

PACIFIC POWER DATA REQUEST NO. 003 TO BOISE:

Please produce a copy of the testimony sponsored by Mr. Mullins in the matters listed in your response to Data Request 2.

RESPONSE TO PACIFIC POWER DATA REQUEST NO. 003:

Please see Attachment A to Boise's Response to Pacific Power Data Request 003, which includes copies of relevant testimony listed in Boise's response to Pacific Power Data Request 002.

PAGE 5 – BOISE RESPONSE TO PACIFIC POWER'S FIRST SET OF DATA REQUESTS

Date: May 10, 2017
Respondent: Bradley G. Mullins
Witness: Bradley G. Mullins

**BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

WASHINGTON UTILITIES AND)
TRANSPORTATION COMMISSION,) DOCKET UE-161123
)
Complainant,)
)
v.)
)
PUGET SOUND ENERGY)
)
Respondent.)

**SETTLEMENT TESTIMONY OF BRADLEY G. MULLINS
ON BEHALF OF
THE INDUSTRIAL CUSTOMERS OF NORTHWEST UTILITIES**

April 11, 2017

1 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 A. My name is Bradley G. Mullins, and my business address is 333 SW Taylor Street, Suite
3 400, Portland, Oregon 97204.

4 **Q. PLEASE STATE YOUR OCCUPATION AND ON WHOSE BEHALF YOU ARE**
5 **TESTIFYING.**

6 A. I am an independent energy and utilities consultant representing large energy consumers
7 throughout the western United States. I am appearing on behalf of the Industrial
8 Customers of Northwest Utilities (“ICNU”). ICNU is a trade association whose members
9 are large electric customers served by electric utilities throughout the Pacific Northwest,
10 including Puget Sound Energy (“PSE” or the “Company”).

11 **Q. PLEASE SUMMARIZE YOUR EDUCATION AND WORK EXPERIENCE.**

12 A. I have a Master of Science degree in Accounting from the University of Utah. After
13 obtaining my Master’s degree I worked at Deloitte, where I ultimately specialized in
14 research and development tax incentives for multi-national corporate clients.
15 Subsequently, I worked at PacifiCorp as an analyst involved in regulatory matters
16 surrounding power supply costs. I currently provide services to utility customers on
17 matters such as power costs, revenue requirement, rate spread and rate design. I have
18 sponsored testimony in numerous regulatory jurisdictions throughout the United States,
19 including before the Washington Utilities and Transportation Commission
20 (“Commission”). A list of my regulatory appearances can be found in Exhibit No.
21 BGM-2.

22 **Q. WHAT IS THE PURPOSE OF YOUR SETTLEMENT TESTIMONY?**

23 A. I discuss the support of ICNU for the Settlement Stipulation and Agreement
24 (“Stipulation”) that resolves all issues in this docket. A summary of the procedural

1 background in this matter can be found in the Joint Memorandum in Support of the
2 Settlement Agreement.

3 Specifically, I provide ICNU’s perspective on the reasonableness of the \$23.7
4 million “transition fee” that Microsoft has agreed to pay, pursuant to paragraph 10 of the
5 Stipulation, and why ICNU considers this fee to be in the public interest given the
6 circumstances of this case.^{1/} I also discuss the relationship between the transition fee
7 amount and Microsoft’s potential obligation to contribute to Colstrip remediation,
8 decommissioning and/or accelerated depreciation costs.

9 **Q. PLEASE SUMMARIZE YOUR TESTIMONY.**

10 A. The \$23.7 million fee that Microsoft has agreed to pay in order to begin taking retail
11 wheeling services will more than compensate the Company’s remaining customers for
12 any costs they may incur as a consequence of Microsoft’s departure. This is because the
13 amount of this fee does not account for the long-term benefits that the Company’s
14 remaining ratepayers will receive as a result of the departure of Microsoft load. This is
15 particularly true considering the benefits that the departure of Microsoft load will provide
16 to remaining customers when the Company retires Colstrip Units 1 and 2, which must
17 occur no later than July 2022. Since the transition fee did not include the long-term
18 benefits of avoiding replacement capacity for Colstrip Units 1 and 2, it was an important
19 consideration for ICNU that the Stipulation contain language explicitly acknowledging
20 that any potential obligations of Microsoft with respect to Colstrip were not resolved by
21 the Stipulation and were reserved for future ratemaking proceedings.^{2/} Such a provision

^{1/} Stipulation ¶ 10. See also Exh. No. JAP-1CT at 2:1-9.

