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June 15, 2018

Via Electronic Filing

OREGON PUBLIC UTILITY COMMISSION
ATTENTION: FILING CENTER
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RE: Docket No. UE - 335 – In the Matter of
PORTLAND GENERAL ELECTRIC COMPANY, Request for a General Rate Revision.

Commission Staff submits the attached errata to the following Staff's Opening Testimony:

- Staff/400, Gardner/5: correct table for Staff Kaufman, Issue 1 adjustment.
- Staff/400, Gardner/19: correct footnote 10 citation.
- Staff/400, Gardner/31 at 10-11: correct total adjustment and allocation between O&M and capital.

/s/ Marianne Gardner

Marianne Gardner
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CASE: UE 335
WITNESS: MARIANNE GARDNER

PUBLIC UTILITY COMMISSION
OF
OREGON

STAFF EXHIBIT 400

Opening Testimony

June 6, 2018

Q. Please state your name, occupation, and business address.

A. My name is Marianne Gardner. I am a senior revenue requirement analyst employed in the Energy Rates, Finance and Audit Division of the Public Utility Commission of Oregon (OPUC). My business address is 201 High Street SE., Suite 100, Salem, Oregon 97301.

Q. Please describe your educational background and work experience.

A. My witness qualification statement is found in Exhibit Staff/101.

Q. What is the purpose of your testimony?

A. I am the revenue requirements summary witness for the Public Utility Commission of Oregon Staff (Staff) in this proceeding. I introduce Staff-sponsored adjustments and issues regarding the Portland General Electric Company (Portland General Electric, PGE, or Company) request for a general rate revision, docketed as Docket No. UE 335. As such, I verify PGE's proposed revenue requirement utilizing Staff's revenue requirement model. This model is also used to calculate Staff's modified revenue requirement after incorporating Staff's proposed adjustments to NWN's revenue requirement.

Additionally, I provide background regarding specific issues I reviewed, and my analysis and recommendations.

Q. Will other Staff witnesses submit testimony regarding the issues they reviewed?

A. Yes. Each Staff assigned to Docket UG 344 is submitting separate testimony. In Part 1 of my testimony, I introduce the Staff witnesses and their respective assignments, and estimate the revenue requirement impact of Staff recommended adjustments to the Company's initial filing. These are the issues identified to date. Staff's recommendations and issues may change after reviewing testimony and analysis by other parties.

Q. Did you prepare an exhibit for this docket?

A. Yes. I prepared the following exhibits:

Exhibit 401	Witness Qualification Statement
Exhibit 402	PGE Responses to Staff Data Requests
Exhibit 403	Escalation – Excerpts from Consumer Price Index – All Urban Consumers for the U.S., published by OEA (released February 16, 2018)
Exhibit 404	Staff Outstanding Data Requests to PGE

Q. How is your testimony organized?

A. My testimony is organized as follows:

Part 1. Revenue Requirement 3
Part 2. Specific Issues 5
Issue 1. Cash Working Capital........ 7
Issue 2. Board of Director Fees 17
Issue 3. Salaries, Wages, Incentives, and FTE 19

PART 1. REVENUE REQUIREMENT

Q. Please provide background on how the Commission reviews a utility's general rate case filing?

A. The rates charged by a utility are based on the utility's "revenue requirement." To determine a utility's revenue requirement, the Commission determines for a specified test year: (1) the utility's forecasted gross **r**evenues; (2) the utility's operating expenses to provide utility service; (3) the rate base on which a return should be earned; and (4) the rate of return to be applied to the rate base.[1] Once a utility's revenue requirement is established, the Commission determines the rates the utility must charge different classes of customers to collect that revenue requirement, considering the different costs different classes of customers impose on the utility's system.[2]

Q. What revenue requirement is PGE asking for in this docket?

A. PGE requests that prices be adjusted to yield $85.9 million of additional revenues, for a total revenue requirement of $1,884.6 million.

The proposed increase represents a 4.8 percent increase overall for cost of service and direct access customers beginning January 1, 2019.[3] PGE bases its proposed revenue requirement on a 12-month test year starting January 1, 2019.

Q. What is Staff's recommendation regarding PGE's proposed increase?

[1] Order No. 01-787, pp. 5-6.
[2] Order No. 86-477 (1986 WL 1300169).
[3] PGE/100, Pope-Lobdell/12.

A. Staff proposes several adjustments to PGE's requested test year expense as well as proposed additions to rate base. In addition, Staff, PGE, the Alliance of Western Energy Customers (AWEC), and the Oregon Citizens' Utility Board (CUB) have reached a settlement agreement in principle that reduces PGE's proposed test year expense. The settlement agreement is not yet executed and its terms will not be discussed in this testimony.

Staff notes that this is the fifth rate case PGE has filed in six years. Each of the previous four cases has resulted in rate increases. In reviewing PGE's requested rate increase for 2019, Staff considered the incremental increases in rates PGE has received since 2013.

Q. Please provide a list of the rate case topics that Staff reviewed for opening testimony that an adjustment to revenue requirement is proposed and introduce the responsible Staff.

A. I have provided a listing of rate topics in Table A.

<u>Table A</u>

Testimony	Staff	Issue	Proposed Staff Adjustments	Revenue	Expense	Rate Base	Revenue Requirement Effect
400	Gardner	1	**Working Cash factor - 3.8270 (and incremental Working Cash in model)**			**(1,469)**	**(95)**
400	Gardner	1	**Working Cash in rate base**			**(3,610)**	**(338)**
400	Gardner	2	**Board of Director Expenses**		**(181)**		**(187)**
400	Gardner	2	**Board of Director Expenses (placeholder for RSUs)**				**0**
400	Gardner	3	**Salaries, Wages, Incentives, FTE**		**(23,924)**	**(9,921)**	**(25,697)**
500	Fox	1	**Misc. A&G**		**(2,697)**		**(2,792)**
500	Fox	3	**Continuity & Membership Credits**		**(800)**		**(828)**

