BEFORE THE PUBLIC UTILITY COMMISSION
OF THE STATE OF OREGON

In the Matter of	**)**	
PacifiCorp, dba Pacific Power,	**)**	**Docket No. UE-356**
2020 Transition Adjustment	**)**	
Mechanism	**)**	

Opening Testimony of Neal Townsend

on behalf of

Calpine Energy Solutions, LLC

June 10, 2019

OPENING TESTIMONY OF NEAL TOWNSEND

Introduction

Q. Please state your name and business address.

A. My name is Neal Townsend. My business address is 215 South State Street, Suite 200, Salt Lake City, Utah, 84111.

Q. By whom are you employed and in what capacity?

A. I am a Principal in the firm of Energy Strategies, LLC. Energy Strategies is a private consulting firm specializing in economic and policy analysis applicable to energy production, transportation, and consumption.

Q. On whose behalf are you testifying in this phase of the proceeding?

A. My testimony is being sponsored by Calpine Energy Solutions, LLC ("Calpine Solutions"). Calpine Solutions is a retail energy supplier that serves commercial and industrial end-use customers in 18 states, the District of Columbia, and Baja California, Mexico. Calpine Solutions serves more than 15,000 retail customer sites nationwide, with an aggregate load in excess of 4,500 MW. Calpine Solutions' retail customers are located in the service territories of more than 55 utilities. In Oregon, Calpine Solutions is currently serving customers in the service territories of PacifiCorp and Portland General Electric ("PGE").

Q. Please describe your educational background.

A. I received an MBA from the University of New Mexico in 1996. I also earned a B.S. degree in Mechanical Engineering from the University of Texas at Austin in 1984.

Q. Please describe your professional experience and background.

A I have provided regulatory and technical support on a variety of energy projects at Energy Strategies since I joined the firm in 2001. Prior to my employment at Energy Strategies, I was employed by the Utah Division of Public Utilities as a Rate Analyst from 1998 to 2001. I have also worked in the aerospace, oil and natural gas industries.

Q. Have you ever testified before this Commission?

A. Yes. I have testified in five prior proceedings in Oregon. I testified in two PacifiCorp general rate cases, UE 246 (2012) and UE 217 (2010). In addition, I participated in three PGE general rate cases, UE 319 (2017), UE 294 (2015), and UE 262 (2013).

Q. Have you testified before utility regulatory commissions in other states?

A. Yes. I have testified in utility regulatory proceedings before the Arkansas Public Service Commission, the Illinois Commerce Commission, the Indiana Utility Regulatory Commission, the Kentucky Public Service Commission, the Michigan Public Service Commission, the New Mexico Public Regulation Commission, the Public Utilities Commission of Ohio, the Public Utility Commission of Texas, the Utah Public Service Commission, the Virginia Corporation Commission, the Washington Utilities and Transportation Commission, and the Public Service Commission of West Virginia.

Overview and Conclusions

Q. What is the purpose of your testimony in this proceeding?

A. My testimony focuses on issues pertaining to direct access service, including the calculation of the Schedule 294, 295, and 296 transition adjustments and the calculation of the Consumer Opt-Out Charge for PacifiCorp's Five-year Opt-Out program.

Q. What are the primary conclusions and recommendations in your testimony?

A. I offer the following primary conclusions and recommendations:

(1) PacifiCorp's sample calculations for Schedules 294 and 295, the one-year and three-year transition adjustments, respectively, are consistent with prior TAM proceedings.

(2) I recommend the Commission approve PacifiCorp's proposed derivation of the Consumer Opt Out Change for Schedule 296 that continues to use the same method that was part of the 2019 TAM stipulation.

PacifiCorp's 2020 TAM Filing

Q. Can you briefly describe the purpose of PacifiCorp's 2020 TAM filing?

A. Yes. PacifiCorp makes an annual TAM filing to update its net power costs (NPC) for the upcoming calendar year, calendar year 2020 in this case. These updated NPC are then collected in Schedule 201 for cost-based service customers. As part of this filing, PacifiCorp updates its calculations of the transition adjustments for customers electing a direct access option for their energy supply.

