cases. Although I firmly believe that my alternative cost of service study more
20 accurately and thoroughly reflects the factors that cause PGE to incur production costs,
21 there is an argument to be made that the historic method should not be abruptly
22 abandoned.^{7/} Thus, my recommendation is only a very moderate step toward a more
23 accurate cost allocation.

^{6/} Supplemental revenues are those derived from Schedules 105, 109, 110, 111, 126 and 140.

^{7/} I would note, however, that my alternative cost analysis relies on the historic method proposed by the Company to allocate almost 70 percent of the production revenue requirement. Consequently, my blended approach implicitly reflects 85 percent of the results of the Company's method.

1 The second reason for my 50/50 blended proposal is rate moderation. By using a
2 blended approach, I was able to bring the requisite increases for all classes closer to the
3 system average increase in comparison to the class allocations that would have resulted
4 from a pure application of my alternative cost allocation method. (The lone, minor
5 exception is in the case of the Street and Highway Lighting class.)

6 **Q. ARE THERE ANY OTHER REASONS WHY YOU PROPOSE TO BLEND THE**
7 **COMPANY METHOD WITH YOUR PREFERRED ALTERNATIVE METHOD?**

8 **A.** Yes. Although my alternative method essentially reflects the higher costs incurred by the
9 Company to provide system reliability during super-peak periods, strictly speaking it
10 does not apply a marginal cost methodology for the portion of costs that I allocated on the
11 100 hours/5 CP basis. (Of course, one could find similar fault with the Company method
12 because it simply *averages* marginal costs over 24 *monthly* periods instead of applying
13 the actual marginal cost in each *daily* on-peak and off-peak period.) Consequently, to test
14 the reasonableness of my alternative cost allocation method in comparison to a more
15 theoretically pure marginal cost method, I also calculated a production cost allocation
16 factor which uses the cost of a peaker as a proxy for the marginal cost of production
17 capacity. Specifically, I added the cost of a peaker (which I modestly approximated as
18 \$80 per kW-year, although new capacity is likely more expensive than that), allocated to
19 each class on the basis of the class's annual system coincident peak demand, to the
20 marginal energy costs for each class as determined by the Company model. When I
21 compared the resulting allocation of production costs with an allocation method that
22 weighted the Company method by 50 percent and my alternative method by 50 percent
23 (that is, the blended approach that I recommend), I found the allocation factors to be
24 almost identical for each class. This is shown on ICNU/202, Rosenberg/2. Thus, I

1 believe that the Commission can rely on the blended approach I am recommending with a
2 great deal of confidence.

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

4 **A.** Yes.

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UE 197

In the Matter of)
)
PORTLAND GENERAL ELECTRIC)
COMPANY)
)
Request for a General Rate Revision)
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ICNU/201

QUALIFICATIONS OF ALAN ROSENBERG

July 9, 2008

QUALIFICATIONS OF ALAN ROSENBERG

1 **Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 A Alan Rosenberg. My business address is 1215 Fern Ridge Parkway, Suite 208, St. Louis,
3 Missouri 63141.

4 **Q WHAT IS YOUR OCCUPATION?**

5 A I am a consultant in the field of public utility regulation and am a managing principal
6 with the firm of Brubaker & Associates, Inc. (BAI), energy, economic and regulatory
7 consultants.

8 **Q PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.**

9 A I was awarded a Bachelor of Science Degree from the City College of New York in 1964
10 and a Doctorate of Philosophy in Mathematics from Brown University in 1969.
11 Subsequently, I held an Assistant Professorship of Mathematics at Wesleyan University
12 in Connecticut. In the summer of 1975, I was a Visiting Fellow at Yale University.
13 From July, 1975 through January, 1981, I was Assistant Controller and Project Manager
14 for a division of National Steel Products Company. My responsibilities there included
15 supervision of management accounting, cost accounting and data processing functions. I
16 was also responsible for internal control, general ledger systems, working capital levels,
17 budget preparation, cash flow forecasts and capital expenditure analysis.

18 I have published in major academic journals and am a member of the
19 International Association for Energy Economics. I was an invited speaker at the NARUC
20 Introductory Regulatory Training Program and a panelist at a conference on LDC and
21 Pipeline Ratemaking sponsored by the Institute of Gas Technology. I have presented a
22 paper on stranded costs at the 21st Annual International Conference of the International

1 Association for Energy Economics. I have had two papers on transmission congestion
2 pricing and one paper on reorganizing markets published in The Electricity Journal. I am
3 also a Certified Energy Procurement Professional by the Association of Energy
4 Engineers.