^{2/} Stipulation ¶ 11.

1 will preserve parties' ability to consider costs and benefits reflected in the transition fee
2 when evaluating any potential obligations Microsoft may have with respect to the
3 retirement of Colstrip Units 1 and 2.

4 **Q. DOES THE TRANSITION FEE ACCOUNT FOR THE FULL AVOIDED COST**
5 **OF ACQUIRING REPLACEMENT CAPACITY FOR COLSTRIP UNITS**
6 **1 AND 2?**

7 A. No. Pursuant to the July 12, 2016 Consent Decree lodged in the United States District
8 Court, District of Montana, the Company and Talen Energy agreed to permanently cease
9 operation of Colstrip Units 1 and 2 on, or before, July 1, 2022.^{3/} Retirement of Colstrip
10 Units 1 and 2—which were originally placed into service in 1975 and 1976,
11 respectively—will represent a loss to the Company of approximately 307 MW of
12 capacity.^{4/} Due to this loss of capacity and as a result of expected load growth, the
13 Company expects that it must acquire replacement capacity in order to serve its loads in
14 the near future. In fact, based on recent presentations to the 2017 Integrated Resource
15 Plan (“IRP”) Advisory Group, the Company now believes that it will have a resource
16 deficit of approximately 550 MW as soon as 2020 if Microsoft continues to be served as
17 a cost of service customer.^{5/} When Microsoft departs, however, the Company will be
18 able to avoid acquiring a significant amount of this replacement capacity. However, the
19 methodology used to calculate the transition fee only provided for minimal value
20 associated with avoiding or deferring new resources due to the departure of Microsoft
21 load.

^{3/} See WUTC v. PSE, Dockets UE-170033/UG-170034, Exh. No. RJR-18 at 6-7.

^{4/} See PSE 2015 IRP, Appendix K at K-3.

^{5/} Exh. No. BGM-3 at 14 (Att. A to the Company's Response to ICNU DR 015 (PSE 2017 IRP Advisory Group Presentation at 16)).

1 **Q. WHAT METHODOLOGY DID THE COMPANY USE TO CALCULATE THE**
2 **TRANSITION FEE?**

3 A. The Company calculated the transition fee based upon a ratepayer impact measure, which
4 accounted for both the savings resulting from the departing load, as well as lost revenue.
5 The Company calculated the annual revenue requirement savings associated with the
6 departure of Microsoft load using the Portfolio Screening Model III.^{6/} These model runs,
7 based on resource portfolio assumptions loosely aligned with the Company's 2015 IRP,
8 calculated the savings in energy and capacity costs associated with the departing
9 Microsoft loads. Next, the Company deducted the lost production cost revenues
10 associated with the departure of Microsoft load in order to derive a ratepayer impact
11 measurement associated with the departing load to remaining customers.^{7/}

12 **Q. DID THE ANALYSIS PROVIDE REASONABLE VALUE FOR THE CAPACITY**
13 **AVOIDED AS A RESULT OF THE DEPARTURE OF MICROSOFT LOAD?**

14 A. No. Two aspects of the Company's analysis undervalued the savings associated with
15 avoided replacement capacity. First, the Company limited its calculation of the transition
16 fee to the five-year period 2018 to 2022, limiting recognition of long-term capacity
17 benefits that remaining customers will receive due to the departure of Microsoft load.
18 Second, the Company based its analysis on severely outdated assumptions, which are
19 inconsistent with the current understanding of the Company with respect to its near-term
20 resource needs.

^{6/} Exh. No. JAP-1CT at 4:3-10.

^{7/} Id. at 4:11-5:4.

