Portland General Electric
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September 19, 2018

Via Electronic Filing

Public Utility Commission of Oregon
Attention: Filing Center
P.O. Box 1088
Salem OR 97308-1088

Re: UE 335 – Portland General Electric Company Direct Access Response Testimony

Dear Filing Center:

On behalf of Staff of the Public Utility Commission of Oregon ("Staff"), Safeway Inc. and Albertson's, LLC ("Albertsons"), Fred Meyer Stores and Quality Food centers, Division of The Kroger Co. ("Fred Meyer"), and Portland General Electric Company ("PGE"), (collectively, the "Stipulating Parties"), PGE is filing electronically the following document: **Response Testimony**.

Thank you,

Stefan Brown
Manager, Regulatory Affairs

SB:np
Enclosure

UE 335 / PGE / 600
Gibbens – Waidelich – Bieber – Macfarlane

BEFORE THE PUBLIC UTILITY COMMISSION

OF THE STATE OF OREGON

UE 335

Direct Access

PORTLAND GENERAL ELECTRIC COMPANY

Response Testimony of

Scott Gibbens
George M. Waidelich
Justin Bieber
Robert Macfarlane

September 17, 2018

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I. Introduction and Summary

Q. Please state your names and positions.

A. My name is Scott Gibbens. I am a Senior Economist in the Energy Rates, Finance and Audit Division at the Public Utility Commission of Oregon (OPUC). My qualifications appear in OPUC Exhibit 101.

My name is George M. Waidelich. I am the Director of Energy Operations with Albertsons Companies, Inc. and am testifying on behalf of Albertson's, LLC and Safeway Inc (Albertsons).

My name is Justin Bieber. I am a Senior Consultant with Energy Strategies, LLC and am testifying on behalf of Fred Meyer Stores and Quality Food Centers (Fred Meyer), Divisions of The Kroger Co. My qualifications appear in Fred Meyer Exhibit 100.

My name is Robert Macfarlane. I am a Regulatory Consultant in Portland General Electric Company's (PGE's) Rates and Regulatory Affairs Department. My qualifications appear in PGE Exhibit 1200.

Q. What is the purpose of your testimony?

A. Our purpose is to address Alliance of Western Energy Consumers' (AWEC) and Oregon Citizen's Utility Board's (CUB) opposition to the Direct Access Partial Stipulation (the Stipulation) reached among the OPUC Staff (Staff), Albertsons, Fred Meyer, and PGE (collectively, the Stipulating Parties) regarding Direct Access issues in this docket (UE 335). Calpine intends to file its own testimony and supports the Stipulation.

Q. Is the Stipulation intended to settle all direct access-related issues in this docket?

A. Yes.

Q. Do AWEC or CUB oppose the entire Stipulation?

A. No. AWEC opposes two parts of the Stipulation and CUB opposes one part of the Stipulation.

Q. Does this Stipulation indicate that Stipulating Parties agree on the resolution of each specific item regarding Direct Access issues in this general rate case?

A. No. As indicated in Stipulating Parties Exhibit 500, the Stipulating Parties may have differing opinions of each individual term on a stand-alone basis. However, we believe the terms represent a reasonable settlement of the Direct Access issues in this docket on an aggregate basis. The terms are in the public interest and are consistent with rates and policies that are fair, just, and reasonable.

Q. How is your testimony organized?

A. Our testimony is organized into two sections, as follows:

- AWEC's opposition to the Stipulation; and
- CUBs Opposition to the Stipulation;

Q. Please summarize your recommendations.

A. We recommend that the Commission approve the Stipulation in its entirety.

II. AWEC's Opposition to the Partial Stipulation

Q. Please summarize AWEC's opposition to the partial stipulation.

A. AWEC opposes the continuation of the long-term opt out program participation limit and proposes to increase the limit by 250 MWa for a total of 550 MWa or, alternatively, remove the limit. AWEC also argues that a ten-year transition adjustment period is more likely to result in cost shifting to direct access customers from cost of service customers unless a capacity credit is provided.[1]

A. Staff's Response to AWEC

Q. Mr. Gibbens, how do you respond to AWEC's argument that the long-term opt out program participation limit should be increased or removed, and that cost of service customers should receive a capacity credit?

A. In Staff's Opening Testimony, Dr. Lance Kaufman raised similar concerns to those raised by AWEC but recommended that the parties undertake one or more direct access workshops outside of the current general rate case in order to better understand issues, rather than dispense with them permanently in this case. As stated in its testimony in support of the stipulation, Staff found that the stipulation afforded additional time in order to further analyze these issues, while making it clear that there would be additional process following the resolution of this docket. Staff continues to support the stipulation because it strikes an appropriate balance of addressing some more immediate concerns of the parties and maintains the status quo so that parties can continue to investigate the issues, and to observe the impacts of both AR 614 and UM 1953.