Testimony	Staff	Issue	Proposed Staff Adjustments	Revenue	Expense	Rate Base	Revenue Requirement Effect
500	Fox	3	**Main All Risk Prop. Premium**		**(151)**		**(156)**
500	Fox	3	**Retained Losses**		**(442)**		**(458)**
500	Fox	4	**Employee Benefit Administration**		**(400)**		**(414)**
500	Fox	5	**Income Tax, ADIT, EDIT (placeholder)**				**0**
500	Fox	6	**Property Tax Expense (placeholder to adjust based on final plant in rate base)**				**0**
600	Watson	2	**Meals & Entertainment**		**(1,635)**		**(1,693)**
600	Watson	2	**Travel**		**(23)**		**(23)**
600	Watson	2	**Awards**		**(129)**		**(133)**
600	Watson	3	**Fee-free Bankcard**		**(257)**		**(266)**
400	Gardner	4	**Depr., Amort. & Reserves (to be adjusted based on final plant)**				**0**
700	Moore	1	**Storm Accrual**		**0**		**0**
700	Moore	2	**Demand Response Program**		**(2,400)**		**(2,485)**
800	Kaufman	1	**Revenue**	**2,023**	**64**		**(2,020)**
800	Kaufman	2	**IT O&M Costs**		**(18,143)**		**(18,783)**
800	Kaufman	3	**CET**			**(81,500)**	**(7,632)**
800	Kaufman	3	**Plant**			**(224,892)**	**(21,059)**
900	Compton	1	**Rate Spread**				**N/A**

PART 2. SPECIFIC ISSUES

Q. What areas of PGE's filing are you primarily responsible for reviewing?

A. I reviewed the portions of the filing related to uncollectible expense, interest synchronization, cash working capital, taxes other than income, board of directors' expenses, workforce levels, wages and salaries, incentives, and contractor expense. In order to gain additional insight, I reviewed the

Company's responses to Staff's Standard Data Requests (DRs), issued approximately 30 additional DRs, and reviewed the Company's responses.

Q. Are you discussing all of the above issues in opening testimony?

A. No. As noted above, Staff, intervenors and the Company have a settlement in principle that includes some of these issues. Testimony in support of the partial stipulation will be filed later. In opening testimony I address the amount of cash working capital that should be included in PGE's rate base and the appropriate amount of expense that should be included in the test year forecast for board of directors' fees and employee compensation. The amount of expense included in the forecasted test year depends on assumptions regarding the wages and salaries PGE will pay during the test year, the number of full-time equivalent employees (FTEs) that are appropriately included in the test year forecast, and the amount of contract labor that PGE will use. I address each of these assumptions in my testimony and propose adjustments to the forecasted amounts for employee compensation.

ISSUE 1. CASH WORKING CAPITAL

Q. Please explain the Commission's historical treatment of working capital?

A. "For ratemaking purposes, working capital is a measure of the amount of funding needed to satisfy the level of the daily operating expenditures and a variety of non-plant investments that are necessary to sustain ongoing operations of the utility."[4] The components of working capital are generally rate base items identified as fuel inventory, materials and supplies (M&S) inventory, prepayments not included in cash working capital (CWC), and in some circumstances, CWC. Historically, the Commission typically authorizes electric utilities to include an allowance for CWC in rate base if the utility has used a lead/lag study to estimate the factor for CWC.

Q. Please provide a summary of the Company's filed proposal for cash working capital.

A. The Company included approximately $63.2 million in rate base for CWC. As the Company explains in testimony, it updated its lead/lag study and applied the resultant CWC factor of 4.063 percent to its proposed operating expenses of $1,554.8 million to forecast the working cash.[5]

Q. Please explain generally what a lead/lag study entails and how this applied to PGE's methodology employed in its UE 335 study.

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[4] Hahne, Robert L., and Aliff, Gregory E. *Accounting for Public Utilities.* Publication 16, Release 34, November 2017, Section 5-1.
[5] PGE/200, Tooman – Espinoza/19 at 12-18.

A. Generally a utility provides service prior to receipt of payment from ratepayers (revenue lag), and there is also a delay in payment for goods and services purchased by the utility (expense lead). The calculation of the appropriate level of CWC is based on the number of days of revenue lag and of expense lead PGE experiences in a test year, as well as the dollar amounts for each. To determine lead/lag days, transactions for the year are sampled and analyzed. In PGE's study, PGE grouped these transactions into a six major groups: revenue, fuel, purchased power, labor, overhead and maintenance (O&M), and taxes.

Once the lead/lag days are determined, the annual dollars for each group are multiplied by the lead/lag days to calculate the "total dollar days." The total revenue lag is calculated by dividing the total dollar days by the "annual dollars." The same is true for the total expense lead. The difference between the revenue days and expense days is divided by 365 days in the year to determine the lead/lag factor. This factor is multiplied by the total O&M expense to estimate the cash working capital.[6]

Q. Please describe Staff's analysis of the Company's proposal for CWC and the related CWC factor.

A. Staff first compared the Company's proposed lead/lag factor of 4.063 percent against the lead/lag factor proposed in its last five general rate cases (GRCs) as shown below in Table B. In column three, Staff notes whether the lead/lag

[6] UE 335 PGE Initial Application – Work papers\Non-Confidential Work papers\ Work Papers_200_Non-Conf\Working Cash Factor 2019_Lead-Lag.xlsx.

factor proposed was the result of a new lead/lag study or based on an order from a prior docket.

Table B

Docket No.	Lead/Lag percent Proposed by PGE	New Lead/Lag Study	Final Order
UE 215	3.902	Yes	3.902
UE 262	3.980	Yes	3.700
UE 283	3.700	No. UE 262	3.700
UE 294	3.628	Yes	3.628
UE 319	3.628	No. UE 294	3.628
UE 335	4.063	Yes	n/a

Q. Did the Company conduct any other lead/lag studies during this time period?

A. Staff is aware of two other studies. PGE engaged an outside consulting firm to perform a lead/lag study in order to comply with Order No. 14-422 in Docket No. UE 283. Staff accepted this study for the purpose of compliance with the order but did not agree with a few of the components included in the study. After reviewing the study with the consultant and PGE staff, Staff was agreeable to PGE's plan to use the consultant's computation for the lead/lag days in its next rate case and the Company's existing methodology for the components included in the study. This hybrid methodology of PGE's components and the consultant's calculated lead/lag days for those components was the basis for the study filed in Docket No. UE 294. Based on this study, the Company proposed a CWC factor of 3.628 percent.

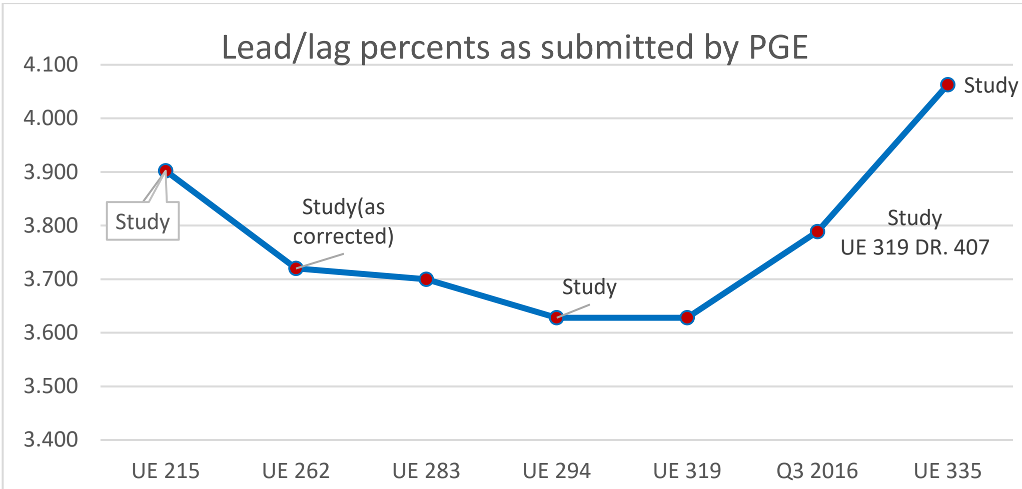
Q. Please explain the second study.