1 **Q. HOW DID THE USE OF A FIVE-YEAR PERIOD IMPACT THE TRANSITION**
2 **ADJUSTMENT?**

3 A. Based on the resource portfolio assumptions the Company used, Microsoft gets credit for
4 only one year of benefit for avoiding replacement capacity associated with the retirement
5 of Colstrip Units 1 and 2. Notwithstanding, avoiding that replacement capacity will
6 result in material revenue requirement savings to remaining ratepayers over a long-term
7 period, not just for a single year.

8 **Q. WHERE CAN IT BE NOTED THAT THE COMPANY ONLY PROVIDED ONE**
9 **YEAR WORTH OF CAPACITY BENEFITS?**

10 A. It can be noted in Exh. No. JAP-3C. Over the first four years of the study (2018 – 2021),
11 the rate impact to remaining customers is negative. In the fifth year (2022),
12 corresponding to the timing of the closure of Colstrip Units 1 and 2, the revenue
13 requirement differential and ratepayer impact is positive. My understanding is that it
14 flips as a result of the recognition of the benefits to remaining customers associated with
15 avoided capacity costs driven by the departure of Microsoft load. This benefit extends
16 throughout years five through 20 of the study period. Yet, by limiting the calculation of
17 the transition fee to the five-year period 2018 - 2022, the methodology only provides one
18 year of capacity benefits, even though remaining customers are expected to receive
19 significant benefits over the 20-year study period.

20 **Q. HOW MUCH DO REMAINING CUSTOMERS BENEFIT OVER THE 20-YEAR**
21 **STUDY PERIOD?**

22 A. Compared to the \$23.7 million transition fee the Company proposes, the Company
23 calculated that remaining ratepayers benefit by approximately \$23 million on a net
24 present value revenue requirement basis over the 20-year study period. That figure is
25 also likely understated as a result of the use of outdated resource assumptions.

1 **Q. WHY DID THE COMPANY INITIALLY PROPOSE A FIVE-YEAR PERIOD?**

2 A. The testimony of the Company on this topic is limited, though the Company appeared to
3 rely primarily on the Commission's decision and parties' positions in Docket No.
4 UE-132027, the accounting petition regarding the proceeds from the sale of assets to
5 Jefferson County PUD.^{8/} The Company noted that parties rejected the Company's
6 position in that docket that it should be awarded the gain on the sale of assets based on a
7 20-year analysis showing a net benefit to customers from this sale, arguing that
8 calculating benefits this far into the future was speculative. The Company has used
9 similar reasoning in this docket to argue that it would be reasonable to calculate a
10 transition fee over a five-year period.^{9/}

11 **Q. IS THIS PROCEEDING DISTINCT FROM THE JEFFERSON COUNTY PUD**
12 **PROCEEDING?**

13 A. Yes. The Jefferson County PUD proceeding involved proceeds from the sale of assets.
14 In this proceeding, no assets are being sold. Microsoft will still receive distribution, retail
15 wheeling and other services from the Company, and is not receiving ownership of any
16 assets in consideration for its payment of the \$23.7 million transition fee. The
17 Commission's decision in the Jefferson County PUD proceeding to allocate the gain on
18 the sale of these assets to customers was not based on a net present value analysis over
19 any particular period. It was based on the principle that customers bore the risks and
20 burdens associated with the sold assets and, therefore, should receive the rewards and
21 benefits.

^{8/} Id. at 9:13-18

^{9/} Id.

1 Additionally, PSE is currently facing an unusual circumstance in that it knows
2 with virtual certainty that it will lose 307 MW of capacity by no later than 2022 with the
3 retirement of Colstrip Units 1 and 2. While ICNU generally agrees that calculations of
4 long-term costs and benefits are more speculative the farther out they go, and was one of
5 the parties that argued against using a 20-year benefits study in the Jefferson County
6 PUD proceeding, it *is* appropriate to account for known future circumstances, and the
7 savings core customers will realize through reduced capacity requirements associated
8 with Microsoft's departure is such a known circumstance.

