ELLEN F. ROSENBLUM
Attorney General

FREDERICK M. BOSS
Deputy Attorney General

DEPARTMENT OF JUSTICE
GENERAL COUNSEL DIVISION

January 17, 2014

Attention: Filing Center
Public Utility Commission of Oregon
3930 Fairview Industrial Drive SE
P.O. Box 1088
Salem OR 97308-1088
puc.filingcenter@state.or.us

Re: *PACIFICORP, dba PACIFIC POWER, Transition Adjustment, Five-Year Cost of Service Opt-Out*
PUC Docket No.: UE 267
DOJ File No.: 860115-GB0282-13

Enclosed for filing is an original and five copies of the Joint Testimony of the Stipulating Parties in Support of the Stipulation.

Sincerely,

for Johanna M. Riemenschneider
Assistant Attorney General
Business Activities Section

JMR:kt2/4921707
Enclosures
c: UE 267 Service List

Stipulating Parties Exhibit 100
Witnesses: Kevin C. Higgins, George R. Compton, Donald W. Schoenbeck,
Steve W. Chriss, Mary Lynch

BEFORE THE PUBLIC UTILITY COMMISSION
OF THE STATE OF OREGON

In the Matter of PacifiCorp, dba	)	
Pacific Power	)	Docket No. UE 267
Transition Adjustment, Five-Year	)	
Cost of Service Opt-Out	)	

Joint Testimony of
Kevin C. Higgins, George R. Compton, Donald W. Schoenbeck,
Steve W. Chriss, and Mary Lynch

on behalf of

Staff of the Public Utility Commission of Oregon, Noble Americas Energy Solutions LLC, Industrial Customers of Northwest Utilities, Wal-Mart Stores, Inc., Constellation NewEnergy, Inc., Shell Energy North America (US) L.P., Safeway Inc., The Kroger Co., Vitesse LLC, and the Northwest and Intermountain Power Producers Coalition

January 17, 2014

I. Introduction

A. Qualifications of Kevin C. Higgins

Q. Please state your name and the party for whom you are appearing.

A. My name is Kevin C. Higgins. I am appearing on behalf of Noble Americas Energy Solutions LLC ("Noble Solutions"). My qualifications are presented in Exhibit Noble Solutions/100, Higgins/1-3.

B. Qualifications of George R. Compton

Q. Please state your name and the party for whom you are appearing.

A. My name is George R. Compton. I am a Senior Economist, employed by, and appearing on behalf of, the Rates, Finance, and Audit Section of the Energy Division of the Public Utility Commission of Oregon ("OPUC" or "Commission"). My business address is 3930 Fairview Industrial Dr. SE., Salem, OR 97302. My witness qualifications are presented in Exhibit Staff/101.

C. Qualifications of Donald W. Schoenbeck

Q. Please state your name and the party for whom you are appearing.

A. My name is Donald Schoenbeck. I have been involved in the energy industry for over 40 years. During that time, I have served as an analyst and expert on a variety of power supply, cost, ratemaking, and policy topics, including issues related to the Pacific Northwest investor-owned utilities and the Bonneville Power Administration ("BPA"). I have provided testimony on behalf of the Industrial Customers of Northwest Utilities ("ICNU") before the OPUC in various proceedings regarding Portland General Electric Company ("PGE") and PacifiCorp (the "Company"). I have also provided testimony on behalf of ICNU before the Washington Utilities and Transportation Commission ("WUTC") regarding Avista, PacifiCorp, and Puget Sound Energy. A further description of my educational background and work experience can be found in Exhibit ICNU/101.

D. Qualifications of Steve W. Chriss

Q. Please state your name and the party for whom you are appearing.

A. My name is Steve W. Chriss. I am a Senior Manager, Energy Regulatory Analysis, for Wal-Mart Stores, Inc. ("Wal-Mart"). My qualifications are presented in Exhibit Wal-Mart/101.

F. Qualifications of Mary Lynch

Q. Please state your name and the parties for whom you are appearing.

A. My name is Mary Lynch. I am Vice President, Market Development, West, Constellation NewEnergy, Inc. I am appearing on behalf of Shell Energy North America (US), LP ("Shell") and Constellation NewEnergy, Inc. ("Constellation"). My qualifications are presented in Exhibit CNE/SENA/100, Lynch/1-2.

II. <u>Purpose of Joint Testimony</u>

Q. What is the purpose of this Joint Testimony?

A. Our joint testimony presents the Stipulation entered into by OPUC Staff ("Staff"), ICNU, Noble Solutions, Wal-Mart, Shell, Constellation, Fred Meyer Stores, Inc./Kroger, Co. ("Fred Meyer"), the Northwest and Intermountain Power Producers Coalition ("NIPPC"), Safeway Inc. ("Safeway"), and Vitesse, LLC ("Vitesse"), collectively referred to as "the Stipulating Parties."

III. Description of the Stipulation

Q. Please provide an overview of the Stipulation.

A. The Stipulation reflects a compromise of multiple competing interests as a means to implement a five-year opt-out program for direct access customers in PacifiCorp's service territory, pursuant to the Commission's directive in Docket No. UM 1587. The Stipulating Parties have purposefully proposed a limited number of changes to PacifiCorp's tariff in order to reduce the disputes in this proceeding. The changes proposed reflect a reasonable balance of the following considerations: providing a meaningful five-year opt-out program; comparability with the PGE tariff recently approved by the Commission in Docket No. UE 262; and preventing cost shifts.