A. Staff was alerted to the second study in the Company's response to Staff DR No. 407 in Docket No. UE 319. According to the Company's response, the lead/lag study was updated in the third quarter of 2016 and resulted in a CWC factor of 3.789 percent. The Company explained that it decided to use the CWC factor of 3.628 percent approved in Docket No. UE 294 since the 3.789 percent was not appreciably different.

Q. Based on this review does Staff believe PGE's proposed CWC factor of 4.063 percent is reasonable?

A. Staff graphed the data points listed in Table B above. In Chart A below, Staff graphed the lead/lag factors PGE proposed in its current docket and the five prior dockets. Additionally, Staff included the factor for the second study mentioned above that was not used in UE 319. As shown in Chart A, it appears to Staff that the 4.063 percent is out of the norm compared to the studies PGE filed in its last five rate cases. In Chart A, please note that the second data point is corrected. PGE had made a calculation error in its filed study. The filed factor was corrected from 3.980 percent to 3.720 percent, and then adjusted once more per the stipulation to 3.700 percent to reflect Staff's premise that the Fee-Free Bankcard program would improve the lead/lag days for bill collection.

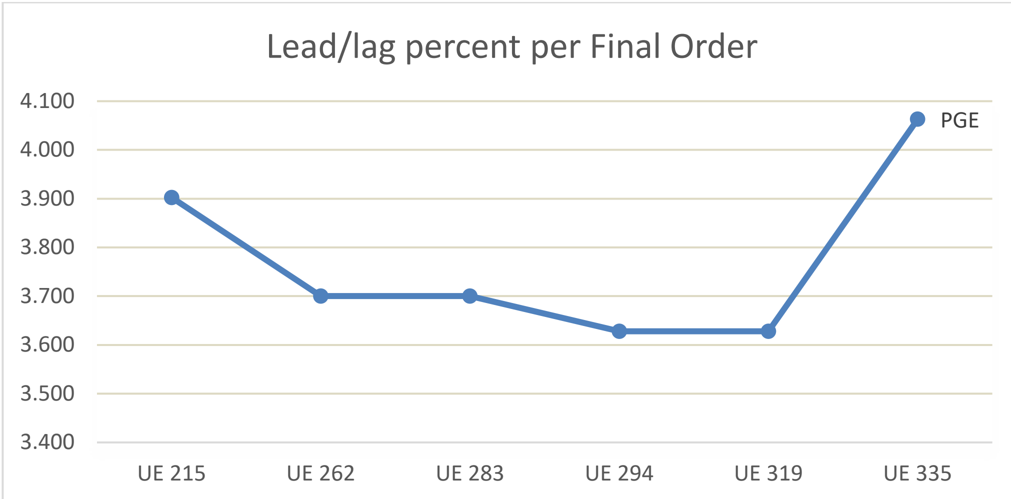
<u>Chart A</u>



Q. How does the proposed factor of 4.063 compare to the CWC factor used to calculate the final revenue requirement in the prior five general rate cases?

A. As shown in Chart B below, the only data point that is slightly different from PGE's filed CWC factor is in Docket No. UE 262, 3.700 versus 3.720, respectively. In UE 262, The Company had originally filed a CWC of 3.720 percent. However, Staff discovered an error in the calculation of the revenue lag days and it was corrected to 3.700 percent. Staff has included PGE's proposed factor of 4.063 percent to once again illustrate that it appears inconsistent with the final factors utilized to calculate CWC in rate base for the five previous rate cases.

Chart B



Q. Has Staff asked the Company to explain why the most recent study provided in UE 335 results in a working cash factor of 4.06 percent, which is higher than those in prior rate cases?

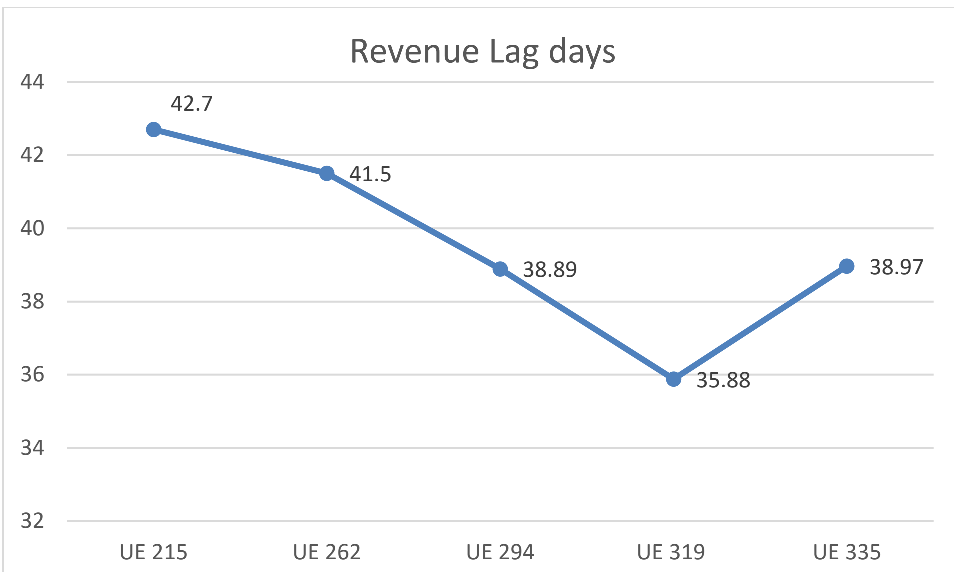
A. Yes. As the Company states in its response to Staff DR No. 312, "There are numerous differences that contribute to the higher working cash factor in UE 335 from prior years' calculations as the working capital requirements for PGE's business changes every year." The Company goes on to specifically discuss three of its defined six groupings: Revenue, Labor, and Misc. O&M expenses. Please note, in its response the Company includes the data for the study prepared for Docket No. UE 319 that was not actually used in its filed case for that case.[7]

The Company points out in its reply, "Lag days for revenue had a very large effect on the overall working cash factor due to the large dollar weighting of the

[7] Staff/402, PGE Response to Staff DR No. DR 312.

element. The lag days increased from 35.88 to 38.97, or just over three days. This increases revenue lag and increases the working cash factor for the current test year. Although this is a large increase from the UE 319 calculation, historically it is in line with prior year's revenue lag days." To test this assertion, Staff graphed the revenue lag days provided by the Company as shown below in Chart C and notes that it appears that the lag days were declining but in the UE 335 study, revenue lag days spike up.