5 In January, 1982, I joined the firm of Drazen-Brubaker & Associates, Inc., the
6 predecessor of Brubaker & Associates. Since that time, I have presented expert
7 testimony on the subjects of industry restructuring, open access transmission, marginal
8 and embedded class cost of service studies, prudence and used and useful issues, electric
9 and gas rate design, revenue requirements, natural gas transportation issues, demand-side
10 management, and forecasting.

11 I have previously testified before the Federal Energy Regulatory Commission as
12 well as the public service commissions of Arizona, Connecticut, Delaware, Florida,
13 Idaho, Illinois, Iowa, Massachusetts, Michigan, Montana, New Jersey, New Mexico, New
14 York, North Carolina, Ohio, Pennsylvania, Rhode Island, Vermont, Virginia, Wyoming
15 and the Provinces of Alberta, British Columbia, New Brunswick, Nova Scotia, and
16 Saskatchewan in Canada. I have also testified before the Michigan Senate Technology
17 and Energy Committee.

18 In addition to our main office in St. Louis, the firm also has branch offices in
19 Phoenix, Arizona and Corpus Christi, Texas.

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UE 197

In the Matter of)
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PORTLAND GENERAL ELECTRIC)
COMPANY)
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Request for a General Rate Revision)
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ICNU/202

**SCHEDULE 1: ESTIMATED EFFECT ON
CONSUMERS' TOTAL ELECTRIC BILLS
2009 COS ONLY**

**SCHEDULE 2: COMPARISON OF ALTERNATIVE ALLOCATIONS
OF PRODUCTION COSTS**

July 9, 2008

PORTLAND GENERAL ELECTRIC

ESTIMATED EFFECT ON CONSUMERS' TOTAL ELECTRIC BILLS
2009 COS ONLY

CATEGORY	RATE SCHEDULE	Company's Proposal Change		Alternative Proposal Change		Results Weighted 50/50 Change	
		AMOUNT	PCT.	AMOUNT	PCT.	AMOUNT	PCT.
Residential	7	\$60,236,189	7.8%	\$109,288,962	14.1%	\$84,762,576	10.9%
Employee Discount		<u>(\$62,949)</u>	7.6%	<u>(\$115,517)</u>	13.9%	<u>(\$89,233)</u>	10.7%
Subtotal		\$60,173,239	7.8%	\$109,173,446	14.1%	\$84,673,343	10.9%
Outdoor Area Lighting	15	\$27,162	0.6%	\$60,882	1.4%	\$44,022	1.0%
General Service <30 kW	32	\$8,384,315	5.8%	\$1,589,016	1.1%	\$4,986,666	3.5%
Opt. Time-of-Day G.S. >30 kW	38	\$627,087	9.9%	(\$261,324)	-4.1%	\$182,882	2.9%
Irrig. & Drain. Pump. < 30 kW	47	\$356,007	15.4%	\$356,007	15.4%	\$356,007	15.4%
Irrig. & Drain. Pump. > 30 kW	49	\$764,527	15.5%	\$765,194	15.5%	\$764,860	15.5%
General Service >30 kW							
Secondary	83-S	\$25,059,244	5.9%	\$3,956,833	0.9%	\$14,508,038	3.4%
Primary	83-P	\$1,514,747	7.7%	\$16,377	0.1%	\$765,562	3.9%
Schedule 89 > 1 MW							
Secondary	89-S	\$3,590,446	7.3%	\$190,892	0.4%	\$1,890,669	3.8%
Primary	89-P	\$9,415,154	7.8%	(\$758,754)	-0.6%	\$4,328,200	3.6%
Subtransmission	89-T	\$3,974,804	8.6%	(\$1,331,344)	-2.9%	\$1,321,730	2.8%
Street & Highway Lighting	91	\$242,589	1.4%	\$438,513	2.6%	\$340,551	2.0%
Traffic Signals	92	\$53,761	14.7%	\$14,803	4.1%	\$34,282	9.4%
Recreational Field Lighting	93	\$11,153	12.4%	\$8,106	9.0%	\$9,629	10.7%
Communications Devices	94	\$2,580	14.7%	\$710	4.1%	\$1,645	9.4%
TOTAL (CYCLE YEAR BASIS)		\$114,196,816	7.1%	\$114,219,357	7.1%	\$114,208,086	7.1%

Note: Change in revenues is based on proposed rates with all supplementals except LIA & PPC.

