

**Table of Contents**

**I. Introduction..... 1**

**II. Major Cost Increases by A&G Function..... 4**

    A. FTEs..... 4

    B. Benefits ..... 4

    C. Insurance..... 5

    D. Research and Development..... 12

    E. Environmental Services ..... 15

**III. Other A&G Costs..... 17**

    A. Membership Costs ..... 17

    B. Information Technology ..... 18

**List of Exhibits ..... 20**

**I. Introduction**

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

2 A. My name is Maria Pope. I am the Senior Vice President, Finance, Chief Financial Officer,  
3 and Treasurer at PGE. My qualifications appear in PGE Exhibit 200.

4 My name is Alex Tooman. I am a Project Manager for Regulatory Affairs at PGE. My  
5 qualifications appear in PGE Exhibit 300.

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

7 A. We explain PGE's request for \$126.2 million in administrative and general (A&G) costs in  
8 2011 and compare it to 2008 actuals of \$118.5 million.

9 **Q. What functions are classified as A&G and what are the costs of those functions?**

10 A. We classify as A&G those functions that support PGE's direct operations, such as human  
11 resources, accounting and finance, insurance, contract services and purchasing, corporate  
12 security, regulatory affairs, legal services, and information technology (IT). We also include  
13 other costs such as employee benefits and incentives, support services, and regulatory fees  
14 that fall within the FERC definition of A&G. PGE Exhibit 1001 provides a list of A&G  
15 functions plus a summary of costs and full time equivalent (FTE) employees for 2006  
16 (actuals) through the 2011 (test year forecast). Table 1 below summarizes the major A&G  
17 costs by functional area.

**Table 1**  
**A&G Costs by Major Functional Area (\$ million)**

<b>Major Functional Areas</b>	<b>2008 Actuals</b>	<b>2011 Forecast</b>	<b>Annual Average % Change</b>
Facilities/General Plant Maintenance	10.7	11.0	1.0%
Accounting/Finance	7.9	8.8	3.7%
HR/Employee Support/Ethics and Compliance	7.6	5.9	-7.8%
Insurance, Injuries and Damages, etc.	11.9	10.5	-3.9%
Legal	7.4	7.7	1.3%
Federal and State Regulatory Affairs	2.4	2.5	2.1%
Corporate Governance	3.1	3.4	2.5%
Business Support Services	2.1	2.5	4.7%
Environmental Programs	1.1	1.6	15.6%
Corporate R&D	0.2	0.8	49.0%
Contract Services/Purchasing	1.1	1.1	1.4%
Security and Business Continuity	1.3	1.5	4.5%
Corp Communications/Public Affairs	2.1	1.9	-3.2%
Load Research	0.2	0.2	7.4%
Hydro Licensing	0.5	0.5	0.5%
Performance Management <sup>1</sup>	1.1	1.2	1.9%
Governmental Affairs	1.1	1.3	6.9%
<b>Total for Major Functional Areas</b>	<b>61.5</b>	<b>62.3</b>	<b>0.4%</b>
IT: Direct & Allocated	7.6	11.9	16.3%
Labor Cost Adjustment	0.0	(2.5)	N/A
Other Service Providers to A&G	0.4	0.4	2.8%
Benefits (net of capital allocs.)	29.9	43.7	13.6%
PTO Loadings to A&G	4.2	4.6	3.3%
Incentive Plans (net of capital allocs.)	15.5	5.9	(27.7%)
Other Membership Costs	1.5	2.1	5.4%
Miscellaneous	0.1	0.2	23.2%
<b>Total Other A&amp;G Costs</b>	<b>59.0</b>	<b>66.3</b>	<b>3.9%</b>
<b>Regulatory Fees</b>	<b>6.3</b>	<b>7.4</b>	<b>5.4%</b>
Capitalized A&G	(6.5)	(7.6)	5.4%
Duplicate Charge Offset	(1.9)	(2.1)	3.6%
<b>Total A&amp;G</b>	<b>118.5</b>	<b>126.2</b>	<b>2.1%</b>

- 1 **Q. Table 1 shows A&G expenses have increased by approximately \$7.7 million from 2008**  
2 **to 2011. What are the main reasons for this increase?**
- 3 A. There are six primary reasons for the higher costs in 2011:
- 4 • Increasing benefit costs (discussed in PGE Exhibit 500);

<sup>1</sup> Actual costs normalized to reflect shift from Customer Accounting and Distribution to A&G with no change to PGE's corporate costs.