Q. What directive did the Commission give to PacifiCorp regarding implementation of a five-year opt-out program for direct access?

A. In its Order No. 12-500 issued December 30, 2012 in Docket No. UM 1587, at page 9 the Commission directed PacifiCorp as follows:

> As noted by the parties, PGE's five-year opt out program is in PGE's tariff. If the program were in the Commission's rules, it would apply equally to Pacific Power.
>
> Pacific Power has chosen, however, not to offer a program similar to the PGE program. We find no basis to maintain this difference in the programs of the two utilities. Accordingly, we adopt a PGE-type model for Pacific Power. We direct Pacific Power to file a tariff for a five-year opt out program that allows a qualified customer to go to direct access and pay fixed transition charges for the next five years, and then to be no longer subject to transition adjustments – for so long as that customer remains a direct access customer (on the Pacific Power system).

Q. What are the key provisions of the Stipulation?

A. The Stipulation adopts a framework for a five-year opt-out program that adheres closely to the PGE model. The program advanced by the Stipulation incorporates several elements of the framework proposed by PacifiCorp in its filing, but makes several key modifications.

The Stipulation program provides an annual opportunity for eligible customers to elect to shift to market pricing for energy supply, without transition adjustments, after a five-year period. For an interim period, the Stipulating Parties agree to the 175 aMW cap on total participation proposed by PacifiCorp. During a customer's "transition" period, the participating direct access customer will continue to pay the full cost of PacifiCorp's fixed generation charge, Schedule 200, on the same basis as cost of service customers. This provision is identical to what PacifiCorp has proposed.

In addition, the participating direct access customer will be subject to a transition adjustment, Schedule 296, which represents the difference between net power costs in rates and the market value of freed-up energy. This provision is also based on PacifiCorp's proposal, but the Stipulating Parties propose some substantial modifications to the calculation. Significantly, the Stipulation eliminates PacifiCorp's proposed Consumer Opt-Out charge. The Stipulation program also allows customers that opt out under Schedule 296 to return to cost of service rates with four years' notice. In contrast, PacifiCorp proposes that customers opting out under Schedule 296 would have no opportunity to return to standard cost of service rates.

Each of the provisions of the Stipulation program is discussed below.

A. <u>Eligible Load</u>

Q. What are the Stipulating Parties recommending with respect to eligible load?

A. The Stipulating Parties generally adopt PacifiCorp's proposal regarding eligible load, but with certain clarifications described below. We do not believe these changes are substantive.

Generally, PacifiCorp's proposal allows consumers to participate in the five-year opt-out if they currently receive delivery service under Schedules 47, 48, 747, 748; or if the consumer can aggregate 2 MW or more of load under a single corporate name (or billing address) under delivery service Schedules 30, 47 and/or 48, or 730, 747, and/or 748. To qualify for aggregation, the customer must utilize meters that have had more than 200 kW of billing demand at least once in the previous thirteen months.

To these PacifiCorp criteria, the Stipulating Parties add the following clarification: once a meter meets the opt-out eligibility requirement, all other nonresidential meters billed to the same entity or billing address with lesser annual usage located on the same property are also eligible to opt out at the time the large nonresidential consumer elects to opt-out of cost-based supply service for that property. For these other meters, the Schedule 296 transition charge will be the charge associated with the largest meter at the premises.

Q. Why do the Stipulating Parties propose this clarification?

A. First, this clarification addresses the potential situation where one customer facility has to take generation service from both PacifiCorp and a competitive supplier. For example, a customer could have a facility that takes service on Schedule 30 but also have an account on that property for facilities such as exterior signage that take service on a different schedule, such as Schedule 23. It would be more efficient to allow that customer to include accounts on the same property in their opt-out.

In addition, PacifiCorp's proposal requiring a single corporate name appears to limit the ability of customers who have central utility bill processing, a common billing address, and energy management, but operate under different trade names, from including all of their facilities that would otherwise be eligible to opt out. The proposed clarification will resolve this issue.

Q. How do these eligibility criteria compare to the eligibility criteria in the PGE program?

A. They are reasonably comparable. The PGE program allows aggregating customers to participate with aggregated loads of only 1 MW rather than the 2 MW proposed by PacifiCorp and adopted by the Stipulating Parties. This was a key area of compromise among the Stipulating Parties, as several of the Stipulating Parties support a 1 MW aggregation threshold, but have stipulated to a 2 MW minimum in the interest of limiting the changes from PacifiCorp's filing.

Another difference between the PGE and PacifiCorp programs is that the billing demand for an individual aggregated load can be as small as 200 kW in the PacifiCorp proposal whereas the PGE program requires a minimum size of 250 kW for an aggregating customer.

B. Program Cap

Q. What are the Stipulating Parties recommending with respect to a program cap?

A. PacifiCorp has proposed a 175 aMW cap on total participation. Some of the Stipulating Parties expressed concern that the total participation cap proposed by PacifiCorp is too low and could be an impediment to participation in the program. For an interim period, however, the Stipulating Parties agree to a 175 aMW cap. In order to ensure that future expansions to the size of the program will be considered by the Commission, the Stipulation includes a provision that allows any party to request an expansion of the program cap at a future time.