PORTLAND GENERAL ELECTRIC

COMPARISON OF ALTERNATIVE ALLOCATIONS OF PRODUCTION COSTS

<u>Grouping</u>	PGE Allocation of Marginal Energy Cost	Marginal Cost of Peaker	Total Marginal Cost	Peaker Approach	100 hr Fixed/Variable Approach	Company Allocation	50/50 Blended Approach
	(A)	(B)	(C)	(D)	(E)	(F)	(G)
Schedule 7	\$559,896	\$ 169,432	\$729,328	44.84%	46.38%	42.14%	44.26%
Schedule 15	1,609	344	1,953	0.12%	0.12%	0.12%	0.12%
Schedule 32	108,819	19,096	127,915	7.86%	7.62%	8.19%	7.90%
Schedule 38	4,763	280	5,043	0.31%	0.28%	0.36%	0.32%
Schedule 47	1,539	40	1,579	0.10%	0.09%	0.12%	0.10%
Schedule 49	4,639	104	4,743	0.29%	0.27%	0.35%	0.31%
Schedule 83-S	392,447	68,677	461,124	28.35%	27.77%	29.54%	28.65%
Schedule 89-S 1-4 MW	46,012	7,852	53,863	3.31%	3.24%	3.46%	3.35%
Schedule 89-S GT 4 MW	3,117	116	3,233	0.20%	0.18%	0.23%	0.21%
Schedule 83-P	19,349	2,959	22,309	1.37%	1.33%	1.46%	1.39%
Schedule 89-P 1-4 MW	49,361	8,632	57,993	3.57%	3.48%	3.72%	3.60%
Schedule 89-P GT 4 MW	77,606	11,186	88,792	5.46%	5.22%	5.84%	5.53%
Schedule 89-T	52,008	7,780	59,788	3.68%	3.46%	3.91%	3.69%
Schedule 91	6,997	1,536	8,533	0.52%	0.54%	0.53%	0.54%
Schedule 92/94	370	48	418	0.03%	0.02%	0.03%	0.03%
Schedule 93	41	7	47	0.00%	0.00%	0.00%	0.00%
TOTAL	\$1,328,574	\$ 298,088	\$1,626,662	100.00%	100.00%	100.00%	100.00%

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UE 197

In the Matter of)
)
PORTLAND GENERAL ELECTRIC)
COMPANY)
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ICNU/203