Chart C



Q. What could be some plausible reasons for the decrease in revenue lag days?

A. Staff believes that the improvement in the Company's financial software system upgraded as part of its Vision 2020 program would increase the speed of accounting staff's transaction processing. Secondly, Staff believes acceptance of digital technology by the public in general has implications relevant to customer behavior. For instance, more customers are using electronic means such as auto-pay to pay bills, facilitating a faster transfer of cash. This allows the company access to cash sooner. Specific to PGE customers, Staff believes that the Fee-Free Bankcard program has also improved payment times and reduced delays due to late payments and uncollectible accounts.

Q. What does Staff believe is an explanation for the increase in revenue lag days in the Docket No. UE 335 study?

A. Since PGE did not provide a rationale, Staff believes that it may be an anomaly and does not represent PGE's on-going operations.

Q. As PGE noted, revenue lag has a large impact on the final CWC factor as it is a heavily weighted element. What is the impact to the CWC factor PGE proposes in this case if the lag days calculated in Docket No. UE 319 replace the lag days in the Docket No. UE 335 study?

A. The result is to reduce the lead/lag factor from 4.063 percent to 3.216 percent.

Q. What rationales does the Company describe for the decrease in expense lead days?

A. The Company based its explanation on two changes for two of the five expense groupings; labor expense and O&M expense. The Company explained that labor expense lead days have decreased because of shortened bank processing days and an increase in the number of employees requesting direct bank deposit paychecks. O&M lead days have decreased because the Company is paying vendors faster than in the prior two studies.

Q. Does Staff have any comment regarding these explanations?

A. Both explanations seem to be plausible. One observation Staff has is that companies usually do not pay vendors sooner than the payment terms unless the company receives a discount or other type of incentive. On the other hand, with the improvements in technology, vendors are probably able to bank the payments quicker. However, the dollars associated with the alleged changes to timing for these two expense groupings are only $522 thousand of the total $1.348 million of expenses, or 39 percent.

Q. What is Staff's recommendation?

A. Staff recommends averaging the CWC factors calculated in Docket Nos. UE 294, UE 319, and UE 335 because these studies are the most recent and are based on the same methodology. This results in an average CWC factor of 3.827 percent. Staff proposes applying this factor to the final O&M expense as presented in the final ordered revenue requirement. Staff's recommendation is based on the following considerations:

- The CWC factor for the test year forecasts cash working capital in rate base not for a single year but for the period of time rates are in effect;
- As demonstrated, the revenue lag has a large impact on the CWC factor; and,
- Both the revenue lag days and the UE 335 factor appear to be anomalous as compared to the prior studies.

Q. What is Staff's recommendation?

A. Staff's recommendation is to apply the average CWC factor of 3.827 percent to the final O&M expenses included in the Commission final order. Based on

Staff's opening testimony, Staff proposed test year O&M expenses are $1.419 million. Applying the 3.827 percent CWC to O&M expenses of $1.419 results in CWC in rate base of $57.067 million; a reduction to the Company's test year CWC in rate base of ($6.105) million.

ISSUE 2. BOARD OF DIRECTOR FEES

Q. Please provide a summary of the Company's filed proposal for Board of Directors (BOD) Fees.

A. The Company did not provide any testimony regarding the BOD fees included in the test year revenue requirement. However, in its response to Staff SDR No. 62 it provided the 2018 budget and the 2019 test year.[8] The total for each year is $1,288,900 and $1,321,638, respectively. The Company explained that no officer of the Company received BOD compensation and that BOD compensation includes a grant of restricted stock units (RSUs). For 2017, directors active for the entire year each received 1,945 RSUs.

Q. Please explain the Commission's historical treatment of BOD Fees.

A. The Commission disallows expense for BOD compensation paid to Company officers. Also some expenses are disallowed in whole or in part whether the director is an officer or not. These expenses are for things such as meals and entertainment; incentive pay, e.g. RSUs; awards, gifts; and non-business related expenses.

Q. Please describe Staff's analysis of the test year BOD fees.

A. Staff asked the Company to provide actual 2017 costs at the FERC account and transactional level. Staff also requested the 2018 budget and 2019 test year by FERC account and asked the Company to explain certain cost increases from the 2018 budget. Staff compared the 2017 actuals to the 2018

[8] Staff/402, PGE's Response to Staff DR No. 62.

budget and 2019 test year. Staff found that, while the 2018 budget increased by only 2.45 percent to the 2019 test year, the 2019 test year is 20 percent higher than 2017 actuals.

Q. Did the Company justify the increases to the 2019 test year?

A. The Company explained the 2.45 percent escalator applied to the 2018 budget was the same percentage used to escalate employee expenses to the test year. The Company explained the increase to director compensation as follows:

> The primary drivers behind the increase in Director compensation for 2019 is three-fold. First, there are several directors that will be nearing or reaching the mandatory retirement age in 2019. Second to attract the skill and talent at the board of director level to replace these retiring directors we need to provide competitive compensation. Third, and the most important of the drivers, is attracting and retaining directors with experience in industries that are going through transformation and those that are skilled at technology and cyber security as well as bringing more diversity to the Board.[9]

Q. Does Staff propose an adjustment to the 2019 test year expense related to the BOD?

A. Yes. Staff does not think it is reasonable to assume BOD expense will increase approximately 20 percent between from 2017 to 2019. Staff's proposed adjustment is based on a comparison of PGE's proposed expense for BOD compared to 2017 actual expense escalated to 2019 using the All-Urban CPI. Escalating 2017 actual expense to 2019 with the All-Urban CPI results in expense that is $180,843 less than what PGE includes in its test

[9] Staff/402, PGE Response to Staff DR No. 299.

year.[10] Accordingly, Staff proposes removing $180,843 from PGE's test year expense.

In addition, Staff proposes to remove from the Director compensation the amount included in the test year for RSUs. Staff believes this action is consistent with Commission precedent disallowing 100 percent of Officers' incentives from the test year. Staff has issued a DR asking the Company to provide the dollar amount of RSUs included in the test year. The response to this DR is still pending.