- 1           • Higher insurance costs and retained losses;
- 2           • New projects for research and development;
- 3           • Increasing membership costs for PGE’s participation in the Western Electricity
- 4           Coordinating Council (WECC);
- 5           • Increasing requirements for environmental services; and
- 6           • Higher levels of IT costs.

7   **Q. How would you characterize the forecasted increase in A&G costs from 2008 to 2011?**

8   A. On the whole, if health care costs are removed, the increase is very limited. For A&G  
9   functional areas, the average annual rate of increase is only 0.4%, which is less than the rate  
10   of inflation. For other A&G costs, the increase is somewhat larger due to cyber security and  
11   IT systems replacement requirements, but is overwhelmingly driven by higher health care  
12   costs.

13   **Q. How is your testimony organized?**

14   A. In the next section, we discuss the major cost drivers by A&G function. We then provide  
15   detail regarding increases in other A&G costs, particularly the WECC membership and IT.

## II. Major Cost Increases by A&G Function

### A. FTEs

1 **Q. Do you have any increases associated with new employees?**

2 A. Yes, but the increase is minimal. As discussed in Section II of PGE Exhibit 500, we have  
3 significantly limited the increase in FTE positions as reflected in the 2011 test year forecast.  
4 Overall, PGE's net change in FTEs from 2008 to 2011 is a reduction of 82.7 FTEs.  
5 However, if we remove the effects of PGE's Advance Metering Infrastructure (AMI)  
6 program, then there is an increase of 33.5 FTEs. The overall effect on PGE is a forecasted  
7 0.45% annual increase from 2008 to 2011 (with AMI normalized). For A&G specifically  
8 (not including IT, which is discussed in PGE Exhibit 600), we forecast an increase of only  
9 3.3 FTEs, which represents a 0.32% annual average increase.

### B. Benefits

10 **Q. By how much do you forecast benefit costs to increase from 2008 to 2011?**

11 A. The increase in benefit costs from 2008 to 2011 is approximately \$13.9 million and includes  
12 such items as health and dental plans, 401(k) plan, workers' compensation, and employee  
13 life and disability insurance.

14 **Q. How do you explain this increase?**

15 A. The wage, incentive, and benefits-related costs are discussed in detail in PGE Exhibit 500,  
16 which explains how they are affected by increases in medical, pension, and compensation  
17 costs necessary for PGE to remain competitive in a labor market for specialized and  
18 qualified applicants. The benefit amounts in Table 1 represent the "net" changes within  
19 A&G only, as compared to the gross costs applicable to corporate PGE. Net A&G refers to  
20 the amount remaining in A&G after labor loadings apply certain amounts of these costs to

1 capital projects and “below-the-line” activities. PGE Exhibit 500 explains the gross  
2 corporate forecast for these costs.

**C. Insurance**

3 **Q. What types of insurance coverage does PGE maintain?**

4 A. PGE maintains several types of insurance coverage, which we list and describe in PGE  
5 Exhibits 1002 (confidential) and 1003. In general, there are three types of insurance:  
6 Property, Liability, and Miscellaneous. We also discuss retained losses.

7 **Q. What is PGE’s forecast of insurance premiums for 2011?**

8 A. As shown in Table 2 below, insurance premium costs are expected to be \$9.6 million in  
9 2011, increasing from \$8.5 million in 2008. The primary drivers of the increases are  
10 property and liability coverage. The 7% increase in property premiums is due to an increase  
11 in PGE’s Total Insured Value (TIV), capital additions, and increases in premium rates. The  
12 liability program is expected to see rate increases affecting PGE’s general liability, directors  
13 and officers liability (D&O), and fiduciary liability coverage.