Q. How does the PacifiCorp program cap compare to that of PGE?

A. The PGE program cap is set at 300 aMW, but PGE has a greater amount of eligible load. The Stipulating Parties believe that the initial cap of 175 aMW is appropriate as an interim measure given the size of PacifiCorp's service territory and current direct access loads.

C. Right to Return to Cost of Service Rates

Q. What are the Stipulating Parties recommending with respect to the right to return to cost of service rates?

A. The Stipulation includes a provision that allows a customer to resume taking service from PacifiCorp under cost of service rates with four years' advance notice. This is in contrast to PacifiCorp's proposal that a customer that opts out under Schedule 296 should never be allowed to return to cost of service rates. The Stipulating Parties all agree that the PacifiCorp proposal is unreasonable and not in the public interest. Moreover, adopting such a provision is likely to erect an undue barrier to program participation.

While the opt-out program provides the opportunity for the participant's movement to market to be permanent, it is reasonable to allow for the customer, at some future date, to seek to return to cost of service rates. In doing so, it is necessary to strike a balance between allowing for such a return on the one hand, and providing for adequate notice to the utility on the other hand, so that the utility has time to adjust its procurement to include the returning customer. The Stipulating Parties asserted different positions concerning the appropriate length of the notice requirement, ranging from a three year notice to a five year notice requirement.[1] For purposes of the Stipulation, the Stipulating Parties agree to a four year notice provision. A notice period of four years strikes a balance acceptable to the Stipulating Parties as a compromise between the desires of the utility and the returning customers (erring on the side of the utility) and, moreover, is consistent with ORS 757.603, which requires electric utilities to provide a cost of service rate option to all retail electricity consumers. Four years is also consistent with the length of time the Company stated it needed to accommodate changes in resources to meet changes in load, with some new resource options requiring as little as two years.[2] The utility also can make adjustments to purchase energy on a short-term basis.

In deciding this issue, it is important to bear in mind that under the Stipulation proposal, opt-out customers will have fully paid for PacifiCorp's fixed

---

[1] *See* ICNU/100, Schoenbeck/7; CNE/SENA/100, Lynch/8; Staff/100, Compton/12-15; Noble Solutions/100, Higgins/26-27; Walmart/100, Chriss/7-8.

[2] Exhibit Staff/103, Compton/3.

generation costs during the five-year transition period, further supporting the case for their right to return with adequate notice. The notice required to return to cost of service rates is also more burdensome than for a new load, which does not have any specific notice period before purchasing power at cost of service rates.

Q. By way of comparison, what rights do opt-out customers have to return to cost of service rates in the PGE system?

A. PGE customers who enter the five-year opt-out program can return to PGE cost-of-service rates with three years' notice. PacifiCorp's proposal to forever ban such opt-out customers from cost-of-service rates is punitive and inconsistent with this basic tenet of a PGE-type program.

D. Transition Costs and Adjustments

Q. What are the key components of the Stipulation's treatment of transition costs and adjustments?

A. During the transition period, the participating direct access customer will continue to pay the full cost of PacifiCorp's fixed generation charge, Schedule 200, and will also be subject to a transition adjustment, Schedule 296, which represents the difference between net power costs in rates and the market value of freed-up energy. Taken in combination with Schedule 200, the Schedule 296 Transition Adjustment ensures that a shopping customer pays a transition charge that is at least equal to (and often greater than) the difference between cost of service rates and market prices, and thereby avoids shifting costs to customers that remain on PacifiCorp's cost of service rates.

Q. What is the role of Schedule 200 in the treatment of transition costs?

A. Schedule 200 recovers the Company's fixed generation costs from its Oregon customers. Schedule 200 is paid by both cost of service and direct access customers. Under both PacifiCorp's proposal and the Stipulation, a participating customer would be subject to Schedule 200 charges for the duration of the five-year transition period.

The Schedule 200 charge makes a participating shopper fully responsible for recovery of PacifiCorp's fixed generation costs during the transition period – even though the customer is buying its generation service from another supplier. While this provision creates an obvious obstacle to shopping, it is consistent with the notion of providing for a five-year transition to market pricing. The notion here is that PacifiCorp planned to serve this customer prior to the customer's enrollment in the opt-out program, and made supply commitments accordingly. The five-year transition provides PacifiCorp with an ability to recover the costs of these commitments from the direct access customers who, by their opt-out election, have provided notice to PacifiCorp that the Company no longer needs to plan to provide generation service to this customer and should adjust its future generation and procurement accordingly.

While an argument could be made that the participant's Schedule 200 obligation should be *phased out* during the five-year transition, the levying of full Schedule 200 charges for the five-year period is conservative on the side of ensuring that there is no cost shifting to non-participating PacifiCorp ratepayers.

In addition, based upon input from the Company, it will take less than five years for expected system load growth to fill the maximum void created by the departing five-year opt-out direct access customers.[3]

Q. Is the recovery of Schedule 200 costs analogous to what occurs in PGE's five-year opt-out program?

A. Yes. It is directly analogous to the design of PGE's five-year opt-out program, as modified in the Stipulation approved by the Commission in UE 262. The only difference between the two is superficial: in the PGE design, the recovery of fixed generation costs is incorporated into the transition adjustment calculation, whereas in the PacifiCorp design, Schedule 200 is a stand-alone charge.