B. Fred Meyer's Response to AWEC

[1] AWEC Exhibit 400, pages 1-2.

Q. Mr. Bieber, how do you respond to AWEC's proposal?

A. Fred Meyer strongly supports the development and continuation of viable direct access service. I do not believe that AWEC's proposals, in isolation, would be unreasonable. However, Fred Meyer supports the stipulation because it represents a reasonable resolution to the package of direct access issues addressed in this case. In that regard, I believe the stipulation is a reasonable compromise and in the public interest.

C. PGE's Response to AWEC

Q. Mr. Macfarlane, what arguments does AWEC make to support increasing or removing the long-term opt out program participation limit?

A. AWEC argues that the participation limit has the effect of making a single customer ineligible for the long-term opt out program, the program has been around for sixteen years without needing a cap, and that no cost shifting is occurring. AWEC also argues that since only 236 MWa of load has participated in the long-term opt out program to date, the 300 MWa participation limit is unnecessary.

Q. How do you respond to AWECs claim that the long-term opt out program participation limit should be increased or removed because it would make a single customer ineligible?

A. Using AWECs argument, any participation limit would be discriminatory. As the participation limit is approached, the larger eligible customers no longer fit within the participation limit. In addition, the remaining 64 MWa under the cap would, in fact, allow any customer to participate. The single customer AWEC alludes to, couldn't participate with all of their accounts. However, the single customer has accounts that qualify and fit within the participation limit. In addition, the participation limit has existed since the program began and all eligible customers, including the single customer that AWEC alludes to, have had ample opportunity to opt out for the sixteen direct access windows that have, thus far, been offered.

Q. Was the participation limit of 300 MWa meant to be implemented during a pilot period?

A. No, the participation limit has always been a program participation limit and not a pilot participation limit. The advice filing and accompanying Staff Report included in AWEC Exhibit 404 don't make any reference to a pilot. There was no mention of an attempt to make sure that all customers could participate. In fact, the Staff Report simply states, "Sign-ups for the opt-out are limited to the first 300 MWa that applies."[2] AWEC seems to be trying to revise program history without regard to the actual history and original understanding.

Q. How do you respond to AWECs claim that no cost shifting is occurring in the long-term opt out program?

A. AWEC provides an analysis summarized in Tables 1 and 2 of AWEC Exhibit 400 and asserts that no cost shifting is occurring because the average rate for current COS customers would supposedly be higher if long-term opt out customers had not opted out and PGE supplied them. AWEC's analysis is, in fact, flawed and based on questionable assumptions. The first flaw in AWEC's analysis is that it includes the Schedule 129 transition adjustment revenues as a cost increase to supply customers that are currently on the long-term opt out program. The reality is that Schedule 129 transition adjustments are credited to nonparticipating customers separately, through the customer usage charge. PGE's unbundled production revenue requirement of $1.06 billion, listed in the far left column of Tables 1 and 2 in AWEC Exhibit 400, includes all generation costs to supply COS customers. AWEC's analysis should

[2] AWEC Exhibit 404, page 7.

not include the transition adjustments as an additional cost to supply those customers currently on PGE's long-term opt out program.

AWEC's analysis assumes that the costs that would have been incurred if the customers had not opted out are those from either PGE's generation marginal cost study or its Carty Generating Station (Carty), and AWEC values those resources using a first-year revenue requirement. However, if the customers currently participating in PGE's long-term opt out program had not participated, PGE would have acquired additional resources throughout the past sixteen years to supply those customers rather than waiting until now to acquire generating resources at higher costs. The combined cycle combustion turbine (CCCT) used in AWEC's second example, Carty, had a cost of about $1,170 per kW-year and the CCCT used in PGE's marginal cost study in this general rate case has a cost of $1,298 per kW-year. The Port Westward plant, that came online in 2007 had a capital cost closer to $700 per kW-year. That plant is partially depreciated as well, so the 2019 revenue requirement would be lower than the first-year revenue requirement. AWEC's analysis overstates the costs that PGE would have incurred to supply customers currently in the long-term opt out program.

Q. Given that the cost of Carty is less than the CCCT used in PGE's marginal cost study on a unit basis, should AWECs analysis in Table 2 show a lower cost to supply customers on the long-term opt out program?

A. Yes. AWEC's overstatement of the cost to supply customers on the long-term opt out program is due to yet another flaw in AWEC's analysis. AWEC uses the revenue requirement from the entire Carty plant as the cost to hypothetically supply the customers currently in the long-term opt out program. The Carty plant has a nameplate capacity of 440 MW. The average load from the customers in the long-term opt out program used in AWECs analysis is about

223 MWa. PGE would not build such a large plant to supply those customers. If AWEC had based its analysis on the unit cost of Carty rather than the total cost, it's incremental costs to supply long-term opt out customers in Table 2 would be lower than that used in Table 1.

