BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UE 266

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In the Matter of	)
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PORTLAND GENERAL ELECTRIC COMPANY	)
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Net Variable Power Costs (NVPC) and Annual Power Cost Update (APUC)	)
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RESPONSE TESTIMONY

OF THE

CITIZENS' UTILITY BOARD OF OREGON

May 21, 2013

BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

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In the Matter of PORTLAND GENERAL ELECTRIC COMPANY Net Variable Power Costs (NVPC) and Annual Power Cost Update (APUC)	)	RESPONSE TESTIMONY OF THE CITIZENS' UTILITY BOARD OF OREGON

My name is Bob Jenks, and my qualifications are listed in CUB Exhibit 101.

I. Introduction.

While CUB appreciates that PGE's Opening Testimony shows a small rate decrease for customers, rates are not based upon the Opening Testimony, but are based upon a series of updates that happen between now and November. Some of the updates (such as forward price curves for electricity and natural gas) are standard updates that we have seen in other AUTs, and are unlikely to be controversial. However, others are not so standard. For example, PGE has stated its intention to add a methodology to forecast BPA actual cost of wind integration in 2014.[1] Because the July update, which has been significant in previous cases, falls after CUB has filed its testimony in this docket, and

[1] Last week's BPA settlement may have removed this issue.

with little time for discovery before the scheduled hearing, CUB cannot conclude that this docket will lead to just and reasonable rates.

This UE 266 docket was supposed to have limited updates, with changes in methodology and modeling proposed only as part of the general rate case - where there is significantly more time for analysis and more rounds of testimony. Changes to methodology and modeling that were not included with PGE's Opening Testimony in its general rate case (UE 262), should not be allowed to be added as part of an AUT update in this UE 266 docket, simply because this is a year with a general rate case.

CUB encourages the PUC to remove updates that go beyond the non-standard updates, which Intervenors have no ability to evaluate.

II. The July Update Will Contain Significant Issues.

With respect to these annual power cost forecasts, utilities are allowed to update their initial forecast as the case progresses. Each update, however, should be narrower than the previous update. Thus, the July Update should be narrower than the April filing. And the September Update should be narrower than the July Update and the November Update should be the narrowest of all. This is because Staff and Intervenors have less opportunity to review the items in each successive update. CUB is concerned that some of the items in the July update are controversial and should have been included in the original filing, rather than a narrower update.

PGE has identified the July updates. CUB is concerned that at least two of the updates have been controversial in the past:

*Wind day-ahead forecast error cost, and

*Variable energy integration costs

In addition to those updates, PGE expects to update additional items, but it has not stated which items will be contained in which updates:[2]

*BPA rates

*PGE's analysis regarding self-integration of variable energy resources

*New WECC operating reserve standard

*Fuel Transport

*Capacity Resource Contracts.

CUB acknowledges that there are some costs that are appropriate to include in later updates. For example, PGE forecasted the fuel transport cost in its opening filing but proposes to update those costs when an actual contract is signed. PGE has significant costs associated with rail transport of coal to Boardman and CUB has no objection to PGE's updating this cost after PGE signs new contracts.

CUB is also okay with updates to Capacity Resource Contracts, if these contracts represent standard, traditional capacity resources. In its Opening Testimony, PGE discusses its ongoing RFP for capacity and states that it is possible that a capacity resource in the form of a purchased power agreement could be in place in 2014.[3] But, in addition, PGE states that it will continue to "evaluate other products available in the market to help fulfill our expected need for capacity resources."[4] While CUB does not have a general objection to the addition of new contracts in future updates, CUB cannot endorse allowing something with a description as general as "other products available" to be included in the updates without knowing the details of those proposed products, particularly if a product is new. A new and different product to meet capacity could

[2] UE 266/PGE/400/Niman - Peschka/25.
[3] UE 266/PGE/400/Niman - Peschka/27.
[4] *Ibid*.

come with some risks which would require a closer examination of the terms of the contract. Thus, CUB reserves the right to object to new capacity contracts that represent new or unusual products.