Q. What is the role of Schedule 296 in the treatment of transition costs?

A. Schedule 296 represents the difference between net power costs in rates and the market value of freed-up energy. Schedule 296 performs the same role in PacifiCorp's five-year opt-out as the Schedule 294 Transition Adjustment performs in the annual direct access program. Schedule 294 is simply applied to a one-year period, whereas Schedule 296 is applied to a five-year period.

Q. Was the Schedule 296 Transition Adjustment part of PacifiCorp's proposal?

A. Yes. However, the Stipulation modifies the calculation of Schedule 296 as proposed by the Company.

Q. How does the Stipulation modify the calculation of the Schedule 296 Transition Adjustment?

A. The Stipulation modifies the calculation of the Schedule 296 Transition Adjustment in four important ways. First, it makes the calculation of the value of

---

[3] Exhibit Staff/103, Compton/2.

freed-up energy consistent with the Schedule 294 calculation. Second, it eliminates the distinction between heavy load hours ("HLH") and light load hours ("LLH") in the Schedule 296 rate (although any cost distinction between HLH and LLH would be retained in the underlying calculation). Third, the calculation of the transition adjustment assumes that 50 aMW of incremental direct access load departs in the year for which the Schedule 296 rate is calculated, rather than assuming that 175 aMW of load departs at once. Fourth, the Stipulation recognizes a BPA transmission credit.

We will address each of these modifications in turn.

Q. How does the Stipulation modify the calculation of the Schedule 296 Transition Adjustment to make it consistent with the calculation of the value of freed-up energy in Schedule 294?

A. It may be useful to begin with a brief background discussion.

PacifiCorp uses the GRID model to calculate transition costs. The Company's use of the GRID model for this purpose produces a valuation of freed-up energy that is based on a blend of market prices and thermal generation costs. Because the incremental cost of PacifiCorp's thermal generation is typically less than market prices, blending market prices and the Company's thermal costs could produce a lower valuation of freed-up energy than would occur if market prices alone were used for this purpose. And because the value of freed-up energy is a credit against the cost of service price for direct access customers in the calculation of Schedule 296, using a lower price for this purpose would increase the transition adjustment charge (or alternatively, would reduce the transition adjustment credit), all other things being equal. As shopping customers pay market-based prices for power, if the value of freed-up energy used in the calculation of the transition adjustment is less than the actual market-based price that direct access customers pay, it creates a negative value proposition for shoppers rather than the break-even proposition inherent in the logic of Ongoing Valuation, as defined in OAR 860-038-0005(42).[4] Thus, if PacifiCorp's calculation is not modified, it could result in an unwarranted barrier to direct access service.

Although it would be preferable for participating customers if the Schedule 296 transition adjustment were based solely on uncapped market prices, the Stipulating Parties are willing to agree to an adjustment for PacifiCorp's thermal generation costs consistent with prior settlements. As currently implemented, the calculation of the Schedule 294 Transition Adjustment includes an adjustment that partially mitigates the negative impact on shoppers of blending market prices with the cost of thermal energy for the purpose of determining the market value of freed-up energy.[5] The Stipulation adopts this same mitigation provision for Schedule 296, whereas PacifiCorp does <u>not</u> include this mitigating adjustment in its proposed Schedule 296 Transition Adjustment calculation. If the partial mitigation employed in calculating the Schedule 294 Transition Adjustment were excluded from the Schedule 296 Transition Adjustment, as

---

[4] According to OAR 860-038-0005(42), "Ongoing Valuation means the process of determining transition costs or benefits for a generation asset by comparing the value of the asset output at projected market prices for a defined period to an estimate of the revenue requirement of the asset for the same time period."

[5] The adjustment is also made in the calculation of Schedule 295, which is applicable to the three-year opt-out program.

PacifiCorp proposes, it would depart from current practice and be a barrier to direct access service.

Q. What is the history of the Schedule 294 mitigation provision?

A. The mitigation provision for Schedule 294 dates back to Docket No. UE 199 (2009 TAM). In that case, the Commission approved a Stipulation in Order No. 08-543 which provides that:

> …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.

This provision has been applied continuously since its initial adoption in Docket No. UE 199 and was most recently accepted by the Commission for the 2014 TAM in Docket No. UE 264. The use of a blend of the GRID model and market power is a compromise in the position of those parties that proposed that only market power be used to value freed-up energy.[6]

Q. What is the rationale for eliminating the distinction between HLH and LLH in the calculation of the Schedule 296 rate?

A. When a customer converts to direct access it no longer pays Schedule 201 rates, which are designed to recover net power costs ("NPC"). Employing its GRID model, PacifiCorp estimates the average NPC impacts on a separate HLH (heavy-load-hour) and LLH (light-load-hour) basis. The Company proposes to set Schedule 296 rates on that same basis, as in the GRID model. That is, PacifiCorp proposes to equate the HLH rate to the (negative) difference between the

[6] Noble Solutions/100, Higgins/12-16; Walmart/100, Chriss/12-13.

estimated average HLH impact and the weighted *average* of the Schedule 201 HLH and LLH rates. Likewise, PacifiCorp proposes to equate the LLH rate to the (positive) difference between the estimated LLH impact and, again, the weighted *average* of the Schedule 201 HLH and LLH rates. Because the average of the Schedule 201 HLH and LLH rates does *not* capture the HLH-LLH cost differential, the outcome of the Company's approach is to create an artificially large Schedule 296 rate *rebate* for HLH direct access volumes and an artificially large rate *penalty* for LLH direct access volumes.

