

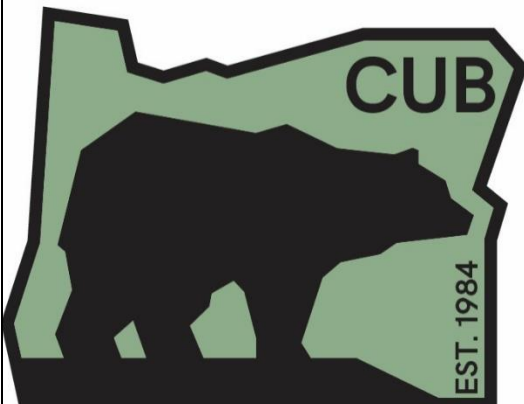
**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UE 359

In the Matter of)
)
PORTLAND GENERAL ELECTRIC)
COMPANY,)
)
2020 Annual Power Cost Update Tariff)
(Schedule 125).)
_____)

**OPENING TESTIMONY
OF THE
OREGON CITIZENS' UTILITY BOARD**

June 25, 2019



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COMPANY,) OREGON CITIZENS' UTILITY
) BOARD
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(Schedule 125).)
_____)

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

2 A. My name is William Gehrke. I am an Economist employed by Oregon Citizens'
3 Utility Board (CUB). My business address is 610 SW Broadway, Ste. 400
4 Portland, Oregon 97205.

5 **Q. Please describe your education background and work experience.**

6 A. My witness qualification statement is found in exhibit CUB/101.

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

8 A. I respond to issues raised in Portland General Electric Company's (PGE or the
9 Company) Opening Testimony.

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

11 A. My testimony is organized as follows:

12 I. Inflation Rate

13 II. Energy Imbalance Market (EIM) Benefits

14 III. Coal Inventory Management

I. Inflation Rate

Q. Please summarize your adjustment.

A. CUB proposes that the Company's most recently approved inflation rate from its IRP be used in the Annual Update Tariff (AUT). The Public Utility Commission of Oregon most recently approved a 2% general inflation rate in the Company's 2016 IRP.¹

Q. What does the Company assume as a general inflation rate in this filing?

A. The Company assumes an inflation rate of 2.5%. The Company's inflation rate has remained unchanged since the creation of MONET, which was created in the late 1990s.

Q. What is the source of the inflation rate PGE uses?

A. The source of the inflation rate is a long-term inflation forecast from Wharton Econometric Forecasting Associates (WEFA). WEFA is currently operated by Information Handling Services (IHS).

Q. What costs has the Company applied the inflation rate to in past AUT proceedings?

A. The Company escalates the following costs using its long-term inflation rate:

- Generating Plant Commodity and Transport Costs
- Wind Day Ahead Forecast Error costs.

Q. What has changed from a monetary policy perspective since the Company established its long-term inflation forecast?

¹ LC 66 – PGE's 2016 IRP Update- March 2018, Page 28 of 110.

1 **A.** Since 2012, the Federal Open Market Committee has engaged in inflation targeting.
2 The Federal Reserve has dual mandate of maximizing employment and stabilizing
3 prices. The Federal Reserve’s inflation targeting policy sets a symmetrical inflation
4 target at a 2% level.

5 **Q. Was inflation targeting a policy of the Federal Reserve when the Company**
6 **established its long-term inflation policy assumption in the 90s?**

7 **A.** No.

8 **Q. What change do you propose to the Company’s inflation proposal?**

9 **A.** Moving forward, CUB proposes the Company use the most recently approved
10 inflation rate from its IRP for its inflation forecast. The most recently approved
11 long-term inflation rate was 2%.² There should be a synchronization in the
12 economic assumptions between the Company’s AUT and the Company’s IRP
13 process.

14 **Q. Does CUB believe that observed inflation will be higher in some years and**
15 **lower in other years?**

16 **A.** Yes. Inflation will sometimes be slightly higher, sometimes slightly lower.
17 However, CUB expects inflation to fluctuate around 2%, because 2% inflation is
18 the Federal Reserve’s symmetrical inflation target.

19 **Q. Why do you propose the usage of the Company’s long-term inflation rate**
20 **from its IRP?**

² *Supra*, note 1.

1 **Q. Do you propose any changes to the Company's approach to estimating**
2 **Hydro GHG revenue?**

3 **A.** Yes. CUB proposes to estimate the reduction to 2020 Hydro GHG revenue by
4 using the average year to year reduction using all available data as of November
5 2019. The Company's proposed reduction in GHG revenue is based on only three
6 months of data. Using more months of data is a better approximate reduction in
7 GHG award quantity. This reduction can be applied to the EIM benefits estimation
8 in the November update.