In addition, Staff witness Jeffrey Watson proposes removing expense for meals and entertainment, travel, awards and gifts for all employees and the BOD in his testimony.[11]

ISSUE 3. SALARIES, WAGES, INCENTIVES, AND FTE

Q. Please provide a summary of the Commission's historical treatment of wages, salaries, incentives, overtime expense, and full-time equivalents (FTEs).

A. The Commission typically uses Staff's three-year wage and salary model (W&S model) to estimate expenses for non-union wages and salaries.[12] As a starting point, Staffs model uses the utility's actual average wage and salary level as it existed three years prior to the test year.

[10] See Staff electronic workpaper, UE 335 Exhibit 400 Issue 2 BOD WP.xlsx.
[11] Staff/600, Watson/6-9.
[12] See e.g., *In the Matter of PacifiCorp*, OPUC Docket UE 116, Order No. 01-787 at 40 (September 7, 2001).

From there, Staff applies the annual changes to the All Urban CPI[13] to adjust wages and salaries for each of the three subsequent years to establish a forecast of test-year wage and salary level. If the utility's projected wage and salary level is within ten percent of Staffs projection, the difference between projections is shared between customers and shareholders. Outside the ten-percent band, shareholders keep all of the benefit or pay all the cost.

The W&S Model incorporates actual market-based data by using the All Urban CPI index to adjust historic wages and salaries.[14] Notably, local economic conditions are represented in the All-Urban CPI, as the Bureau of Labor Statistics includes prices in Oregon when it conducts its survey.[15]

The Commission has concluded that adjusting payroll levels by changes in inflation provides the employees the same real level of compensation as in the base year, and provides an incentive to companies to minimize labor costs.[16] Further, sharing the difference between the two payroll projections equally between ratepayers and shareholders also allows for some adjustments to reflect changes in market conditions without allowing unchecked escalation.[17]

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[13] See Order 01-787 at 40; *In the Matter of Northwest Natural*, OPUC Docket UG 132, Order No. 99-697 at 43 (November 12, 1999); *In the Matter of PGE*, OPUC Docket UE 102, Order 99-033 at 61 (January 27, 1999); *In the Matter of PGE*, OPUC Docket UE 88, Order No. 95-322 at10 (March 29, 1995).

[14] Id.

[15] Id.

[16] Order 01-787 at 40.

[17] Order No. 95-322 at 10.

Rather than using All-Urban CPI for union wages, the Commission in the past has ordered that union payroll increases be tied to negotiated wage increases as set forth in the union contract.[18] Staff applied this model to the information the Company provided in its filing and responses to Staff data requests.

For incentives, Commission policy is to disallow 100 percent of officers' bonuses, which are typically based on earnings.[19] It is also Commission policy to disallow 75 percent of performance-based bonuses (because they are generally focused on increased earnings and, therefore, bring more benefit to shareholders), and disallow 50 percent of merit-based bonuses (because they equally benefit shareholders and ratepayers). Union bonuses are treated in the same manner as non-union bonuses.[20]

Q. Please summarize PGE's proposal for wages, salaries, incentives, overtime expense, and FTEs in this case.

A. The Company includes in the test year approximately $281.540 million in wages and salaries, $13.026 million in incentive compensation, and $21.086 million in overtime.[21]

Q. How do the Company's adjustments to salaries, wages and incentives differ from those Staff typically makes in a general rate case?

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[18] See Order No. 99-697 at 43.

[19] See Order No. 99-033 at 62; *In the Matter of the Application of US West*, OPUC Docket UT 125, Order No. 97-171 at 74-76 (May 19, 1997).

[20] See Order 99-697 at 44-45; Order 99-033 at 62.

[21] These amounts are found in the Company's Excel spreadsheet, Total Compensation.xlsx, filed with Exhibit 400 electronic workpapers.

A. Staff explains the differences by each component of Staff's W&S model below.

Escalation

As explained in its testimony, PGE used rates of 3.50 percent and 4.00 percent derived from industry and marketing data to escalate its non-bargaining wages and salaries. The 2017 actuals were escalated by 3.50 percent to its 2018 budget year. The 2018 budget was then escalated by 4.00 percent for its 2019 test year. The Company escalated union wages in a similar manner using a rate of 2.5 percent and 3.00 percent for 2018 and 2019, respectively.[22]

Staff, consistent with Staff's W&S model, escalated the 2016 historical year to a projected 2018 using the All-Urban CPI (CPI).[23, 24] For union employees, Staff escalates based on the last contracted rate increase, which was provided by the Company in its response to Staff DR No. 94.[25] Accordingly Staff escalated 2016 to 2017 by 2.5 percent, 2017 to 2018 by 2.5 percent, and 2018 to 2019 by 3.0 percent. Staff then applied the sharing percentages to Staff's projected 2019 test year amounts.

If Staff's projection is less than the Company's test year amount, the sharing test allows the Company to share 50/50 the lesser of the difference between the Company's filed proposal and Staff's calculated projection, or a 10 percent band around Staff's calculated projection.[26] In this case, the Company's filed proposal was higher than Staff's calculated projection but the

[22] PGE/400, Mersereau-Neitzke/16.
[23] See Staff electronic workpaper, UE 335 Exhibit 400 W&S Issue 3 CONF-Gardner.xlsx.
[24] Staff/403, Escalation.
[25] Staff/403, Gardner, PGE Response to Staff DR No. 94.
[26] See Staff electronic workpaper, UE 335 Exhibit 400 W&S Issue 3 CONF-Gardner.xlsx.

variance was less than the ten percent band. Therefore, Staff's adjustment is 50 percent of the difference between the Company's proposal and Staff's projection.

Q. What is Staff's recommendation regarding the escalation of salaries and wages to include in the 2019 test year?

A. Staff recommends reducing the test year compensation as follows:

- Salaries and wages by ($3.649) million allocated as ($2.492) million O&M expense and ($1.157) million capital;
- Incentives by ($4.774) million allocated as ($3.119) million O&M expense and ($1.356) million capital; and,
- Related payroll taxes by ($2.055) million and depreciation expense by ($297) thousand.[27]