The theoretically correct approach would be to *not* use the Schedule 201 HLH-LLH *average* but instead use *separate, cost-based* HLH and LLH rates themselves. Such an approach would reduce, respectively, the just-described rate rebate and penalty. Unfortunately this option is not available to PacifiCorp-Oregon. Because the HLH-LLH rates and the weighted average of those two rates are virtually identical, it does not make sense to subtract their value from separate HLH and LLH costs in order to obtain two separate Schedule 296 rates. The argument for symmetry would suggest that, if the Schedule 201 rates are, in essence, rolled together, so should be the HLH and LLH costs that are used to develop the Schedule 296 rate(s). Doing so – as was also stipulated to by the parties in the recently concluded PGE general rate case, Docket No. UE 262 – yields a single Schedule 296 rate. That uniform rate is expected to be smaller in absolute value than both the HLH rate rebate and the LLH rate penalty that has been proposed by the Company. In accepting the single rate, the Stipulating Parties are not recommending that cost distinctions between HLH and LLH should be eliminated in the underlying calculation that is used to develop the single Schedule 296 rate.

Q. Please explain the basis for assuming that 50 aMW of incremental direct access load departs in the year for which the Schedule 296 rate is calculated.

A. Specifically, the Stipulation provides that Schedule 296 Transition Adjustment will be calculated using GRID by assuming that 50 aMW of direct access load departs in the first year of the program, rather than assuming all 175 aMW of eligible load departs at the same time. In subsequent years, the Schedule 296 Transition Adjustment for new departing customers would be calculated using GRID by incorporating the amount of actual departed load experienced in prior years, and by assuming that an additional 50 aMW of direct access load departs in the year for which the Schedule 296 rate is being calculated, although the amount of departing load incorporated into GRID for any year would not exceed 175 aMW, unless the program cap is increased.

The purpose of this assumption is to reasonably align the calculation of the Schedule 296 Transition Adjustment with the amount of incremental direct access load that is likely to occur in a given year. This assumption is important because the GRID calculation of the transition adjustment reduces the amount of total retail load by the assumed amount of direct access load; thus, the greater the amount of assumed direct access load, the further down into the Company's dispatch stack this decrement reaches. Since, all things being equal, the most expensive resources in the dispatch stack are displaced first when retail load is reduced, the greater the amount of direct access load that is assumed, the lower the calculated value of the freed-up energy from direct access that GRID produces. And as the calculated value of the freed-up energy from direct access is reduced, the transition adjustment charge to participating customers is increased (or, alternatively, the transition adjustment credit is decreased).

PacifiCorp proposes to assume that the maximum amount of allowed opt-out load (175 aMW) departs in the first year of the program, thereby producing the highest possible transition adjustment calculation result for participants. Experience has shown that PacifiCorp's assumption is unrealistic. PGE has had a five-year opt-out program in place since 2002. PGE's program allows up to 300 aMW of participation and has yet to be fully subscribed. Based on this experience, the Stipulating Parties believe our assumption of 50 aMW of incremental participating load per year better reflects the upper end of what is most likely to occur, rather than PacifiCorp's assumption that the entire program will be fully subscribed in its first year. It is therefore a more reasonable assumption to use 50 aMW per year in the calculation of the Schedule 296 Transition Adjustment.

By way of comparison, the Schedule 294 and 295 transition adjustments are calculated assuming 25 MW of direct access load.

Q. What is the basis for the BPA transmission credit in the Stipulation?

A. Recognition of a BPA transmission credit addresses a structural impediment to the pricing of direct access service associated with the need for an Electricity Service Supplier ("ESS") to obtain wheeling from BPA to reach the PacifiCorp service territory from the Mid-C trading hub. This impediment is reasonably mitigated if the calculation of the transition adjustment is adjusted to recognize that the direct access load "frees up" BPA transmission capacity that can then be resold to an ESS to reach PacifiCorp's load.

PacifiCorp's Point-to-Point ("PTP") transmission service on BPA is currently billed at the PTP-14 long-term firm rate of $1.479/kW-month. At a 100 percent load factor, this rate is equivalent to $2.026/MWh. Based on information filed in Docket No. UE 263, Oregon's retail load factor is no greater than 64 percent on an annual basis.[7] Applying this load factor to this rate produces an average rate of $3.166/MWh.

The Stipulation conservatively proposes that the BPA transmission credit would be based on 80% of the BPA PTP rate with a 100% load factor and would be calculated using then-current BPA PTP rates in effect, and may change over the five year opt-out period. This valuation is conservative because it is calculated using 80% of the BPA PTP rate at a 100% load factor, the latter representing the minimum per-MWh valuation for a product that is originally priced on a per-kW basis. This credit is only about half of the BPA PTP rate when measured on an average load factor basis. Moreover, the PTP rate corresponds to a product that PacifiCorp is free to resell when customers move to direct access. Based on the BPA PTP rates in effect on October 1, 2013, the BPA transmission credit would be ($1.61)/MWh for service in 2015.