9 **Q. IS THE PROPOSED TRANSITION FEE ALSO BASED ON OUTDATED**
10 **ASSUMPTIONS?**

11 A. Yes. The analysis performed by the Company is based on information from its 2015
12 IRP,^{10/} although the analysis was not based on any particular study filed in the 2015 IRP.
13 Rather, it appears that the transition fee was based on a study populated with some
14 assumptions from the 2015 IRP, but with a number of other modeling changes based on
15 comments received in the Commission's IRP acknowledgement letter dated May 9, 2016.
16 In reviewing the Company's filing, it was not clear to me why the Company made
17 modeling changes to reflect the Commission's IRP acknowledgement letter but did not
18 update all of its assumptions to be based on more recent information.

19 **Q. IS THE COMPANY CURRENTLY OPERATING UNDER NEW**
20 **ASSUMPTIONS?**

21 A. Yes. On February 3, 2017, for example, the Company made a presentation to the 2017
22 IRP Advisory Group. In that presentation, the Company suggested that, after updating

^{10/} Id. at 7:1-13.

1 assumptions and incorporating guidance from the Commission's IRP acknowledgement
2 letter, it will have a resource need as early as 2020.^{11/}

3 **Q. DOES THE 2020 RESOURCE NEED ASSUME MICROSOFT WILL CONTINUE**
4 **TO BE SERVED AS A COST OF SERVICE CUSTOMER?**

5 A. Yes.^{12/} Accordingly, if Microsoft were to depart from the Company's system, the need to
6 acquire a new resource in 2020, as identified in the 2017 IRP Advisory Group, would be
7 diminished.

8 **Q. WHAT IMPACT WILL THE UPDATED ASSUMPTIONS HAVE ON THE**
9 **TRANSITION ADJUSTMENT CALCULATION?**

10 A. In discovery, ICNU requested that the Company update the transition fee calculation
11 based on the updated assumptions, as presented in the February 3, 2017 IRP Advisory
12 Group meeting. The Company, however, was not willing to perform the calculation.^{13/}

13 As noted previously, the departure of Microsoft load provides benefits to
14 remaining customers by deferring or avoiding resource acquisitions, as confirmed by the
15 Company's own analysis. Thus, the earlier resource need would mean more significant
16 benefits to customers associated with avoided replacement capacity. In fact, it is possible
17 that, if the assumptions were updated, the departure of Microsoft load would represent a
18 benefit to customers, even if measured over a five-year period.

^{11/} Exh. No. BGM-3 at 14 (Att. A to the Company's response to ICNU Data Request No. 15 (PSE 2017 IRP Advisory Group Presentation at 17)).

^{12/} Id. at 15 (the Company's response to ICNU Data Request No. 017).

^{13/} Id. at 16 (the Company's response to ICNU Data Request No. 018).

1 **Q. GIVEN THESE CONCERNS, WHY DOES ICNU BELIEVE THAT THE**
2 **TRANSITION FEE IS REASONABLE?**

3 A. The transition fee is reasonable because it is acceptable to Microsoft. With respect to the
4 transition fee calculation, Microsoft shared many of my concerns discussed above.^{14/}
5 Notwithstanding, it appears that Microsoft was willing to accept the transition fee amount
6 proposed by the Company for a number of business reasons, many of which have less to
7 do with the economics of the Company's system and more to do with achieving
8 sustainability objectives and supporting its local communities. More than 40,000
9 Microsoft employees live and work in the Puget Sound area, and accordingly, Microsoft
10 has an interest in ensuring that local communities remain robust and healthy. These types
11 of social considerations are difficult to quantify in terms of IRP portfolio modeling. Yet,
12 they appear to have played an integral role in the willingness of Microsoft to accept the
13 transition fee the Company proposed. Taking these factors into consideration, I view the
14 transition payment to be reasonable not on the basis of stranded costs, but rather on the
15 basis that it represents goodwill on the part of Microsoft.

16 **Q. DOES THE SPECIAL CONTRACT AUTHORIZED BY THE SETTLEMENT**
17 **MEET THE COMMISSION'S REQUIREMENTS FOR SUCH CONTRACTS?**

18 A. I believe so. The Joint Memorandum explains these requirements in detail and describes
19 why the special contract meets these requirements. I would add that the transition fee
20 Microsoft has agreed to pay more than ensures that the contract charges will recover all
21 costs resulting from PSE's provision of service to Microsoft under the contract.
22 Regardless of Microsoft's commitments to purchase its power from carbon-free energy

^{14/} See Exh. No.__(GSS-1T).