CUB has serious concerns about including in a later update some of the other costs that have not yet been reviewed by Staff and Intervenors. Intervenor testimony must be filed prior to the July update, and the hearing in this docket is scheduled for two weeks after PGE files its July Update. Therefore, the record will close without additional opportunities for parties to provide evidence on PGE's Updates. The two weeks from PGE's provision of its July update until the date set for Hearing are not an adequate time to conduct discovery and develop thoughtful positions on the July Update. This is true notwithstanding the fact that PGE has agreed to provide data responses in 5 days because this still does not allow for two full rounds of discovery. The July update is typically received by CUB late in the day that it is due, in this case on July16, 2013. If CUB is able to fully analyze the Update and is then able to fire off a set of data requests the very next day, those answers will not come back until July 25. There will not be enough time to review those answers and submit a second round of data requests, because those would be due back to CUB on August 1, two days after the hearing.

While CUB acknowledges that in previous years there was often only one round of testimony scheduled in the docket, and it was before the July update like this year, there were, however, many weeks of discovery and settlement discussions after the July Update and before the hearing, which typically took place at the very end of August. This additional time before hearing allowed parties time to investigate the Update, and have time to potentially resolve disputes and settle issues. This year, there is no time for discovery and discussion before hearing.

By removing adequate time for discovery, the schedule in this docket requires that additional limitations be placed on the July Update.

III. CUB Recommendations.

A. Wind Day-Ahead Forecast Error Cost

PGE identifies this cost as:

> [T]he cost incurred to re-optimize PGE's portfolio in order to account for the difference between the day-ahead and the hour-ahead forecast for wind generation. These costs materialize in the form of market transactions (purchases and sales) and the re-dispatch of available resources.[5]

According to PGE, it has included the same estimate of this cost since the 2009 test year in UE 198, but with a different methodology than it plans to use this year. However, in its initial filing in this docket, PGE simply used the same cost that was used in the final update last year and stated that its new methodology was not yet available.[6] PGE's new methodology would base its estimate on the results of its Wind Integration Study.[7] PGE argues that the change will be included in the July Update and is "unlikely to be available prior to that time" because running the wind integration model is time- and labor-intensive.[8]

Last year PGE made a similar proposal to change this cost based on its Wind Integration Study, except it was included in its April filing.[9]

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[5] UE266/PGE/400/Niman - Peschka/24.
[6] *Ibid.*
[7] *Ibid.*
[8] UE 266/PGE/400/Niman - Peschka/24-25.
[9] UE 250/ PGE/100/Niman – Peschka - Hager/10.

Staff opposed the PGE proposal last year because it was inappropriate to include this methodology change outside of a general rate case. In addition, while Staff largely supported the general approach PGE took, it raised several technical problems with the study. In particularly Staff was concerned with PGE's use of a sliding bid/ask spread:

> Although PGE vetted most of the Study with stakeholders and the technical review committee, the figures in Table 6 were not based on analysis of relevant historical data. Instead, the Study states 'In the Hour-Ahead stage of the model, a sliding bid/ask spread is used as a function of the desired transaction block size based on the operational experience of PGE's Real Time Power Operations.'[10]

Staff proposed a modification of Table 6that it believed the Company should use instead.[11] Just as importantly, Staff was concerned about the complexity of this methodology and the need for adequate time to review it.

Staff proposed that PGE pull this concept and wait until a general rate case with five rounds of testimony:

> First, the Company should wait until the next GRC test year, for reasons discussed in detail above. Then, in a more complete, "five rounds of testimony" proceeding, the Company should present the following in its opening testimony:
>
> …
>
> 2) For the new day-ahead forecast error component, if the Company still intends to self-provide, it should include a calculation either based on Confidential Exhibit Staff 102, or an alternative analysis, with an explanation of why the alternative analysis results in hour-ahead bid/ask spread figures which are more accurate than Staff's.[12]

In Settlement PGE agreed to remove this cost:

> The Parties agree that PGE will not update the estimated cost of day-ahead forecast error for purposes of forecasting 2013 NVPC. Rather, PGE will continue to use $0.50/MWh as the estimated cost of day-ahead forecast error. This adjustment results in a reduction to PGE's forecast of 2013

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[10] UE 250/Staff/100/Schue/17.
[11] *See* UE 250/Staff/102 Confidential/Schue. Staff's revisions to Table 6 contains confidential data.
[12] UE 250/Staff/100/Schue/20

> NVPC of approximately $1.11 million relative to the update described in PGE Exhibit 300, page 13, and approximately $4.27 million relative to PGE's original power cost filing.[13]

CUB Recommendation: Staff was clear that the expectation was that PGE would file its request for this methodology change in its Opening Testimony in a General Rate Case with five rounds of testimony. PGE did not file its request for a methodology change in its Opening Testimony. In fact, unlike last year when PGE proposed this methodology change in April, this year it is planning on proposing it in July. Last year Staff disagreed with the technical details of how PGE was implementing this methodology. Without parties having enough time to adequately review this proposed methodology change it should be rejected.

B. BPA Rates and PGE's Analysis Regarding Self-Integration of Variable Energy Resources.

CUB hopes that the recently announced settlement of the portion of BPA's rates dealing with integrating wind will help the proceedings in this UE 266 docket as, based on CUB's understanding of the April filing, and the May 8 workshop, PGE is proposing to use BPA integration costs.

Part of the BPA proposal was a Type II charge that would recover the actual cost of procuring third-party resources to balance wind. This creates a significant problem because PGE has not stated how it would forecast BPA's actual costs. Because it is difficult for a utility to forecast its own costs accurately, it is unclear how an accurate forecast of someone else's costs can be developed. Leaving this methodology change to

[13] UE 250/Stipulating Parties/100/Schue - Deen - Hager - Jenks/ 7

the July update or later would not allow parties to review and consider PGE's methodology.

CUB Exhibit 102 is a 5/16/2013 news release from BPA. According to that release, one of the highlights of the settlement is:

> Removal of three proposed formula rates that created legal contention and cost uncertainty. The formula rates would have passed on the costs of procuring third-party resources to augment balancing reserves. They were replaced with fixed rates and an established acquisition budget that alleviates the cost uncertainty.[14]

CUB Recommendation: Based on this news release, these costs will be based on a schedule of fixed rates, which eliminates CUB's forecasting concerns. However, if CUB is misreading the news release, or if the settlement is rejected,[15] CUB is opposed to PGE adding a new methodology to forecast BPA's future actual costs in the July update.

C. New WECC Operating Reserve Standard

In its testimony, PGE described this WECC operating reserve standard issue as relating to the new WECC Standard that changes the calculation of operating reserves from 5% of hydro and wind generation, and 7% of thermal resources, to 3% of all generation, plus 3% of control area load. This standard is currently awaiting final approval by FERC.[16]

At the May 8th workshop in this docket, the new WECC standard was discussed. CUB's understanding is that this issue will have a small impact which might affect the 4th quarter of 2014, but might not be in place at all until 2015.

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[14] CUB Exhibit 102.
[15] CUB notes that while the news release was sent out on May 16, on May 21 it is not available on BPA's website .
[16] UE 266/PGE/400/Niman - Peschka/25.

CUB Recommendation: CUB believes this cost is not known and measurable for the test year. Because the impact, if any in the test year, is expected to be small, there is little harm in waiting until these costs are known and measurable for 2015.

D. Boardman Test Burn

First, it is important to recognize that CUB is generally supportive of PGE's plans to examine whether there is economic value associated with the Boardman coal plant that can be derived by burning biofuel after it ceases operation as a coal facility in 2020. The problem that concerns CUB is whether these costs are now known and measurable in the forecasted test year.