---

[7] In Docket No. UE 263, PacifiCorp projected a maximum Oregon CP of 2,633 MW and annual Oregon retail energy consumption of 14.7 million MWh, which corresponds to an annual Oregon retail load factor of 63.7% or less.

A BPA transmission credit is included in the calculation of transition adjustments for the PGE service territory for both the annual shopping program and the long-term opt-out program.

Q. Do direct access customers pay for PacifiCorp's BPA transmission in the rates they pay the Company?

A. Yes. The cost of PacifiCorp's BPA transmission is included in net power costs and therefore is paid by direct access customers through the transition adjustment, through either Schedule 294, 295, or the proposed Schedule 296. Despite paying PacifiCorp for this transmission, direct access customers are not permitted to use this transmission for delivery to their loads without separately (re)purchasing it through their ESS, thus paying for it twice.

Q. Has a BPA credit been included in previous TAMs?

A. Yes. The Stipulation in Docket No. UE 216, approved in Order No. 10-363, provided for a BPA transmission credit for Schedule 747 and 748 (direct access) customers of \$(0.50)/MWh to reflect the potential value associated with reselling BPA PTP wheeling rights from Mid-C to the Company's Oregon service territory that are freed up as a result of customers choosing direct access. The Stipulation in Docket No. UE 227, approved in Order No. 11-435, increased the BPA transmission credit to \$(0.75)/MWh. PacifiCorp did not continue this credit and the Commission did not require the Company to do so.

Q. Why should the Commission approve a BPA transmission credit as part of the five-year opt-out program when this credit is currently not required for PacifiCorp's annual direct access program?

A. There are several reasons for doing so. First, the five-year opt out program is a long-term (and potentially permanent) opt-out program, and therefore the merits of including a transmission credit are increased. PacifiCorp has opposed a transmission credit in its annual opt-out programs where customers return to cost of service rates after one or three years of direct access. PacifiCorp has reasoned that because direct access customers may return to cost of service rates, the company must continue to plan for these customers, and therefore retain the transmission rights to serve these customers. However, with the five-year permanent opt-out, customers will provide four years' notice before returning to cost of service rates, and PacifiCorp does not need to retain and continue holding idle transmission rights formerly used to serve those direct access customers.

Second, the Commission has adopted a PGE-type model for the five-year opt-out program. As noted above, PGE's transmission adjustment includes a BPA transmission credit for its five-year opt-out program. If PacifiCorp is not required to include a similar credit, there will be a material and arbitrary difference between the two programs that will unduly disadvantage customers located in the PacifiCorp territory. In addition, no PGE customers that have opted out under the five-year opt-out have returned to cost of service rates. Thus, while it is possible that customers may return to PacifiCorp's cost of service rates, it is unlikely and this supports providing a BPA credit.

Third, recognition of a BPA transmission credit removes a structural impediment to the development of direct access in PacifiCorp's territory, because otherwise direct access customers will be required to pay for BPA transmission twice, as discussed above.

Fourth, in entering the Stipulation, parties compromised and relinquished, for purposes of the Stipulation, arguments regarding various program provisions in exchange for the Stipulation package, which includes recognition of the BPA transmission credit; thus, it is part of the benefit of the bargain struck by the Stipulating Parties.

Q. Have the Stipulating Parties proposed a different transition cost treatment for new customers?

A. No. Vitesse asserts that the transition adjustment charges for any customers connecting to PacifiCorp's distribution system after January 1, 2010 ("New Customers") should reflect only those costs, if any, that were actually incurred by PacifiCorp in serving such New Customers and that otherwise cannot be mitigated.

Although a number of the Stipulating Parties share some level of support for the concept proposed by Vitesse, the provision was not included in this Stipulation because Staff does not agree that this is an appropriate issue to be resolved through the Stipulation. However, the Stipulating Parties agree that no person shall be precluded by the Stipulation from raising, supporting or opposing the issue of the appropriate transition adjustment charge for New Customers at any time in the future.

Q. What is the Stipulation's treatment of PacifiCorp's proposed Consumer Opt-Out Charge?

A. The Stipulation eliminates this proposed charge.

Q. Please explain the basis for eliminating the Company's proposed Consumer Opt-Out Charge.

A. The Consumer Opt-Out Charge is part of PacifiCorp's Schedule 296 proposal. According to the Company's proposal, the Consumer Opt-Out Charge would charge participating customers for the present value of Schedule 200 costs for Year 6 through Year 20, escalated at the projected inflation rate, offset by the present value of the freed-up power (in excess of projected average net power costs for the corresponding amount of power) made available by the departing customers for Year 6 through Year 20. This present value amount would be converted to a five-year nominal levelized payment stream using a discount rate equal to PacifiCorp's weighted average cost of capital. In other words, in *addition* to the contemporaneous recovery of Schedule 200 and Transition Adjustments over the five year-transition period, PacifiCorp proposes that program participants pay for Company-alleged "stranded costs" attributed to Years 6 through 20 (to be recovered over that same five-year period).