1 sources, ICNU considers the net economic benefit that remaining customers will realize
2 through Microsoft's departure to make the special contract in the public interest.

3 **Q. HOW DOES THE LANGUAGE REGARDING COLSTRIP REMEDIATION**
4 **RELATE TO THE TRANSITION ADJUSTMENT?**

5 A. The ability of the Commission to consider the transition fee amount when evaluating the
6 allocation of Colstrip remediation costs was also an important consideration for ICNU to
7 support the transition fee amount. In paragraph 11 of the Stipulation, parties agreed that
8 the treatment of any of Microsoft's potential obligations with respect to Colstrip
9 remediation expenses would be addressed in future filings. Given the fact that the
10 transition fee provided minimal benefits associated with avoided replacement capacity for
11 Colstrip Units 1 and 2, it would violate the matching principle if, for example, Microsoft
12 were required to pay 18 years' worth of accelerated costs associated with retiring Colstrip
13 Units 1 and 2. Thus, the language in paragraph 11 was important because it preserved the
14 right of parties to consider the transition fee amount when making ratemaking proposals
15 regarding Colstrip remediation, decommissioning and/or accelerated depreciation costs in
16 future rate proceedings.

17 **Q. DOES ICNU SUPPORT THE COMMISSION OPENING AN INVESTIGATION**
18 **ON RETAIL WHEELING?**

19 A. Yes. Paragraph 11 of the Joint Memorandum identifies a new docket that Staff will
20 request the Commission open to hold a broader discussion of retail wheeling in
21 Washington State. ICNU generally supports customer choice, including the ability of
22 customers to choose how and where they source their power, provided that non-
23 participating customers are not materially harmed, and a state-wide retail wheeling
24 program could provide these customer benefits. While I do not have an opinion about the

1 Commission's legal authority to adopt such a program, I am aware that the state
2 legislature has expressed a policy preference for at least some level of customer choice by
3 refusing to mandate exclusive service territories in the state. Accordingly, an in-depth
4 examination of the types of customer choice policies that would be in the public interest
5 is warranted.

6 **Q. DOES THIS CONCLUDE YOUR SETTLEMENT TESTIMONY?**

7 A. Yes.

1 **I. INTRODUCTION AND SUMMARY**

2 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3 **A.** My name is Donald W. Schoenbeck. I am a member of Regulatory & Cogeneration
4 Services, Inc. (“RCS”), a utility rate and economic consulting firm. My business address
5 is 900 Washington Street, Suite 780, Vancouver, WA 98660.

6 **Q. PLEASE DESCRIBE YOUR BACKGROUND AND EXPERIENCE.**

7 **A.** I have been involved in the energy industry for over 40 years. During that time, I have
8 served as an analyst and expert on a variety of power supply, cost, ratemaking, and policy
9 topics, including issues related to the Pacific Northwest investor-owned utilities and the
10 Bonneville Power Administration (“BPA”). I have provided testimony on behalf of the
11 Industrial Customers of Northwest Utilities (“ICNU”) before the Oregon Public Utility
12 Commission (“OPUC” or “Commission”) in various proceedings regarding Portland
13 General Electric Company (“PGE”) and PacifiCorp (the “Company”). I have also
14 provided testimony on behalf of ICNU before the Washington Utilities and
15 Transportation Commission (“WUTC”) regarding Avista, PacifiCorp, and Puget Sound
16 Energy. A further description of my educational background and work experience can be
17 found in Exhibit ICNU/101.

18 **Q. ON WHOSE BEHALF ARE YOU APPEARING IN THIS PROCEEDING?**

19 **A.** I am testifying on behalf of ICNU. ICNU is a non-profit trade association whose
20 members are large industrial customers served by local distribution utilities throughout
21 the Pacific Northwest, including PacifiCorp.

1 **Q. WHAT TOPICS WILL THIS TESTIMONY ADDRESS?**

2 **A.** The purpose of this testimony is to address the flaws in PacifiCorp's proposed approach
3 to a five-year opt-out program for qualified customers to move to direct market access for
4 electricity supply. In particular, PacifiCorp's proposed Customer Opt-Out Charge that
5 imposes 20 years of fixed generation costs on potential direct access participants during
6 the five-year transition period is unreasonable and unsupported.