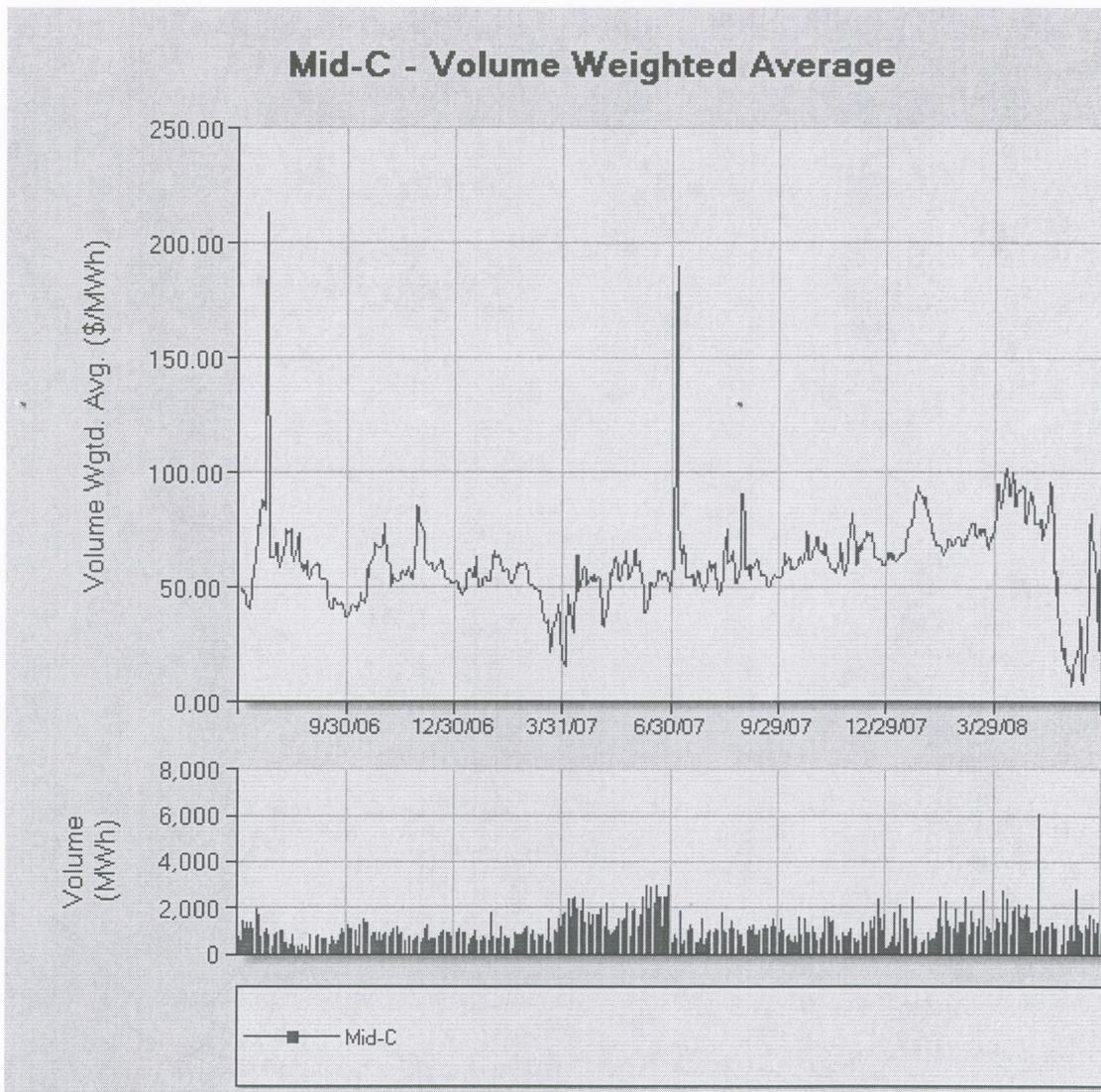
SNLi Spot Pricing Index Graph

July 9, 2008



Spot Pricing Index Graph

[Back to Market Data Home](#)



Prices for delivery in 2 Years

Delivery Point	Volume Wgtd. Average	Spread
Mid-C	60.85	

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SNL Financial LC, One SNL Plaza, PO Box 2124, Charlottesville, Virginia 22902, (434) 977-1600

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UE 197

In the Matter of)
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PORTLAND GENERAL ELECTRIC)
COMPANY)
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ICNU/204

**PGE Response to OPUC
Data Request No. 341**

July 9, 2008

May 28, 2008

TO: Vikie Bailey-Goggins
Oregon Public Utility Commission

FROM: Randy Dahlgren
Director, Regulatory Policy & Affairs

**PORTLAND GENERAL ELECTRIC
UE 197
PGE Response to OPUC Data Request
Dated May 14, 2008
Question No. 341**

Request:

General questions regarding pricing and supply and demand:

- a. What is PGE's production reserve margin (in MWs and as a percent of total system capacity and as a percent of peak load) at the time of PGE's annual peak demand? Please supply figures for 2007, 2008, and 2009, including the figures for total system capacity and for peak demand.
- b. As PGE's sales volumes have increased, has the greater stress in meeting growth requirements been placed on production capacity or on energy supplies? Please indicate if the expected future locus of stress differs from that of the past.
- c. During what month(s) of the year is PGE's production capacity subjected to the greatest stress? Please indicate for 2007, 2008, and 2009.
- d. How do PGE's retail rates, particularly those of large industrial customers, signal to customers or capture cost-causation for the demand placed on PGE's capacity at the time of its critical peak loads? Please explain if proposed 2009 rates modify the type or emphasis of any such price-signaling and/or capturing of cost-causation.
- e. Are Schedule 89 customers' loads measured and recorded on a fifteen-minute interval, 24-7 basis? If not, describe the nature of the load measuring, recording, and reporting to the Company for that schedule(s).
- f. How does/would PGE capture in its rate design and cost allocation processes, *as applied to Production costs*, the additional cost burden that would be placed upon the Company by a customer or a schedule having a substantially greater monthly peak-hour demand than another customer or schedule, while being identical in every other way—specifically including their amount of on-peak and off-peak energy use? How do rates proposed in this rate case improve upon prior rate design and cost allocation processes *as applied to Production costs*?