**Table 2**  
**Insurance Premiums (\$ millions)**

<b><u>Type of Policy</u></b>	<b><u>2008</u></b>	<b><u>2011</u></b>	<b><u>Annual Average % Increase</u></b>
Property	\$4.4	\$4.7	2.2%
Liability	\$3.9	\$4.6	5.7%
Miscellaneous	\$0.22	\$0.28	8.4%
<b>Total</b>	<b>\$8.5</b>	<b>\$9.6</b>	<b>4.1%</b>

14 **Q. What is PGE’s forecast of retained losses for 2011?**

15 A. PGE’s retained losses increase \$0.7 million from 2008 to 2011. Auto and General Liability  
16 retained losses account for most of that increase.

Table 3  
Retained Losses (\$ millions)

<u>Type of Loss</u>	<u>2008</u>	<u>2011</u>	<u>Annual Average % Increase</u>
Workers' Compensation	\$1.8	\$1.9	1.8%
Auto & General Liability	\$1.2	\$1.7	12.3%
<b>Total</b>	<b>\$3.0</b>	<b>\$3.6</b>	<b>6.3%</b>

1 We discuss retained losses in more detail below.

*PGE's Insurance Policies*

2 **Q. How does PGE determine the appropriate amount of coverage limits?**

3 A. In general, PGE purchases insurance to provide adequate financial protection from loss  
4 exposures that otherwise could result in an adverse material effect on PGE's results of  
5 operations. For certain lines of coverage, limit requirements are determined by regulatory  
6 bodies. PGE also consults with insurance brokers and other subject-matter experts  
7 concerning appropriate limits. Benchmarking studies and utility peer group comparisons are  
8 reviewed to ensure that PGE's practices for purchasing insurance are consistent with utility  
9 industry practice.

10 **Q. How does PGE structure its coverage limits for the various types of insurance**  
11 **purchased?**

12 A. Within the utility industry, the ability to sufficiently insure a loss exposure often requires  
13 capacity that is beyond the underwriting ability of a single insurer. To acquire adequate  
14 coverage limits and diversify exposure (so as to not excessively rely on any one carrier), an  
15 insurance structure is assembled whereby the primary insurer provides specific coverage  
16 terms and capacity limits, however, less than that needed. Additional insurers provide  
17 supplemental capacity limits that are in "excess" of the primary layer while still following  
18 the form (basic terms and conditions) of the primary layer. In this context the term "excess"

1 denotes that the layer is supplemental to and attaches to the underlying layer to form a single  
2 cohesive insurance program. In structuring coverage this way, PGE is able to secure the  
3 adequate level of insurance capacity needed to protect against the adverse effects of severe  
4 losses with competitive pricing, as well as to diversify exposure to any one carrier.

5 **Q. How does PGE forecast its insurance premium costs?**

6 A. PGE bases its estimates on the most recent data for its insurance program, adjusted to  
7 account for:

- 8 • Amount and type of property or potential losses;
- 9 • Trends in insurance pricing and capacity provided by insurers, insurance brokers,  
10 consultants, and industry analysts;
- 11 • Changes expected in its various insurance programs in the coming years, such as  
12 increases or decreases in limits purchased, or property being added (such as  
13 Biglow Canyon Wind Farm) or retired, inflationary indexing of existing property  
14 base; and
- 15 • PGE-specific considerations, such as the frequency and severity of claims, which  
16 might have an impact on future premium expenses.

*Current Trends*

17 **Q. What are the current trends in the insurance industry?**

18 A. The overall insurance market in 2009 has remained relatively stable with prices moderating  
19 on certain lines of coverage while other lines remained flat. However, there are other trends  
20 related to specific lines of insurance coverage, such as property insurance, general liability,  
21 and D&O liability.

22 **Q. Please discuss the trends in the area of property insurance.**

1 A. The property insurance market experienced increases during the first half of 2009, with rates  
2 increasing on average approximately 5%.<sup>2</sup>

3 **Q. What are the trends for general liability insurance?**

4 A. The overall market for general liability insurance has experienced minimal increases in  
5 premiums. However, utilities have experienced general liability premium increases,  
6 generally in the range of 10% to 30%.<sup>3</sup> These increases have been driven primarily by  
7 catastrophic utility industry losses (e.g., California wildfire losses, the Tennessee Valley  
8 Authority coal ash spill, and Missouri's Taum Sauk dam breach) that have created a  
9 perceived increase in risk profiles by many insurance underwriters.