Q. How does PacifiCorp derive the 2020 NPC in its filing?

A. PacifiCorp uses its GRID model to simulate the dispatch and operation of its generation fleet subject to the various constraints input into the model. This dispatch simulation produces a forecast of NPC for 2020 based on the updated constraints used in the model for that year. As part of this filing, PacifiCorp has proposed to modify several items within the GRID model itself, including the forward electricity hourly price scalars, solar generation production shapes, and the transmission topology for the Wyoming Northeast bubble.

Q. Are there other items included in this 2020 TAM filing besides NPC?

A. Yes. PacifiCorp has forecasted its Other Revenues consistent with a stipulation in UE-216, its incremental costs and benefits associated with its participation in the Energy Imbalance Market (EIM), and its anticipated Production Tax Credits (PTCs).

Q. How does the 2020 TAM filing affect direct access customers?

A As noted earlier, the filing includes calculations of transition adjustments for customers electing direct access, including the one-year, three-year and permanent opt out options. I discuss the transition adjustment for each of these options below.

Q. Has PacifiCorp included any other proposal that would affect direct access customers?

A. Yes. PacifiCorp has included its calculation of the Company Supply Service Access Charge (CSSAC) that would apply to any new load direct access customer that chooses the new load direct access program, but subsequently opts to return to cost-based service.

<u>Calculation of the One-Year and Three-Year Transition Adjustments (Schedules 294 and 295)</u>

Q. What is the basic structure of PacifiCorp's current charges for generation services?

A. For cost-based service customers, PacifiCorp assesses rates for generation services on two different rate schedules – Schedule 200 and 201. Schedule 200 includes charges for all non-NPC generation costs, including the costs of PacifiCorp's rate-based generation investments. Schedule 201 includes the charges for PacifiCorp's net power costs, which includes long-term power purchase contracts, short-term market purchases, and fuel for power generation.

Q. How is PacifiCorp's transition adjustment mechanism for Schedules 294 and 295 calculated?

A. PacifiCorp's transition adjustment charges (or credits) direct access customers the difference between PacifiCorp's net power cost (as reflected in Schedule 201) and the estimated market value of the electricity that is freed up when a customer chooses direct access service.[1] This is calculated by subtracting the former from the latter, after adjusting the latter for line losses to reflect its value at the point of retail delivery. If the result is a positive number, the difference is applied as a credit to the direct access customer. If the result is a negative number, the difference is applied as a charge to the direct access customer.

The transition adjustment is calculated using PacifiCorp's GRID model. According to PacifiCorp's tariff, the estimated market value of the electricity that is freed up when a customer chooses direct access service is determined by running two system simulations – one simulation <u>with</u> PacifiCorp serving the direct access load and one simulation with the Company <u>not</u> serving the direct access load. At the present time, for the Schedule 294 one-year and Schedule 295 three-year programs, these simulations are run assuming direct access occurs in 25 MW decrements, which are shaped using the load shape of the rate schedule being analyzed for purposes of determining its Schedule 294 or 295 credit (or charge). The difference between the two scenarios is used to calculate the impact on PacifiCorp's total system, which is then used to determine the "weighted market value of the energy" freed up due to direct access.[2] The weighted market

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[1] Direct access customers in PacifiCorp's service territory already pay for the Company's fixed generation costs through Schedule 200. Thus, the transition adjustment is calculated by subtracting *net power costs* from the value of freed-up energy rather than subtracting *total generation costs* from the value of freed-up energy. Calculating the transition adjustment in this manner is logically equivalent to subtracting total generation costs from the value of freed-up energy while *not* charging direct access customers for Schedule 200.

[2] *See* PacifiCorp Tariff, Schedule 294, p. 1.

value of the energy is then compared to the customer's price under Schedule 201 to determine the Schedule 294 or 295 credit (charge).