PacifiCorp's proposal is unreasonable because it attempts to extract projected fixed generation cost recovery from shopping customers for twenty years *after* these customers have stopped taking generation service from PacifiCorp. In other words, PacifiCorp would collect 20 years of stranded costs over the five year opt-out period, creating a significant barrier to direct access that is not necessary to reasonably prevent cost shifts. PacifiCorp's proposal is also unrealistic because it relies on estimates of Schedule 200 costs for a 20-year period, which will necessarily be different from actual generation costs twenty years into the future.

Q. Is there an analogue to the Consumer Opt-Out Charge in PGE's five-year opt-out program?

A. No. The first two transition adjustment elements proposed by PacifiCorp – Schedule 200 Charges and Schedule 296 Transition Adjustment – bear a direct correspondence to the key transition adjustment elements in the PGE program. In fact, these two components represent the *totality* of the PGE transition adjustment for its five-year opt-out program. In contrast, the Consumer Opt-Out Charge proposed by PacifiCorp has no analogue in the PGE program. The inclusion of this single material item makes the PacifiCorp proposal radically different from a PGE-type model. In substance, the PacifiCorp proposal is a twenty-year transition adjustment scheme that is crammed into a five-year package. While the Commission's Order allows PacifiCorp to "tailor its program to fit its circumstances,"[8] there are no special circumstances that warrant PacifiCorp's imposition of a twenty-year transition charge rather than the five-year transition charge adopted in the PGE model.

Q. Is the PacifiCorp approach necessary to protect other customers from cost shifting?

A. No. Upon making the opt-out election, a customer has notified PacifiCorp that the Company need no longer plan to serve this customer's load. The shopping customer then proceeds to compensate PacifiCorp for a full five years for the fixed generation costs that the Company incurred on that customer's behalf.

[8] Order No. 12-500 at 9.

Moreover, the 175 MW of load that would be permitted to participate in the program (as proposed by PacifiCorp and supported by the Stipulating Parties) is but a small proportion of PacifiCorp's 7,000+ aMW system retail load, and will easily be replaced by system load growth, which is projected to be 512 aMW from 2013 to 2020,[9] the latter being the first year in which program participants would have fully transitioned to the market.

As noted earlier, five years of PacifiCorp load growth should be sufficient to replace the departing direct access load.

Q. Is it reasonable to consider opt-out program load as being replaced by system load growth in light of inter-jurisdictional cost allocation practices?

A. Yes. As part of the Multi-State Process ("MSP"), five of the six PacifiCorp state jurisdictions use the 2010 Protocol to allocate system costs. The 2010 Protocol does contain an obscure provision that effectively "traps" generation costs in Oregon in the event that Oregon customers depart for direct access. This provision (which actually dates from the Revised Protocol filed in 2004) is outdated and needs to be modified. The 2010 Protocol runs through the end of 2016, and Oregon Staff has already informed the other MSP participants regarding this issue and it has been discussed in recent multi-state meetings. Significantly, the transition period for a five year opt-out program, if adopted effective 2015, would run through 2019. This means that the implications of an Oregon opt-out program for inter-jurisdictional cost allocation would not be

[9] Source: Derived from PacifiCorp 2013 IRP, Appendix A, Table A.1. See Exhibit Noble Solutions/102.

relevant until 2020. The upshot here is that there is plenty of time to fix the MSP provision in question.

The resolution of transition costs in this docket should not be impeded by an outdated provision in an MSP agreement that expires in 2016. Quite the contrary, adopting a genuine five-year transition period, as the Commission has adopted for PGE, will provide PacifiCorp with the incentive to resolve the inter-jurisdictional cost allocation issue fairly for any post-2016 protocol.

Q. Why do the Stipulating Parties believe that the direct access provision in the 2010 Protocol is outdated?

A. Section X of the 2010 Protocol (reproduced in Exhibit Noble Solutions/103) effectively requires that Oregon ratepayers continue to be allocated the generation (and transmission) costs associated with direct access load even after customers have permanently elected direct access service. While this provision appears unfair to Oregon on its face, a full reading of this section strongly suggests that it was originally intended to allow Oregon to retain the allocation of load responsibility for the purpose of permitting Oregon to transfer freed-up resources among Oregon customer classes. This section also provides a framework for valuing a permanent sale of freed-up resources.

Such transfers of freed-up resources among customer classes and permanent sales of freed-up resources appear to be of little interest today, and in any case, are not a part of the five-year opt-out proposal. Consequently, it is reasonable to expect that Oregon opt-out load should be treated similarly to other departing load in future MSP protocols. For example, according to the 2010

Protocol, when industrial load shuts down or relocates outside its original jurisdiction, the costs allocated to the affected jurisdiction (appropriately) reflect the reduced load. Similarly, when states implement energy efficiency programs, their respective loads are adjusted for inter-jurisdictional cost allocation purposes to reflect the reduced demand levels. Even when a customer with generating capability switches from selling power to PacifiCorp to displacing its own retail purchases from the Company, the load in the affected jurisdiction is reduced to reflect this change. Only direct access is singled out in a manner that traps the cost of the departing load in its state of origin. Under current expectations, this asymmetrical provision is unreasonable going forward and should be changed in any post-2016 MSP protocol. It should not be a constraint that affects the determination of the appropriate parameters for a five-year opt-out program in this case.