10 **Q. What are the trends for D&O liability insurance?**

11 A. Outside the financial services sector, D&O coverage has remained competitive with broad  
12 terms and conditions, stable capacity, and relatively flat rates.

### *Property Insurance*

13 **Q. You noted above that there was a general trend of insurance rates increasing  
14 approximately 5%. Does this trend explain the increase in property insurance costs?**

15 A. Yes, but only partially. As seen in Table 4 below, PGE's overall property insurance<sup>4</sup>  
16 premiums are forecasted to increase by approximately \$0.3 million from 2008 to 2011  
17 because PGE did not elect to purchase property insurance for its transmission and  
18 distribution system in 2011, as we discuss below. We are seeking an alternative recovery  
19 mechanism for recovery of storm-related damages to transmission and distribution property  
20 in 2011.

---

<sup>2</sup> Willis, Marketplace Realities & Risk Management Solutions 2010.

<sup>3</sup> Marsh, U.S. Insurance-Market Report 2009.

<sup>4</sup> Property insurance is comprised of All-Risk, Biglow Operational Risk and Biglow Builder's Risk, Crime, and T&D.

**Table 4**  
**Property Insurance Premium Increase**  
 (\$ millions)

	<u>2008</u>	<u>2011</u>	<u>Annual Average</u> <u>% Increase</u>
All-Risk	\$2.1	\$3.4	17.1%
Biglow *	0.7	1.3	21.0%
Crime	0.06	0.03	(19.2)%
T&D (storms)	1.5	0.0	100.0%
<b>TOTAL</b>	<b>\$4.4</b>	<b>\$4.7</b>	<b>2.3%</b>

\* Includes Operational Risk and Builder's Risk

1 As seen in Table 4 above, the All-Risk total premiums increase \$1.3 million from 2008  
 2 to 2011. This increase is due to premium increases of 13.6% and total insured value  
 3 increases (TIV, i.e., plant additions and asset valuation) of approximately 25% from 2008 to  
 4 2011. The Biglow Canyon Wind Farm premium increased \$0.56 million due to an increase  
 5 of approximately \$738 million in TIV.<sup>5</sup>

6 **Q. Please explain why PGE is not purchasing insurance for its transmission and**  
 7 **distribution property in 2011.**

8 A. Renewing or purchasing insurance for physical loss and damage to transmission and  
 9 distribution property (poles and conductor) is not economic at this time. PGE's current  
 10 insurance policy will end October 31, 2010. However, after the winter storm in December  
 11 2008, PGE exhausted the maximum amount of insurance recovery under the policy.  
 12 Therefore, there are no further insurance proceeds on the policy if another insurable storm  
 13 event occurs. Additionally, PGE was unable to acquire replacement coverage with similar  
 14 terms and conditions. Consequently, PGE has chosen to seek an adjustment mechanism  
 15 which we discuss in PGE Exhibit 800.

***General Liability***

16 **Q. Please describe the premium increases in PGE's liability coverage.**

<sup>5</sup> Phase 2 was in service August 2009 and Phase 3 will be in service September 2010.

1 A. General liability insurance covers PGE’s liability from claims resulting from bodily injury  
2 or property damage arising out of PGE’s operations, including the use of company vehicles.  
3 Given PGE’s contact with its customers’ premises and the dangerous nature of its  
4 operations, this insurance is of paramount importance. Premiums in PGE’s general liability  
5 program are expected to increase overall by 18% from 2008 levels, driven primarily by the  
6 increase in excess liability coverage. As we note above, this increase is primarily due to  
7 recent catastrophic losses experienced in the utility industry that are now manifesting  
8 themselves in increased premiums as insurers seek to recover their losses by increasing their  
9 rates on existing accounts.