In its testimony, PGE stated that in 2014 it "expects to perform a test burn using torrefied biomass as fuel."[17] At the May 8th workshop, it was clear that while the test burn might happen in 2014, it also might not happen until 2015. CUB notes that PGE pledged that if it did not happen in 2014, it would not reforecast the cost for the 2015 AUT, thus avoiding customers having to pay multiple times for a one-time only cost that gets forecast into multiple test years. While CUB appreciates this pledge, it does not, however, satisfy CUB's concerns.

The AUT is one part of a two part power cost recovery mechanism. First, costs are forecast through the AUT, and then after the fact, actual costs are compared to the forecast and subject to deadbands and sharing in the PCAM. Forecasting costs in 2014 when those costs will occur in 2015 creates a mismatch between the AUT and the PCAM in both years. What happens if the costs are forecast in 2014 year, but the test burn does not happen in 2014, and the PCAM is outside of the sharing bands? Are the excess

[17] UE 266/PGE/400/Niman - Peschka/22.

revenues associated with this item subject to sharing? If sharing occurs, will the Company still voluntarily agree not to seek recovery in 2015?

CUB Recommendation: A better approach is to recognize that this cost is not known and measurable within the test year because the cost might not occur during the test year. PGE would have at least a couple of choices in seeking recovery if the cost is incurred in 2014. First, PGE can identify this as a fuel cost that is part of the PCAM and seek recovery of it there subject to the deadbands and sharing associated with that mechanism. Or, PGE could say that this is a one-time cost outside of normal power costs and should, therefore, be handled through a deferral, subject to limits on deferred counting and the earnings test associated with deferred accounting.[18]

IV. Conclusion.

CUB recommends that the PUC make the following adjustments to PGE's case:

Wind Day-Ahead Forecast Error. As discussed above, there was controversy around this issue last year, and Staff testified then that PGE needed to propose methodology changes in its opening testimony in a general rate case, not in a July Update. Given that this has not occurred and that parties will not have enough time to adequately review this proposal, the proposal should be rejected.

BPA Rates for Wind Integration. PGE has not proposed a methodology as to how it will forecast BPA's actual costs associated with wind integration. CUB believes that this issue may be resolving itself with BPA's agreement to fixed schedules for wind integration costs. However, if the BPA settlement does not hold, CUB believes that the

[18] CUB reserves its right to review any petition for deferred accounting to determine whether CUB believes that petition should be approved or not.

PUC should reject any wind integration charges based upon a methodology that has yet to be described.

New WECC operating reserve standard. CUB believes this cost is not known and measurable for the test year. Because the impact, if any, in the test year is expected to be small, there is, however, little harm in waiting until these costs are known and measurable for 2015.

Boardman Test Burn. Because it is not clear when the test burn will happen, it cannot be considered known and measurable for the purposes of the test year in this docket. It should, therefore, be rejected. PGE can seek recovery through the PCAM or through a deferral, as discussed above.

WITNESS QUALIFICATION STATEMENT

NAME:	Bob Jenks
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ADDRESS:	610 SW Broadway, Suite 400 Portland, OR 97205
EDUCATION:	Bachelor of Science, Economics Willamette University, Salem, OR
EXPERIENCE:	Provided testimony or comments in a variety of OPUC dockets, including UE 88, UE 92, UM 903, UM 918, UE 102, UP 168, UT 125, UT 141, UE 115, UE 116, UE 137, UE 139, UE 161, UE 165, UE 167, UE 170, UE 172, UE 173, UE 207, UE 208, UE 210, UG 152, UM 995, UM 1050, UM 1071, UM 1147, UM 1121, UM 1206, UM 1209, UM 1355, UM 1635, UE 233, and UE 246. Participated in the development of a variety of Least Cost Plans and PUC Settlement Conferences. Provided testimony to Oregon Legislative Committees on consumer issues relating to energy and telecommunications. Lobbied the Oregon Congressional delegation on behalf of CUB and the National Association of State Utility Consumer Advocates. Between 1982 and 1991, worked for the Oregon State Public Interest Research Group, the Massachusetts Public Interest Research Group, and the Fund for Public Interest Research on a variety of public policy issues.
MEMBERSHIP:	National Association of State Utility Consumer Advocates Board of Directors, OSPIRG Citizen Lobby Telecommunications Policy Committee, Consumer Federation of America Electricity Policy Committee, Consumer Federation of America