PGE Response to OPUC Data Request No. 341
May 28, 2008
Page 2

Response:

- a. What is PGE's production reserve margin (in MWs and as a percent of total system capacity and as a percent of peak load) at the time of PGE's annual peak demand? Please supply figures for 2007, 2008, and 2009, including the figures for total system capacity and for peak demand.**

Attachment 341-A summarizes the requested information consistent with a clarifying discussion with Staff. Information is taken from PGE's final Monet runs in Dockets UE 180 (for 2007) and UE 192 (for 2008), and the April 1, 2008, update (for 2009) in this docket. Note that, in Monet, spinning reserves are modeled explicitly and are provided by PGE's share of the Mid Columbia projects. Provision of Non-spinning reserves is implicit in the shaped dispatch of PGE's share of the Round Butte and Pelton projects. An exception is "PGE Self Supply of Operating Reserves for BPA Control Area Contracts," for which the total operating reserve requirement (spinning and non-spinning) is placed on PGE's share of the Mid Columbia projects. Attachment 341-A is confidential and subject to the protective order in this docket (Order No. 08-133).

- b. As PGE's sales volumes have increased, has the greater stress in meeting growth requirements been placed on production capacity or on energy supplies? Please indicate if the expected future locus of stress differs from that of the past.**

PGE and the Pacific Northwest in general have traditionally been energy, rather than capacity, constrained because of hydro resources, which have low capacity factors (ratio of average output to maximum output) and which can respond quickly to extreme load requirements of short duration. However, few new hydro resources are being developed, and PGE's hydro resources are decreasing with the expiration of the Mid-Columbia contracts. This, combined with increasing loads and additions of non-hydro resources, has resulted in PGE's hydro resources becoming smaller as a percentage of either total PGE resources or load. Therefore, PGE's planning for growth requirements has become more focused on capacity resources than in the past. PGE expects this to continue, as loads and total resources continue to increase, and PGE's hydro resources continue to decrease.

- c. During what month(s) of the year is PGE's production capacity subjected to the greatest stress? Please indicate for 2007, 2008, and 2009.**

Our recent resource planning indicates greatest need for capacity resources in the December-February period. Given that some of our capacity resources only cover this winter period, we also have capacity considerations for the July-August period. Recent history bears this out. In July 2006, PGE and the region experienced severe capacity constraints, and PGE actually declared a system emergency.

- d. How do PGE's retail rates, particularly those of large industrial customers, signal to customers or capture cost-causation for the demand placed on PGE's capacity at the time of its critical peak loads? Please explain if proposed 2009 rates modify the type or emphasis of any such price-signaling and/or capturing of cost-causation.**

PGE Response to OPUC Data Request No. 341
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Page 3

Large industrial customers' monthly distribution and transmission related charges are based on the customers' highest recorded on-peak demand readings. During critical periods as customers demand spikes so would their demand/transmission related charges. Large industrial customers' energy charges are based on their monthly kWh consumption with a time of day, on and off peak differentiation. The energy rates are not designed to give a specific instantaneous price signal during a critical peak load period. PGE does offer its large industrial customers an optional real time pricing schedule, where they would have the option to receive an energy based price signal during critical peak loads.

- e. **Are Schedule 89 customers' loads measured and recorded on a fifteen-minute interval, 24-7 basis? If not, describe the nature of the load measuring, recording, and reporting to the Company for that schedule(s).**

The majority of Schedule 89 customers' load is measured and recorded on a fifteen-minute interval, 24-7 basis.

- f. **How does/would PGE capture in its rate design and cost allocation processes, *as applied to Production costs*, the additional cost burden that would be placed upon the Company by a customer or a schedule having a substantially greater monthly peak-hour demand than another customer or schedule, while being identical in every other way—specifically including their amount of on-peak and off-peak energy use? How do rates proposed in this rate case improve upon prior rate design and cost allocation processes *as applied to Production costs*?**

PGE's Production Costs are allocated on each schedule's marginal costs, which PGE defines as the cost of meeting each schedule's energy requirements with market purchases delivered to the meter. Market purchases are calculated by using the test year billing determinants and a test-year forward curve. Please see PGE's Exhibit 1200 / Work Papers 42 – 50. PGE does not allocate its production costs on demand basis. Diurnal cost differences are included in the analyses to reflect cost of service differences of varying load shapes. They do not, however reflect the hypothetical example posited (which is likely unrealistic). PGE's rate design and cost allocation process is very similar to that used in UE 180.