**Table 5**  
**General Liability Premium Increase**  
**(\$ millions)**

<u>Coverage</u>	<u>2008</u>	<u>2011</u>	<u>Average % Increase</u>
D&O	\$1.5	\$1.6	2.2%
Fiduciary	0.1	0.1	1.0%
Excess Liability	1.8	2.1	5.3%
Miscellaneous *	0.4	0.7	20.5%
<b>Total</b>	<b>\$3.9</b>	<b>\$4.6</b>	<b>5.7%</b>

\* Miscellaneous includes Excess Workers’ Comp, Cyber, and Nuclear

10 **Q. Is D&O insurance coverage important?**

11 A. Yes. D&O liability insurance shields PGE’s directors and officers against normal, but  
12 sometimes significant, risks associated with managing the business. D&O insurance  
13 protects shareholders and customers from the consequences of financial distress and  
14 customer claims. Maintaining D&O insurance is necessary to attract and retain qualified  
15 and competent directors and officers. The limits purchased are consistent with the standard  
16 practice of the utility industry.

*Retained Losses*

1 **Q. What method does PGE use to forecast workers' compensation, auto liability, and**  
2 **general liability losses?**

3 A. PGE engages the services of an independent actuarial firm every year to provide loss  
4 projections related to workers' compensation, auto liability, and general liability losses.  
5 There is an inherent uncertainty associated with predicting loss events both in terms of  
6 frequency of occurrence and severity of loss. The actuarial firm assembles and analyzes  
7 data (over the past 10 to 20 years) to estimate the probability and likely cost of the  
8 occurrence of workers' compensation, auto liability, and general liability loss events.

9 **Q. Why does PGE purchase workers' compensation insurance?**

10 A. The State of Oregon requires PGE to maintain coverage in excess of its self-insured  
11 deductible to protect itself from catastrophic losses to employees arising out of and in the  
12 course of employment.

13 **Q. Please discuss the increase to excess workers' compensation and auto and general**  
14 **liability potential losses.**

15 A. As shown in Table 6 below, retained losses are forecasted to increase by almost 20%  
16 between 2008 and 2011. However, most of this increase is due to an abnormally low level  
17 of auto and general liability losses in 2008.

**Table 6**  
**Retained Losses**  
**(\$ millions)**

	<u>2008</u>	<u>2011</u>	<u>% Increase</u> <u>'08-'11</u>
Worker's Comp	1.8	1.9	2.1%
Auto & General Liability	1.2	1.7	46.3%
<b>Total</b>	<b>3.0</b>	<b>3.6</b>	<b>19.4%</b>

18 **Q. Why were auto and general liability losses abnormally low in 2008?**

1 A. Auto liability losses in 2007 and 2009 were \$305,000 and \$268,000. For 2008, these losses  
2 were only \$82,000, which is significantly below the surrounding years. For 2011, auto  
3 liability losses are forecasted at approximately \$300,000, close to historical losses.

4 A similar story can be told regarding general liability losses. In 2007, general liability  
5 losses were \$2.6 million but only \$1.1 million in 2008. For 2011, losses are forecasted at  
6 approximately \$1.4 million.

#### D. Research and Development

7 **Q. What are PGE's forecasted 2011 costs for PGE's corporate research and development**  
8 **(R&D) activities?**

9 A. For 2011, we forecast approximately \$760,000 in R&D expenses for 12 selected projects,  
10 which are necessary to address the significant changes and new technologies facing PGE  
11 and the industry. These projects primarily relate to renewable energy, energy efficiency,  
12 and generation and are summarized in Table 7 below (for additional detail listing  
13 descriptions and benefits for R&D projects, see PGE Exhibit 1004):

**Table 7**  
**Summary of 2011 R&D Projects**

<b>Project</b>	<b>Cost</b>
<ul style="list-style-type: none"><li>• Distributed Resources Process &amp; Reporting Improvements – would help automate PGE's feeder queue for tracking, maintaining and integrating small energy production sites.</li></ul>	\$150,000
<ul style="list-style-type: none"><li>• Demand Response Com Model – this project is to research demand response requirements, formulate a communications model, and work with RFP winning bids for commercial demand response.</li></ul>	\$50,000
<ul style="list-style-type: none"><li>• Firm Load Reduction Technology Demonstration – PGE will participate in this project to determine feasibility of various applications that yield overall system load reductions.</li></ul>	\$150,000
<ul style="list-style-type: none"><li>• Relay Control Equipment for Residential Direct Load Control – PGE will explore how customers (or their in-home energy infrastructure) will respond to direct load control opportunities.</li></ul>	\$100,000