PR 20 13

BONNEVILLE POWER ADMINISTRATION
FOR IMMEDIATE RELEASE
Thursday, May 16, 2013
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Energy balancing rate settlement signals commitment to work on broader solutions

Portland, Ore. – As the region looks for more effective ways to integrate wind and other renewable energy sources, the Bonneville Power Administration and its customers have agreed to settle the portion of BPA's rate case that defines charges for balancing services, or generation inputs, that maintain a constant balance of the energy produced and energy consumed.

"BPA and the parties involved in this portion of the rate case admirably collaborated and compromised to reach this settlement agreement," said BPA Administrator Bill Drummond. "We have a challenge ahead of us, but I am confident we can work together to find innovative and less costly energy balancing solutions."

The agreement calls for BPA and rate case parties to set aside new legal and regulatory action until September 30, 2015, which is the end of the upcoming rate period. This will allow the region to work together and focus on long-term sustainable solutions to these challenging issues. The settlement provides time for the region to develop energy scheduling options and other tools expected to significantly reduce renewable resource integration costs.

Settlement highlights include:

• Removal of three proposed formula rates that created legal contention and cost uncertainty. The formula rates would have passed on the costs of procuring third-party resources to augment balancing reserves. They were replaced with fixed rates and an established acquisition budget that alleviates the cost uncertainty.

• A $2 million annual budget to augment BPA balancing services when operational constraints cause BPA to lower the amount of balancing reserves it would otherwise provide;

• A BPA commitment to implement two 15-minute scheduling options as soon as feasible. Traditional power plants provide such steady output that utilities have long bought and sold electricity on an hourly basis. But wind and other variable resources are changing that because the energy they produce can vary sharply within mere minutes. More frequent scheduling can help lower costs by reducing reserve requirements.

• A mid-rate period election opportunity for customers to change to self-supply reserves, "dynamically" schedule a resource out of BPA's system or switch to one of several options to more frequently schedule energy deliveries. This flexibility offers customers an additional opportunity to reduce integration costs.

• Billing for dispatchable energy resources using a 5-minute measurement, which should allow these resources to lower their integration costs when compared to the presently applied 1-minute billing interval.

BPA and party signatories had until May 6 to sign the agreement. One party objected to the agreement. Its stated objection to the settlement proposal identifying each issue it chose to preserve in the ongoing rate proceeding is available at the link.

All of the settlement rates applicable to variable energy resources are lower than the rates BPA originally proposed after accounting for the elimination of the formula rates. Three of the four variable energy rates are lower than today's equivalent rates. Details are available in the Administrator's Record of Decision.

The BP-14 rate case began in November 2012 and will conclude in late July. BPA will file the final rate proposal with the Federal Energy Regulatory Commission in late July 2013 for interim approval for the rates to be effective Oct. 1, 2013. The rate period ends Sept. 30, 2015.

BPA is a nonprofit federal agency that markets renewable hydropower from federal Columbia River dams, operates three-quarters of high-voltage transmission lines in the Northwest and funds one of the largest wildlife protection and restoration programs in the world. BPA and its partners have also saved enough electricity through energy efficiency projects to power four large American cities. For more information, contact us at 503-230-5131 or visit our website at www.bpa.gov.

UE 266 – CERTIFICATE OF SERVICE

I hereby certify that, on this 21st day of May, 2013, I served the foregoing **RESPONSE TESTIMONY OF THE CITIZENS' UTILITY BOARD OF OREGON** in docket UE 266 upon each party listed in the UE 266 PUC Service List by email and, where paper service is not waived, by U.S. mail, postage prepaid, and upon the Commission by email and by sending one original and five copies by U.S. mail, postage prepaid, to the Commission's Salem offices.

(W denotes waiver of paper service)

(C denotes service of Confidential material authorized)

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