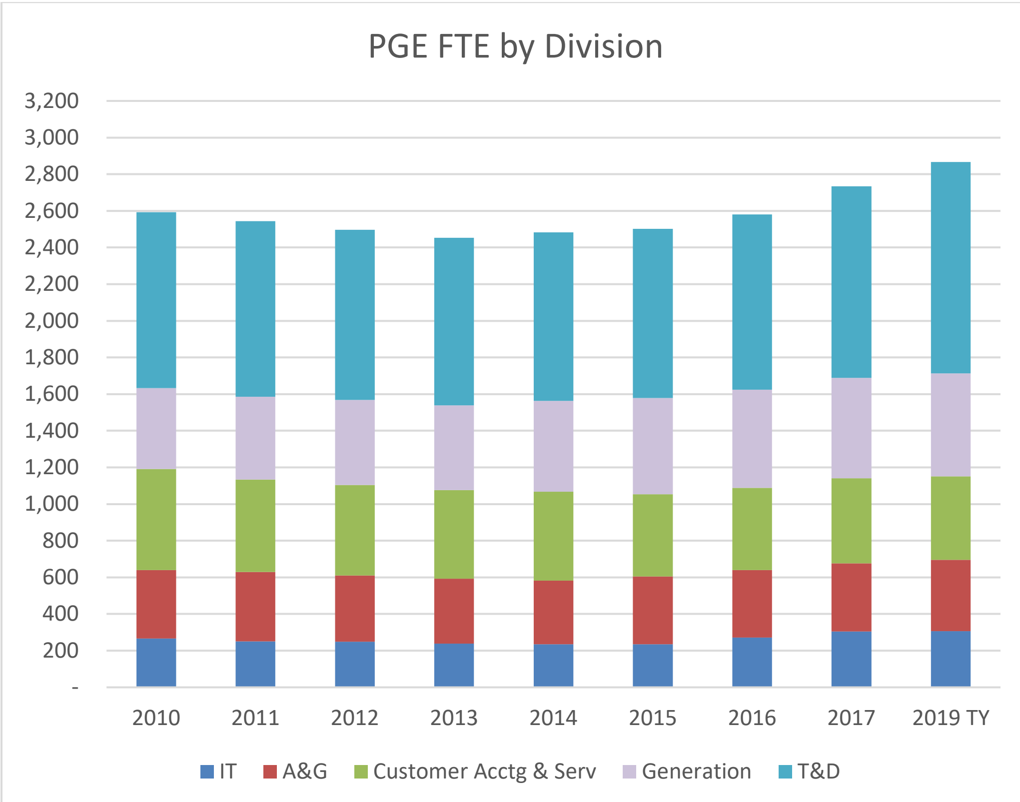
FTEs

Q. Please provide the background for this issue.

A. PGE's 2019 test year forecast includes costs of approximately 133 incremental FTEs over PGE's 2017 actual FTE count,[28] which is approximately a five percent increase in its workforce. The 2019 FTE forecast represents an increase of approximately 366 FTE or 13.4 percent over PGE's 2015 actual FTE count. The growth in PGE's FTE since 2010 is shown in the Chart D below.

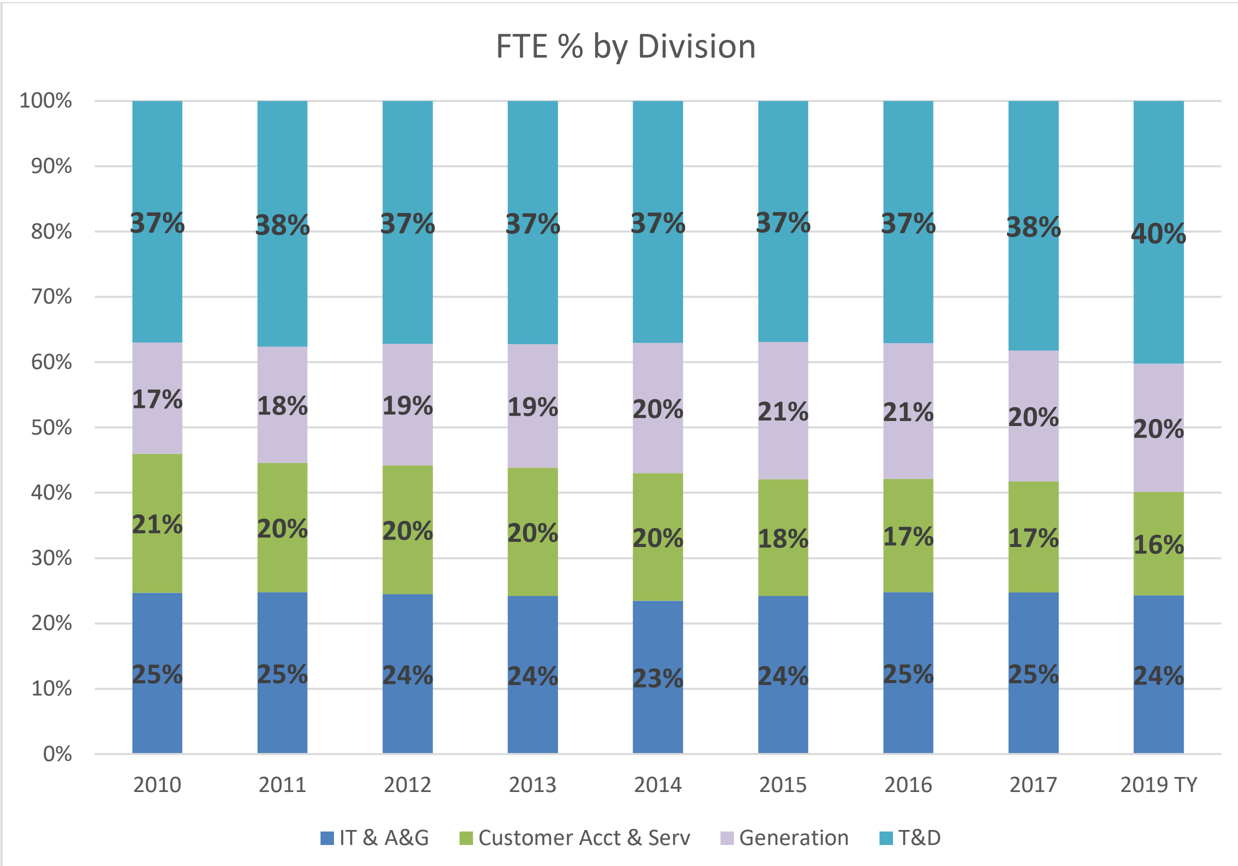
[27] Ibid.
[28] PGE/400, Mersereau-Neitzke/12.

Chart D



The concentration of FTE by Division is illustrated in Chart E below. As can be seen in the chart the percentage of T&D and Generation have grown a few percentage points over time while the support functions of A&G, IT, Customer Service, and Customer Accounting have gone down by a few percentage points.

Chart E



According to testimony, PGE plans to distribute the new FTEs as follows:

- A&G 17.2
- IT 2.4
- Cust Svc/Accts -9.4
- Generation 13.5
- T&D 109.2[29]

Q. Why is Staff concerned about the FTE increase?

A. Staff's concern is similar to that expressed in its testimony in Docket No. UE 319 when PGE proposed growing its FTE by 270 FTE from 2016 to its 2018 test year.[30] This does not include the 38 FTE accounted for in the CET

[29] PGE/400, Mersereau-Neitzke/13.
[30] UE 319 Staff/400, Gardner/37 at 15-19 and /38 at 1-23.