<ul style="list-style-type: none"> <li>• EPRI Target P75.002 Mercury &amp; Integrated Environmental Control Technology Development – This research will help PGE address the technical requirements for mercury control as a retrofit at the Boardman plant.</li> </ul>	\$73,095
<ul style="list-style-type: none"> <li>• Geologic Sequestration of CO<sub>2</sub> in Columbia River Group Basalts – PGE is a member of the Big Sky Carbon Sequestration Partnership with particular interest in geologic sequestration in basalt. This project continues a deep injection test demonstration which began in 2009.</li> </ul>	\$10,000
<ul style="list-style-type: none"> <li>• Oregon State University (OSU), Carbon Balance for Capture of Flue Gas Greenhouse Gases by Microalgae – PGE and Oregon State University continue the exploration of using fossil fired power plants to capture CO<sub>2</sub> with algae &amp; convert to liquid fuel.</li> </ul>	\$5,000
<ul style="list-style-type: none"> <li>• Agronomy, Acceptability &amp; Potential for Growing Giant Cane (<i>Arundo donax</i>) in Eastern Oregon. This project investigates giant cane as an energy crop and possible coal substitute at Boardman power plant in Eastern Oregon.</li> </ul>	\$114,000
<ul style="list-style-type: none"> <li>• OSU Wave Energy Research – Wave Energy Linear Generators - PGE is helping Oregon State University (OSU) advance a unique power generating device that relies on the vertical movement of ocean waves. This project continues that support.</li> </ul>	\$5,000
<ul style="list-style-type: none"> <li>• Home Energy Management – allows PGE to further investigate competing approaches based on smart grid advances.</li> </ul>	\$75,000
<ul style="list-style-type: none"> <li>• Short-term Energy Storage Devices with Local Network Systems – this project allows PGE to investigate small neighborhoods or communities where energy use is reasonably matched to a limited, but well stored (cost-effectively) energy supply.</li> </ul>	\$10,000
<ul style="list-style-type: none"> <li>• Biglow Canyon Wind Farm – this project subscribes to the support and expertise afforded by OSU researchers to help advance efficient output of PGE’s Biglow Canyon Wind Farm.</li> </ul>	\$10,000

1 **Q. How will the 2011 R&D projects benefit customers?**

2 A. First, many of the projects are leveraged financially by working with other utilities to  
3 sponsor shared R&D. This means that PGE contributes a fraction of the overall research  
4 costs, but will receive 100% of the benefits. PGE will work with several universities on  
5 shared projects that support unique, regional renewable power research such as wave, wind,  
6 solar, biomass, and CO<sub>2</sub> capture and sequestration. Finally, each project will provide  
7 specific benefits. For example, PGE is pursuing research into growing, charring, and  
8 combusting giant cane (*Arundo donax*) as a substitute for coal. Giant cane is a renewable  
9 biomass fuel, that if proven cost-effective, could be used as a fuel to allow continuation of

1 Boardman as a baseload power resource. This would significantly help PGE meet Oregon's  
2 renewable energy standard, while reducing PGE's overall carbon footprint.

3 **Q. How have PGE's customers benefited from R&D in the past?**

4 A. Two examples indicate how PGE customers benefited from R&D projects:

- 5 • Dispatchable Standby Generation (DSG) began as an R&D project that allowed  
6 PGE access to additional sources of capacity during peak loads. At year end  
7 2009, there are 37 generators (48 MW of capacity) through DSG. In 2010, we  
8 expect to add 19 additional generators totaling 75.2 MW of capacity.
- 9 • The installation of special fencing systems at 30 substations also began as R&D  
10 and resulted in the virtual elimination of animal-caused outages in these  
11 substations. This is described in more detail in PGE Exhibit 1005.