Q. What other questionable assumption are included in AWEC's analysis?

A. AWEC's analysis is based on adding load to PGE's COS load. However, the harm to nonparticipating customers is due to decreasing load, caused by customers choosing the long-term opt out program. As discussed in PGE Exhibit 2500, nonparticipating customers are harmed when customers choose the long-term opt out program, particularly with the lack of load growth to make up for the decreased loads due to customers departing COS.[3] The harm is caused by spreading the already incurred fixed generation costs over less load.

Q. AWEC claims that PGE's joining the stipulation means that PGE is conceding the existence of cost shifting with the current five-year transition adjustment. Does PGE agree with the claim that no cost shifting occurs when customers choose the long-term opt out program?

A. No. PGE joined the stipulation to resolve all the long-term opt out program issues in this general rate case, not each issue in isolation. Taken as a whole, the stipulation reaches an appropriate balance of the direct access issues in this case. Taken in isolation, without settling all issues related to the long-term opt out program, PGE may have continued to advocate for a ten-year term for transition adjustments. However, the settlement, taken as a whole, protects nonparticipating customers.

Q. What arguments does AWEC make to support a capacity credit if a ten-year transition adjustment period is adopted?

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[3] PGE Exhibit 1500, pages 4-12.

A. AWEC argues that the use of a ten-year transition adjustment period is more likely to result in cost shifting to direct access customers from cost of service customers unless a capacity credit is provided to those customers opting out. AWEC relies on its flawed analyses summarized in Tables 1 and 2 in AWEC Exhibit 400.

Q. Given AWEC's flawed analysis, should the Commission consider a capacity credit if it were to adopt ten years of transition adjustments?

A. No, the capacity credit described by AWEC should not be part of the transition adjustment calculation methodology. AWEC would need to show that customers choosing the long-term opt out program in the future do not harm cost of service customers. AWEC has not done so, and if the Commission were to modify the transition adjustment term from five to ten years, it should not require a capacity credit to long-term opt out customers in the transition adjustment calculation.

III. CUB's Opposition to the Partial Stipulation

Q. What does CUB argue regarding the term of transition adjustments?

A. CUB proposes ten years of transition adjustments as initially proposed by PGE.[4]

A. Staff's Response to CUB

Q. Mr. Gibbens, how do you respond to CUB's proposal?

A. Staff continues to find that the direct access stipulation, when considered in its entirety, is in the public interest and will contribute to rates that are fair, just and reasonable, which is consistent with the standard in ORS 756.040. The parties' settlement position on the issue of transition charges is consistent with Staff's testimony position on this issue. As described more fully in the Opening Testimony of Dr. Lance Kaufman,[5] Staff's testimony position was that PGE failed to provide evidence that the current transition adjustments result in unwarranted cost-shifts; that PGE's proposal would raise unnecessary barriers to a competitive energy market; and that PGE's proposal could result in unnecessary and costly resource acquisitions, which will raise cost of service rates in the long run. However, Staff continues to recommend that the Commission view the direct access settlement holistically, as striking a reasonable balance of the interests in this case.

B. Fred Meyer's Response to CUB

Q. Mr. Bieber, how do you respond to CUB's proposal?

A. Given the circumstances, the current five-year transition period provides sufficient time for PGE to plan for the permanent exit of a Direct Access customer. Based on PGE's stated need in its IRP process to procure additional capacity resources, the exit of new opt-out customers

[4] CUB Exhibit 400.
[5] Staff/800, Kaufman/38-42.

would actually avoid incremental resources that would otherwise be needed to serve the system's load. The avoided fixed generation cost would be a benefit the system. CUB's proposal to extend the five-year transition charge to ten years is unwarranted and would unduly hinder the continuation of a successful Direct Access program. Fred Meyer strongly supports the development and continuation of viable direct access service and supports the stipulation because it represents a reasonable resolution to the package of direct access issues addressed in this case. In that regard, I believe the stipulation is a reasonable compromise and in the public interest, and recommend that the Commission reject CUB's proposed changes.

C. PGE's Response to CUB

Q. Mr. Macfarlane, how do you respond to CUB's proposal.

A. PGE supports the direct access stipulation as it settles all issues related to PGE's long-term opt out program. While PGE initially made the proposal for ten years of transition adjustments in this docket, PGE supports the partial stipulation as a balancing of the interests in this case.

Q. Does this conclude your testimony?

A. Yes.