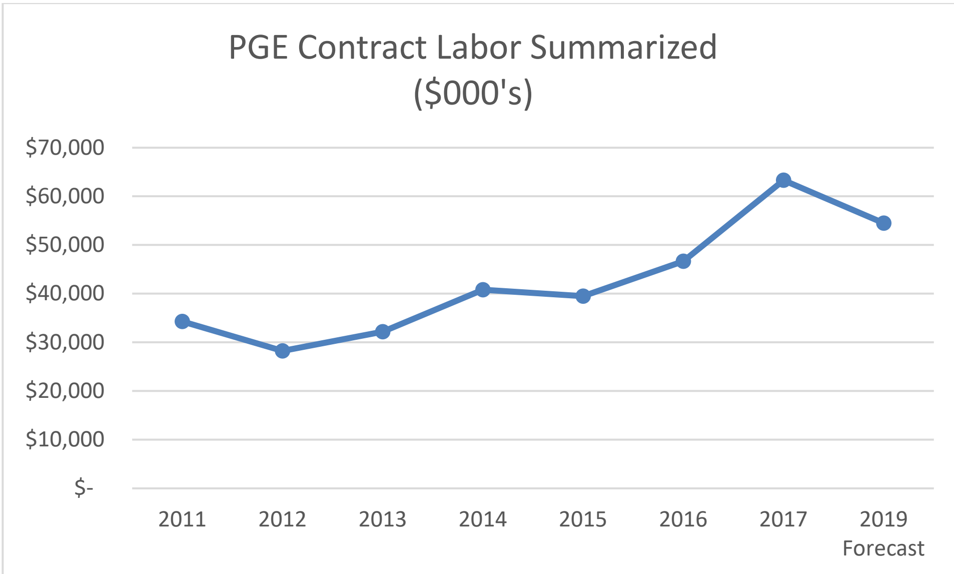
deferral. Staff finds this concerning because PGE has touted in testimony that it has implemented lean concepts and new systems that, among other benefits, have resulted in efficiencies.[31] For example, PGE states, “FSRP, in conjunction with Lean process analysis, allowed for Finance and Accounting (F&A) to realize efficiencies through a net reduction of approximately 11 Full Time Equivalents (FTE) through 2012 and another 4.3 FTEs by 2014.”[32] However, from 2014 to 2017 PGE has added 24 FTE back to A&G and has proposed in this docket to add another 17 FTE from 2017 to the 2019 test year. A continuing pattern Staff has observed in PGE’s prior two rate cases, Docket Nos. UE 294 and UE 319, and now in Docket No. UE 335 is that PGE adds and then reshuffles employees between divisions as its initiatives/projects like the CET end and others like the Cybersecurity start. So the net effect is that overall FTE grows but promised labor efficiencies fail to materialize.

Q. Has the increase in payroll costs been offset by a reduction in contractor costs?

A. No. Although PGE has testified that it is capitalizing more of its payroll costs because PGE’s own FTE are supplanting contract labor, the actual contractor costs does not bear this assertion out.

[31] PGE /102, Pope – Lobdell/1.
[32] PGE/102, Pope – Lobdell/2.

Chart F

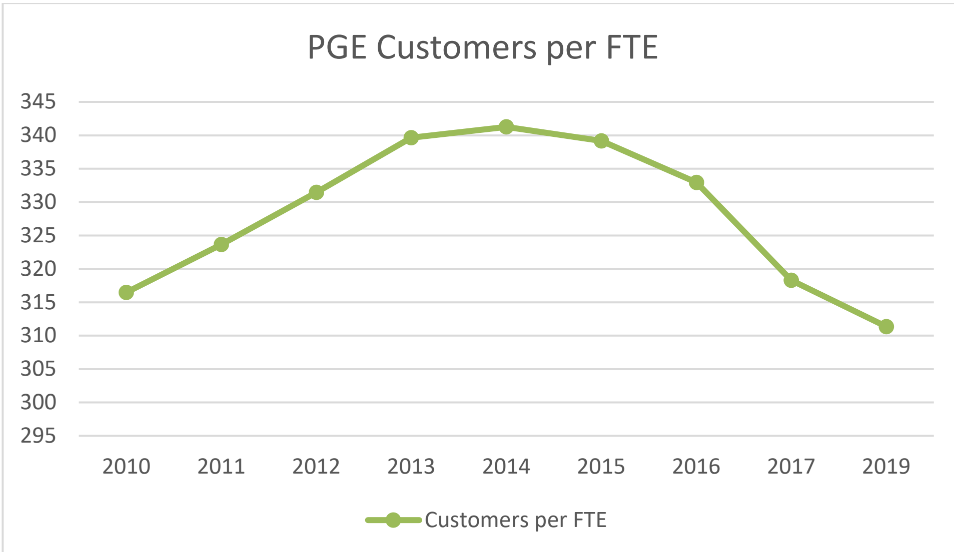


Q. What is the impact on customers?

A. Besides bearing the payroll costs, benefits, and other costs associated with additional FTE, customers have had to shoulder the O&M and capital costs of these projects and are not benefiting by a decrease in rates.[33,34] Also, as shown in Chart G, customer growth is not supporting the growth in FTE.

[33] Staff/800, Kaufman/21.
[34] Staff/800, Kaufman/29.