12 **Q. What are the risks of not participating in the proposed research projects?**

13 A. As noted in PGE's 2009 Integrated Resource Plan, PGE must maintain high standards of  
14 safety and reliability in its portfolio of resources. As customer loads grow, PGE must  
15 continue to add resources to its system. By increasing funds to R&D programs, we will be  
16 proactive, rather than reactive, to evolving technologies and regulation (e.g., using  
17 charred-biomass renewable fuel). By supporting demonstration projects and activities with  
18 other research groups (e.g., EPRI, national laboratories, and universities), PGE will avoid  
19 missing opportunities to participate and direct how resources are developed for maximum  
20 customer benefit.

21 PGE must continue involvement with, and provide support for, projects of  
22 increasing importance such as demand response and carbon offsets/reductions. PGE must  
23 keep abreast of issues that remain under continued public scrutiny and may significantly  
24 benefit customers. PGE will use R&D funds to improve operation and maintenance of its

1 generation and distribution systems and participate in opportunities to review and apply  
2 proposed system improvements through demonstration projects. PGE's participation in  
3 demonstration projects, trade programs, and specific-issue research has proven valuable to  
4 PGE's customers over the long run.

### **E. Environmental Services**

5 **Q. By how much do you expect environmental service costs to increase from 2008 to 2011?**

6 A. We forecast that environmental service costs, as charged to A&G, will increase from \$1.1  
7 million in 2008 to \$1.6 million in 2011. This increase is primarily due to expanding  
8 regulatory requirements (at federal, regional, state, and local levels) related to climate  
9 change and other environmental issues.

10 **Q. Why specifically have these costs increased?**

11 A. Environmental expenditures are increasing due to new regulations or modifications to  
12 existing regulations such as site certificates and permit and license requirements issued by  
13 the Oregon Energy Facility Siting Counsel (EFSC), Oregon Department of Environmental  
14 Quality (ODEQ), and Federal Energy Regulatory Commission (FERC) plus other  
15 requirements enacted by the EPA and other federal agencies. Additional compliance  
16 activities relate, but are not limited, to the following PGE locations: Biglow Canyon for  
17 wildlife monitoring; Oak Grove, North Fork, Faraday, River Mill, Sullivan Plant for  
18 fisheries, wildlife, and water quality license requirements; Beaver/Port Westward  
19 Generating Sites for air quality and waste management/disposal; and Pelton Round Butte for  
20 the Fish Health Management Program, which involves studying fish populations and  
21 potential changes in the distribution of fish disease agents associated with the new fish  
22 facilities at the site. Specific examples of those requirements (that did not exist in 2008)  
23 involve:

- 1           • Clackamas Hydro project – a new FERC license includes a significant number of  
2           regulatory requirements pertaining to protecting, improving, and monitoring the  
3           environment including fish, wildlife, and water quality. Many of these  
4           requirements become effective in 2011 and require substantial costs for materials,  
5           equipment, laboratory work, temporary labor, and professional services.
- 6           • Climate Change – new state and federal monitoring and reporting requirements  
7           for greenhouse gas emissions with third party verification beginning in 2010.
- 8           • Environmental Emergent Fund – beginning in 2010 for unanticipated/unplanned  
9           cleanup costs including emergencies that are a result of a change in environmental  
10          requirements and/or regulation.

11 **Q. Does this comprise all of the environmental costs charged to PGE?**

12 A. No. The majority of environmental costs will be incurred as part of Generation O&M. For  
13 detail on environmental compliance requirements, projects and expenditures, see PGE  
14 Exhibit 700.

### III. Other A&G Costs

#### A. Membership Costs

1 **Q. Please explain the increase in the membership costs from 2008 to 2011.**

2 A. PGE's other membership costs are forecasted to increase from approximately \$1.5 million  
3 (for 2008 actuals) to approximately \$2.1 million in 2011. Membership costs for the WECC  
4 and the Northern Tier Transmission Group (NTTG) account for this increase.