Q. Have refinements been developed to mitigate the impact of including thermal costs in the calculation of Schedules 294 and 295?

A. Yes. In UE-199 (2009 TAM), a Stipulation approved by the Commission in Order No. 08-543 modified the valuation of the thermal generation assumed to be backed down due to direct access by providing for a partial weighting using market prices. Specifically, the parties agreed as follows:

> 15. Transition Adjustment: The Parties agree to modify the calculation of the Transition Adjustment for direct access in two ways: (1) the Company will relax the market cap limitations in the GRID model by 15 MW at Mid-Columbia and 10 MW at COB to determine the value of the freed up power; and (2) any remaining monthly thermal generation that is backed down for assumed direct access load will be priced at the simple monthly average of the COB price, the Mid-Columbia price, and the avoided cost of thermal generation as determined by GRID. The monthly COB and Mid-Columbia prices will be applied to the heavy load hours or light load hours separately. The existing balancing account mechanisms will remain in effect.

The partial weighting using market prices was implemented pursuant to the second provision quoted above. Historically, this provision has partially mitigated the negative value proposition typically faced by direct access customers in the PacifiCorp territory.

Q. Has this second provision been applied continuously since its initial adoption in UE-199?

A. Yes. My understanding is that PacifiCorp has continued to apply this provision in each TAM proceeding, including this 2020 TAM proceeding, since it was initiated in 2009.

<u>Calculation of the Five-Year Transition Adjustment (Schedule 296) and the Consumer Opt-Out Charge</u>

Q. Can you describe how customers electing the permanent opt out option are charged under Schedule 296?

A. Yes. Schedule 296 consists of two major parts: (1) a five-year transition adjustment component that structurally is nearly identical to the calculation of the Schedule 294 and 295 transition adjustments, and (2) a Consumer Opt-Out component, which brings forward into Years 1 through 5 the projected Schedule 200 costs for Years 6 through 10, net of projected net power costs savings attributed to the departed opt-out load.

In addition to the Schedule 296 charge, the customer must also pay PacifiCorp the base Schedule 200 charge for five years, which may be updated in each rate case during that period.

From the effective date of the opt-out election forward, the customer also pays charges for the generation and delivery that the customer will use to serve its load, which includes payments to an ESS for the generation and to PacifiCorp for delivery service under an applicable delivery service tariff.

Q. How does PacifiCorp propose to calculate the Consumer Opt Out Charge under Schedule 296 in this filing?

A. According to Michael G. Wilding, PacifiCorp proposes to calculate the Consumer Opt Out Charge using the same method as was agreed to in the 2019 TAM stipulation. Under that stipulation, the Schedule 200 Opt Out Charge was held constant for years six through ten, i.e. no escalation was applied during this period.

Q. Do you support PacifiCorp's proposed treatment of the Consumer Opt Out Charge?

A. Yes. In prior TAM cases, Calpine Solutions has argued that not only should the Consumer Opt Out charge not escalate in years six through ten, the charge should actually *decline* over that period due to the effects of increased accumulated depreciation and amortization. The rationale underlying this argument is that any costs increases occurring in Schedule 200 charges in years six through ten are not incurred on behalf of customers that departed PacifiCorp's system five years earlier; and that further, the portfolio of Schedule 200 assets in place at Year 5 would depreciate for ratemaking purposes.

While I fully agree with Calpine Solutions' long-term position on this issue, in the spirit of compromise, I support the approach used in the 2019 TAM stipulation and agree with PacifiCorp that it should be applied in this 2020 TAM filing as well. By applying this approach in this case, a potentially contentious issue will be eliminated. I recommend the Commission approve PacifiCorp's proposed derivation of the Consumer Opt Out Change for Schedule 296.

I have requested a sample calculation of PacifiCorp's proposed Schedule 296. However, the response to that request is not expected until after this testimony is filed. I will address any issues with that calculation in my rebuttal testimony.

Q. Does this conclude your opening testimony?

A. Yes, it does.