7 ICNU proposes that the Commission adopt an alternate methodology similar to
8 the universally supported proposed settlement of direct access issues in PGE's UE 262
9 General Rate Case docket. This methodology represents a reasonable and conservative
10 approach to allowing eligible customers to transition to long-term market energy supply
11 while minimizing any potential harm to remaining cost of service customers.

12 **Q. PLEASE SUMMARIZE YOUR RECOMMENDATIONS IN THIS TESTIMONY.**

13 **A.** The essential elements of ICNU's proposed five-year opt-out program are summarized
14 below.

- 15 • **Participation Cap:** 175 aMW pursuant to reevaluation upon reaching 80%
16 participation (same proposal as PacifiCorp).
- 17 • **Eligibility:** Customers taking delivery service under Schedules 47/747 or
18 48/748 and consumers taking service under Schedules 30/730, 47/747, or
19 48/748 under a single corporate name with meters each having more than 200
20 kW of billing demand at least one time in the past 13 months and totaling at
21 least 1 MW (as opposed to 2 MW proposed by PacifiCorp).
- 22 • **Rate Charges:** During the transition period, customers electing the five-year
23 program would be subject to base power supply charges (Schedule 200),
24 transition adjustments based on the difference between regulated net power
25 costs and the market value of power, and applicable delivery charges and
26 supplemental adjustment schedules. After the five year transition period,
27 customers would only be responsible for applicable delivery and adjustment

1 schedules and would pay no power supply costs to PacifiCorp (same proposal
2 as PacifiCorp excepting the Customer Opt-Out Charge).

- 3 • **Return to Cost of Service:** Direct access customers would retain the right to
4 return to cost of service rates with three years of advance notification to the
5 Company (as opposed to no possibility of return in the Company's filing).

6 **II. PACIFICORP'S DIRECT ACCESS PROGRAM**

7 **Q. PLEASE DESCRIBE THE PURPOSE OF THIS DOCKET.**

8 **A.** As ordered by the Commission in docket UM 1587, the Company has filed a proposed
9 tariff to allow eligible customers to participate in a five-year opt-out program to go to
10 direct access by paying fixed transition charges for five years and then no longer be
11 subject to transition adjustments.

12 **Q. HAS PACIFICORP'S DIRECT ACCESS PROGRAM TO DATE BEEN A** 13 **VIABLE OPTION FOR CUSTOMERS?**

14 **A.** No. Since its initial implementation, PacifiCorp's direct access programs have suffered
15 from anemic participation. Based on PacifiCorp's response to Noble Americas Energy
16 Solutions ("NAES") Data Request 1.2 and 1.3, direct access participation in 2013 will be
17 only about 22 aMW, representing 3% of currently eligible load. These data responses are
18 attached as part of Exhibit ICNU/102, Schoenbeck/1-2. Customers have been
19 particularly limited by lack of means to make a long term commitment to direct access
20 that results in eventual cessation of transition adjustments and payment of fixed
21 generation costs to PacifiCorp.

22 **Q. PLEASE BRIEFLY DESCRIBE THE COMPONENTS OF PACIFICORP'S** 23 **ELECTRICITY SUPPLY SERVICE AND HOW THEY RELATE TO** 24 **PACIFICORP'S CURRENT THREE-YEAR OPT-OUT PROGRAM.**

25 **A.** PacifiCorp's electricity supply service for cost of service customers has two components.
26 The first component is Net Power Costs ("NPC"), which are collected through Schedule

1 201 and generally include fuel costs, wholesale power purchases, wheeling expenses, and
2 offset by wholesale sales revenues (i.e., variable generation costs). The second
3 component is Base Supply Service costs, which are collected through Schedule 200 and
4 are composed of the capital costs and operations and maintenance expenses for
5 PacifiCorp's generation fleet that are not captured in NPC (i.e., fixed generation costs).