5 **Q. Please explain the increase in WECC membership cost from 2008 to 2011.**

6 A. WECC membership costs are projected to increase from approximately \$740,000 in 2008 to  
7 approximately \$1.2 million in 2011. This increase is the result of additional compliance and  
8 regulatory oversight costs, which include the following items:

9 • Increasing WECC Compliance Enforcement costs – relates to additional WECC  
10 staffing and the associated costs of registering entities, investigations, reviews of  
11 self-certifications, expanding scope of both the on-site and off-site audits, plus  
12 other Compliance Monitoring & Enforcement Program activities. The expansion  
13 in scope is mainly due to an increase in the number of standards for WECC to  
14 monitor.

15 • Higher costs for the Reliability Assessment and Performance Analysis Program –  
16 reflects the necessity of addressing increasing deployment of variable resources  
17 (e.g., wind and solar) and the need to better integrate various planning and  
18 resource assessment functions.

19 • Increasing facilities costs to accommodate significantly expanding WECC staff.

20 • Additional legal and regulatory staff – represents additional support needed to  
21 monitor 470 registered entities under the Compliance Monitoring and

1 Enforcement Program, which requires significant legal support for drafting,  
2 reviewing, and negotiating.

3 **Q. What is the NTTG?**

4 A. The NTTG is composed of transmission providers and customers that actively purchase and  
5 sell transmission capacity on the Northwest and Mountain States grid. The group,  
6 “coordinates individual transmission systems operations, products, business practices, and  
7 planning of their high-voltage transmission network to meet and improve transmission  
8 services that deliver power to consumers.”<sup>6</sup> PGE participates in the NTTG along with the  
9 following utilities: Deseret Power Electric Cooperative, Idaho Power, NorthWestern Energy,  
10 PacifiCorp, and Utah Associated Municipal Power Systems.

11 **Q. Please explain the increase in NTTG membership cost from 2008 to 2011.**

12 A. PGE’s NTTG membership costs will increase from approximately \$78,000 in 2008 to  
13 \$197,000 in 2011, which is approximately \$100,000 lower than originally projected as a  
14 result of PGE negotiations. NTTG costs reflect PGE’s share of the group’s budget.

**B. Information Technology**

15 **Q. How much does PGE forecast allocated IT costs will increase for A&G?**

16 A. Between 2008 and 2011, PGE forecasts that IT charges to A&G will increase by  
17 approximately \$4 million.

18 **Q. Do these represent all the IT charges to A&G or all the IT costs for PGE?**

19 A. These represent the IT charges to A&G and are only a portion of the total IT costs incurred  
20 for PGE as a whole. As noted in PGE Exhibit 600, A&G receives two types of IT costs: 1)  
21 directly charged, and 2) allocated.

---

<sup>6</sup> <http://www.nttg.biz/site/>

1 **Q. What is the difference between direct and allocated charges?**

2 A. Directly charged costs relate to systems that apply to specific operating areas, such as  
3 production, transmission, or distribution. These costs are charged directly to specific  
4 expense ledger accounts related to those operations. Other IT work that is performed on  
5 voice, data, network, communications, and office systems are not the direct responsibility of  
6 one specific operating area. Instead, these costs apply broadly to all of PGE activities and  
7 departments and are first charged to a balance sheet ledger account and then allocated to the  
8 expense ledger accounts of the various functional areas. Labor charges to the balance sheet  
9 ledger account have labor loadings applied per PGE's loading and allocation policies.

10 **Q. What are the primary reasons these costs are forecasted to increase?**

11 A. The primary area of increase is in the allocated charges that consist of increasing cyber  
12 security requirements for hardware, software and network systems; growing data storage  
13 requirements, higher overall maintenance costs on PGE's systems; and, the IT system  
14 replacement program. These costs are explained in greater detail in PGE Exhibit 600.

15 **Q. Does this complete your testimony?**

16 A. Yes.

**List of Exhibits**

<b><u>PGE Exhibit</u></b>	<b><u>Description</u></b>
1001	Summary of A&G Costs
<b>1002C</b>	<b>Summary of Insurance Policies/Premiums</b>
1003	Description of Insurance Coverage
1004	2011 R&D Project Detail
1005	R&D Project Benefits