9 **III. Coal Inventory Management**

10 **Q. How has the Company proposed to model the operation of Boardman**
11 **October 1 to December 31, 2020?**

12 **A.** The Company is proposing to model a 100% maintenance outage for Boardman
13 from October 1st to December 31st. This maintenance outage increases forecasted
14 power cost in the Company's initial filing by \$3.6 million.

15 **Q. Why is the Company modeling an outage for Boardman in 2020?**

16 **A.** On December 31, 2020, Boardman will definitively end its operations. If the
17 Company prudently manages Boardman's last year of operation and unforeseen
18 circumstances lead to unburned coal being present, customers would have to pay
19 significant decommissioning costs.

20 **Q. What unforeseen circumstances could lead to a large amount of coal**
21 **remaining at Boardman during the decommissioning process?**

22 **A.** Boardman could experience an unplanned outage which would prevent the
23 consumption of the coal stack. The Company is not planning on burning coal from

1 October 1, 2020 to December 31, 2020 in order to reduce the risk of higher
2 decommissioning costs. If Boardman has an unplanned outage between January
3 and September 2020, the Company is planning on using the months of October-
4 December as a buffer to burn the remaining coal in the coal stack. CUB finds the
5 Company's proposal to be reasonable.

6 **Q. What is the Company's proposal to address the possibility of some coal**
7 **remaining on site after September 2020?**

8 **A.** The Company proposes to economically dispatch the unit to take into account the
9 avoided cost of disposing the remaining coal unit. If any coal is left on the ground
10 after September 2020 and the plant is economic to run in the last quarter of 2020,
11 the Company is proposing to include the realized benefits as an NVPC reduction in
12 a subsequent AUT proceeding. The Company is proposing to file a deferred
13 accounting application and track the power cost difference between Mid-C hourly
14 prices and plant actual hourly dispatch costs from October 1st, 2020 until December
15 31st, 2020.

16 **Q. What is CUB response to the Company's proposal?**

17 **A.** CUB appreciates the Company proposing to file a deferral that would likely be in
18 the customer's favor. While deferred accounting appears to be a convenient remedy
19 in this situation, CUB would oppose the filling of a deferral. If the plant is not
20 projected to run in the last three months, then the modeling of a 100% maintenance
21 deration of Boardman would likely be the most accurate power forecast. CUB
22 proposes that any difference in net variable power cost be handled in the
23 Company's annual PCAM. The PCAM is designed to capture unusual power cost

1 variation. It already allows the Company to share with customers the benefits and
2 burdens of variations between expected power costs included in rates and actual
3 power costs.³

4 **Q. How did the Company provide an estimate of the coal removal costs at**
5 **Boardman?**

6 **A.** The Company's approach is simple. The estimate is the average of two quotes the
7 Company received to remove material from Boardman. In future updates of UE
8 359, CUB asks the Company to provide updates to its estimate of coal disposal
9 costs.

10 **Q. Does CUB have a comment on the Company's testimony regarding**
11 **decommissioning costs?**

12 **A.** Yes. It is concerning to CUB that the Company has placed expected coal disposal
13 costs on the public record in this proceeding. CUB would consider this information
14 to be of significant commercial value—the Company's public disclosure of this
15 information has the potential to be detrimental to PGE customers. CUB is surprised
16 that the Company did not keep this information confidential. Third party
17 environmental remediation companies can use the Company's publicly available
18 estimates, and tailor their own estimated costs for coal removal. These estimates
19 may be higher than what these companies would otherwise provide. If coal removal
20 is included in PGE decommissioning costs, CUB will closely examine the
21 Company's coal removal costs and consider that it revealed its estimated coal
22 removal costs in a future prudence review.

³ OPUC Order No. 08-553 at 2.

WITNESS QUALIFICATION STATEMENT

NAME: William Gehrke

EMPLOYER: Oregon Citizens' Utility Board

TITLE: Economist

ADDRESS: 610 SW Broadway, Suite 400
Portland, OR 97205

EDUCATION: MS, Applied Economics
Florida State University, Tallahassee, FL

BS, Economics
Florida State University, Tallahassee, FL

EXPERIENCE: Provided testimony or comments in several Oregon Commission dockets. Worked as an Economist for the Florida Department of Revenue. Worked as Utility Analyst at the Florida Public Service Commission, providing advice on rate cases and load forecasting. Attended the Institute of Public Utilities Annual Regulatory Studies program in 2018.