6 The Company's current direct access program allows eligible customer to opt out
7 of Schedule 201 charges in favor of market service. These customers are still subject to
8 Schedule 200 charges and also pay transition adjustments reflecting the forecasted
9 difference between the Company's regulated NPC and the market value of the energy
10 that is freed by the customers choosing direct access.

11 **Q. PLEASE SUMMARIZE PACIFICORP'S PROPOSED FIVE-YEAR PROGRAM**
12 **IN THIS PROCEEDING.**

13 **A.** PacifiCorp's proposal in this proceeding is for customers currently eligible for the three-
14 year opt-out program to also be eligible for the five-year program. Specifically, this
15 includes customers taking delivery service under Schedules 47/747 or 48/748 and
16 consumers taking service under Schedules 30/730, 47/747, or 48/748 under a single
17 corporate name with meters each having more than 200 kW of billing demand at least
18 one time in the past 13 months and totaling at least 2 MW. Total program participation
19 would be capped at 175 aMW.

20 Similar to the extant three-year program, eligible customers electing the five-year
21 program would continue to pay Schedule 200 charges and also transition adjustments,
22 plus an additional Customer Opt-Out Charge which PacifiCorp is proposing as part of
23 Schedule 296. After five years of continuous participation in the opt-out program,
24 customers would no longer pay transition adjustments or Customer Opt-Out Charges in

1 Schedule 296 and also would be exempt from Schedule 200 charges. In other words,
2 after five years customers would no longer pay PacifiCorp for any power supply costs.
3 Finally, under PacifiCorp's proposal, customers who fully transitioned away from
4 PacifiCorp's cost of service power supply would never be eligible to return to full cost of
5 service rates.

6 **Q. PLEASE DESCRIBE THE PROPOSED FIVE-YEAR PROGRAM CUSTOMER**
7 **OPT-OUT CHARGES UNDER SCHEDULE 296 IN MORE DETAIL.**

8 **A.** The Customer Opt-Out charge is the key element that differentiates PacifiCorp's
9 proposed program from PGE's program (both historically and prospectively). According
10 to PacifiCorp, the purpose of the Schedule 296 rates is to charge direct access customers
11 for the projected fixed generation costs (offset by the value of freed up energy) for years
12 six through twenty after a customer elects direct access. In other words, PacifiCorp is
13 proposing to charge direct access for customers for a full *twenty years* of fixed generation
14 costs during the five year transition period.

15 PacifiCorp's rationale for this proposal is that it is "necessary to minimize cost
16 shifting to nonparticipating customers when customers in this program cease paying Base
17 Supply Service in Schedule 200 after five years." PAC/200, Duvall/6 lines 9-11.
18 PacifiCorp appears to have chosen a 20-year time frame to match the "planning horizon"
19 in long-term Integrated Resource Plans ("IRP").

20 **Q. IS PACIFICORP'S PROPOSAL REASONABLE?**

21 **A.** No. Although PacifiCorp does include 20 year planning in its IRP, actual resource
22 acquisitions are made based on significantly shorter-term considerations. PacifiCorp
23 does not consider the value to remaining cost of service customers of avoiding or
24 delaying expensive resource acquisitions as a result of customers choosing direct access.

1 Further, PacifiCorp's analysis does not consider the impact of load growth in offsetting
2 any potential "stranded costs" as a result of customers choosing direct access.

3 Since PacifiCorp claims that it plans and operates its system on an integrated
4 basis and Oregon currently pays for the costs of load growth on the Company's eastern
5 system, it is relevant to consider the rate of load growth on the system. In response to
6 Staff Data Request 2, PacifiCorp identified that it projects 175 aMW of load growth to
7 occur on its system within four years. This data response is attached as part of Exhibit
8 ICNU/102, Schoenbeck/4. Thus, even if the fully allowed amount of direct access load
9 left as soon as possible, any stranded cost issue would be completely ameliorated before
10 those customers stopped paying Schedule 200 charges. This means that the Customer
11 Opt-Out Charges representing fixed costs for years six through twenty would be a pure
12 subsidy from customers electing direct access to remaining cost of service customers. It
13 is also worth keeping in context that 175 aMW represents only 2.6% of the Company's
14 projected load for 2014.