Chart G



Q. Besides being over-staffed on a per customer basis, does PGE have a history of over-budgeting?

A. Yes. In Docket No. UE 319, PGE budgeted 2789.8 FTE for 2017 but 2017 actuals are 2734.6 FTE or 55 less than budget.

Q. Does Staff propose an adjustment to the proposed 2019 test year FTE?

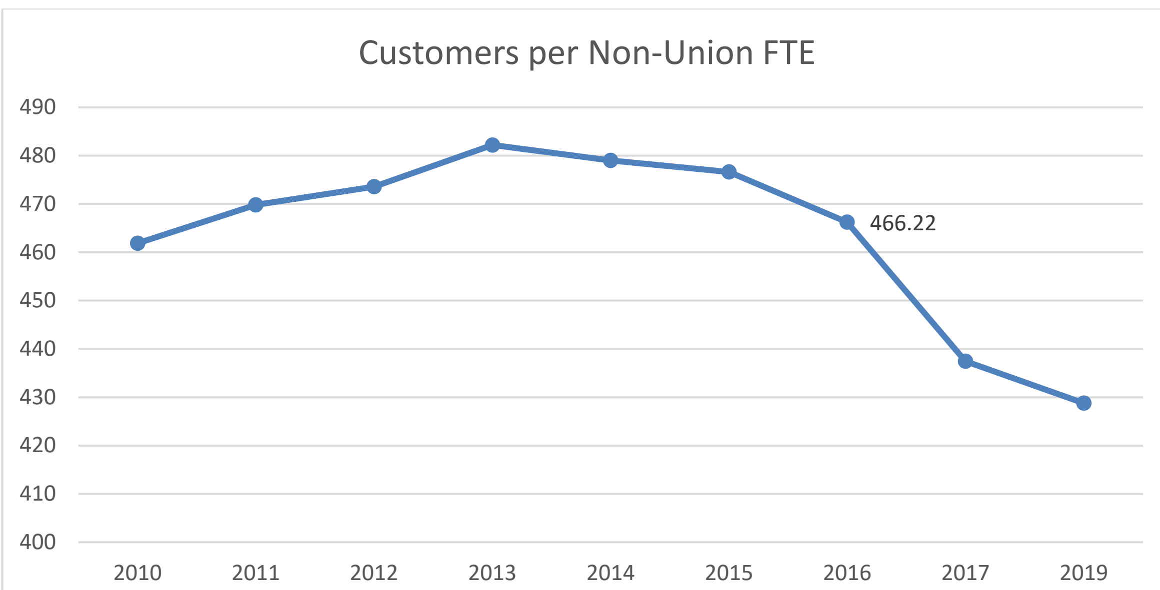
A. Yes. Staff did not identify specific job duties or assignments and propose an adjustment to FTE based on an evaluation of those positions. Rather, Staff is estimating a reasonable level of FTE. Using an estimate to adjust FTE levels rather than incrementally determining whether a particular position is essential is a method adopted by the Commission in PGE's 2009 GRC in Docket No. UE 197:

> We reject PGE's proposed incremental approach to calculating test-year FTEs. To do a proper analysis, we would have to evaluate all 2,600-plus positions in the Company and not just the incremental positions PGE proposes to add. We will not take the existing positions as a given without such an analysis. Nor do we find such an analysis practical or

> good policy. We adopt Staff's approach applying the historical growth rate in workforce levels. Ultimately, the Company may choose to hire whatever staff or fill whatever positions it feels is necessary.[35]

Staff has chosen to use a methodology consistent with the Commission's 2009 order in PGE's GRC. Staff recommends that the non-union work force should be limited to levels forecasted as a function of customers per FTE. Staff calculated the customers to non-union FTE from 2010 through the 2019 forecast. Staff graphed this data and has presented it in Chart H below. Staff also calculated the total average of customers to non-union FTE for this same period. This results in an average of 464 customers per FTE.

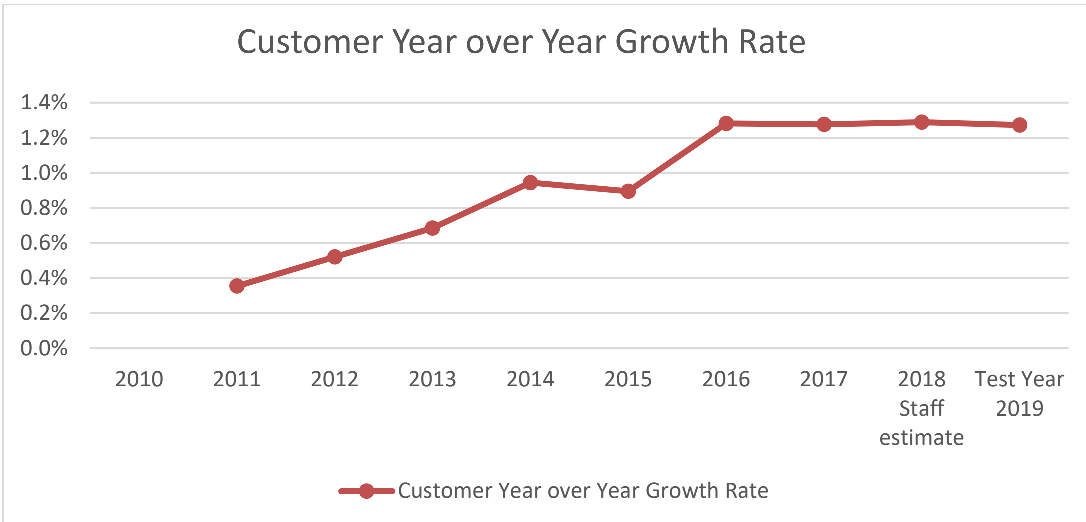
Chart H



[35] *In the Matter of Portland General Electric*, OPUC Docket UE 197, Order No. 09-020 at 6-7 (January 22, 2009).

Staff also notes in Chart I that from 2016 through 2019, the year over year customer growth has stayed flat at approximately 1.28 percent.[36]

Chart I



Based on reviewing Chart H, Staff believes that the 2016 customer per non-union ratio of 466 is representative for the trend from 2010 through 2016. As can be seen, the addition of FTE in 2016 causes the ratio of customers to non-union FTE to drop significantly to 428 customers per non-union FTE in the test year. Therefore, Staff proposes to adjust the non-union FTE of 2,082.3 for the test year back to the 2016 level of non-union FTE of 1,843.3. This results in a proposed reduction of 238.9 FTE.

With regards to union employees, Staff proposes to limit FTE levels to actual levels at a specified date.[37] For union employees, Staff proposes to limit

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[36] See Staff electronic workpaper, UE 335 Exhibit 400 W&S Issue 3 – Gardner.xlsx,
[37] Order No. 01-787 at 41-42.

the FTE to those employed as of October 31, 2018 as long as this count does not exceed the number of union FTE proposed by the Company for the test year. Since the number of FTE at October 31, 2018 is yet unknown, it is not included in Staff's calculation. However, Staff reserves the right to calculate an adjustment for union FTE.

Q. What is the amount of the adjustment that Staff has calculated for opening testimony?

A. Staff recommends distributing the proposed reduction of 238.9 FTE pro-rata between Exempt and Non-exempt employees[38] based on the 2019 test year. This results in a reduction of ($33.845) million dollars allocated ($23.924) million and ($9.921) million between O&M and capital, respectively.

Q. Does this conclude your testimony?

A. Yes.

[38] The most significant difference between Exempt and Non-exempt employees is pay for overtime. Exempt employees are usually excluded from minimum wage and are not entitled to overtime pay. Non-exempt employees are usually paid minimum wage and entitled to overtime pay. Regulations that govern Exempt and Non-exempt classifications and overtime pay are set in Federal and state law.