15 **Q. HOW DOES ICNU RECOMMEND THAT PACIFICORP'S PROPOSAL FOR**
16 **THE FIVE-YEAR PROGRAM BE MODIFIED?**

17 **A.** First and foremost, ICNU recommends that the Customer Opt-Out Charge be eliminated
18 in its entirety. This charge serves no purpose other than a poison pill to the viability of
19 the five-year program as a choice for consumers. As described above, even under the
20 "worst case" scenario where the fully allowed load chose direct access immediately, there
21 would be no stranded cost issue. Further, remaining cost of service customers would
22 actually benefit as a result of the ability to delay or avoid resource acquisitions.

23 ICNU recommends that customers choosing the five-year program for direct
24 access be subject to the following charges during the five year transition period:

- 1 • Applicable Direct Access Delivery Service rate schedule (730, 747, or 748).
- 2 • Schedule 200 (Base Supply Service)
- 3 • Applicable adjustment schedules
- 4 • Schedule 296, modified from PacifiCorp's proposal to include only transition
- 5 adjustments calculated as the difference between forecasted regulated NPC
- 6 and the market value of freed up power.

7 After the full five year transition period, customers would only be subject to their
8 applicable delivery charges and sundry adjustment schedules. Customers' first
9 opportunity to select the five-year program would be in the 2014 election period for
10 service in the 2015 rate year.

11 Consistent with the proposed PGE program, ICNU recommends that customers be
12 allowed to return to full cost of service rates with three years of advance notification to
13 the Company. ICNU also recommends that the size threshold for eligible customers be
14 reduced from a 2 MW peak down to 1 MW. Finally, ICNU recommends that once 80%
15 of the participation cap is reached (i.e., 140 aMW of the 175 aMW total), that the
16 Commission consider the issue of raising the cap.

17 **Q. WHAT ARE THE ADVANTAGES OF ICNU'S PROPOSED PROGRAM?**

18 **A.** I have already described the reasons for eliminating the Customer Opt-Out Charge.
19 Allowing a three year advance notification to return to cost of service rates will strike a
20 balance between the possibility of return to cost of service rates in the event of
21 unforeseen circumstances, but still give adequate time to the Company to integrate the
22 new load into its resource acquisition commitments and planning. As shown in the
23 Company's response to OPUC Data Request 2, three years reasonably lines up with the

1 Company's typical time frame for the acquisition of new resources. This data request is
2 attached as part of Exhibit ICNU/102, Schoenbeck/4.

3 Lowering the cap to 1 MW of aggregate demand would allow greater ability for
4 consumers to pursue direct access, while still limiting the program to relatively large and
5 sophisticated customers. Pursuant to NAES Data Request 1.10, this reduced demand
6 threshold would only expand eligibility from 343 aMW to 357 aMW at this time (and of
7 course would have no effect on the overall participation cap). This data request is
8 attached as part of Exhibit ICNU/102, Schoenbeck/3.

9 ICNU believes that a potential expansion of the participation cap may be in order
10 if the program is successful enough to use most of the total (80% under ICNU's
11 proposal). Reconsideration of the program if it is actually successful should not pre-
12 judge any particular outcome.

13 Finally, ICNU's proposed five-year program closely mirrors the settlement
14 proposal that is universally supported by Staff, ICNU, PGE, Citizens' Utility Board and
15 NAES in PGE's UE 262 general rate case docket. This settlement agreement and
16 supporting testimony are attached as Exhibit ICNU/103. Given that both programs are
17 being driven by the same policy goals, it is logical for the Commission to have a
18 consistent direct access policy for PGE and PacifiCorp. Consumers should have the same
19 opportunities to pursue direct access regardless of historical accident that placed them in
20 PGE or PacifiCorp's service territory.

1 **Q. ARE YOU ADDRESSING OTHER ISSUES RELATED TO PACIFICORP'S**
2 **DIRECT ACCESS PROGRAM?**

3 **A.** No. It is my understanding that this proceeding is limited to only reviewing PacifiCorp's
4 five-year opt-out proposal, and is not addressing other issues or concerns that ICNU may
5 have with PacifiCorp's direct access program.

6 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

7 **A.** Yes.