E. Election Window

Q. What are the Stipulating Parties recommending with respect to the election window for selecting service under Schedule 296?

A. The Stipulating Parties recommend that the duration of the election window for the five-year opt-out should be one month each year. The Stipulation recommends that this be the full month of November. This duration is necessary to give customers adequate time to work through all of the details and approvals necessary to execute a long-term opt-out commitment. The proposed one month election window also is consistent with the PGE election window for its five-year opt-out.

The Stipulating Parties' proposal contrasts with PacifiCorp's recommended three-week window. PacifiCorp has informally advised the Stipulating Parties that they oppose using the entire month of November, but we do not know if PacifiCorp opposes a one month window at a different time. The Stipulating Parties are amenable to a different election window other than the month of November, as long as it is open for at least one month. The critical point for purposes of approving the Stipulation is that the Stipulating Parties propose a month-long enrollment period. We would view it as ministerial to shift the timing of that month-long period to accommodate any legitimate timing issues PacifiCorp may raise. If the Commission were to implement such a ministerial timing shift of a month-long enrollment period, we do not believe that would be a substantive modification of the Stipulation.

Q. How does the duration of the election window proposed by the Stipulating Parties compare to the duration of the election window in the PGE program?

A. They are the same duration. The PGE election window for the five-year opt-out program is open for the entire month of September.

F. <u>Program Term</u>

Q. What are the Stipulating Parties recommending with respect to the initial term of the program?

A. It is the intent of the Stipulating Parties that the terms of the Stipulation regarding long-term direct access issues and the five-year opt-out option will be in effect for at least the four service years 2015 through 2018. This is the same term that applies to the PGE program. The Stipulating Parties will not propose or support changes to PacifiCorp's five-year opt-out program inconsistent with the terms of the Stipulation during this period, unless agreed to by all Stipulating Parties. The Stipulation provides, however, that at any time, any party may propose to increase the size of the program, and any party may propose different treatment for new loads.

The Stipulating Parties propose that PacifiCorp's five-year program be re-evaluated prior to expiration of the term of this Stipulation, and agree to reconvene no later than January 30, 2017 to evaluate the effectiveness of the long term opt-out program, to propose any changes to program parameters, and to attempt to reach consensus on a request for Commission approval of subsequent changes to multi-year opt-out programs by May 30, 2017. The Stipulating Parties recommend that the Commission instruct PacifiCorp to participate in such meetings.

Q. Is it important for the Commission to approve the Stipulation in its entirety?

A. Yes. The Stipulation includes significant compromises in the Stipulating Parties' original positions, and we have negotiated the Stipulation as an integrated document. As a total package, each of the Stipulating Parties strongly believes that the Stipulation is fair, just and reasonable, and benefits customers eligible for direct access without unduly shifting costs to customers that remain on cost of service rates. There are, however, portions of the Stipulation that individual parties would not have supported, but for the Stipulating Parties' agreement to the entire Stipulation. Therefore, the Stipulating Parties strongly recommend that the Commission approve the entire Stipulation and not make any substantive changes to the provisions included in the Stipulation. If the Commission intends to make substantive changes to the Stipulation, then the Stipulating Parties recommend that they be provided an opportunity to present evidence and provide argument regarding any modifications.

Q. Does this conclude your Joint Testimony?

A. Yes.

CERTIFICATE OF SERVICE

I hereby certify that on the 17th day of January 2014, I served the foregoing Joint Testimony of the Stipulating Parties in Support of the Stipulation upon the parties named on the service list, by mailing a full, true and correct copy thereof and to such persons waiving such service by mail who were served at their e-mail address as listed on the service list.

W
PACIFICORP, DBA PACIFIC POWER
OREGON DOCKETS
825 NE MULTNOMAH ST, STE 2000
PORTLAND OR 97232
oregondockets@pacificorp.com

W
BOEHM KURTZ & LOWRY
KURT J BOEHM **(C)**
36 E SEVENTH ST - STE 1510
CINCINNATI OH 45202
kboehm@bkllawfirm.com

W
CARL FINK
628 SW CHESTNUT ST, STE 200
PORTLAND OR 97219
cmfink@blueplanetlaw.com

W
RICHARDSON ADAMS, PLLC
GREGORY M. ADAMS **(C)**
PO BOX 7218
BOISE ID 83702
greg@richardsonadams.com

W
EXELON BUSINESS SERVICES COMPANY
CYNTHIA FONNER BRADY
4300 WINFIELD RD
WARRENVILLE IL 60555
cynthia.brady@constellation.com

W
EDWARD FINKLEA
326 FIFTH ST
LAKE OSWEGO OR 97034
efinklea@nwigu.org

W
WALMART STORES INC
KEN BAKER
2001 SE 10TH ST
BENTONVILLE AZ 72716
ken.baker@wal-mart.com

W
WAL-MART STORES, INC.
STEVE W CHRISS **(C)**
2001 SE 10TH ST
BENTONVILLE AR 72716-0550
stephen.chriss@wal-mart.com

W
CABLE HUSTON BENEDICT ET AL
THOMAS M GRIM **(C)**
1001 SW FIFTH AVE STE 2000
PORTLAND OR 97204-1136
tgrim@cablehuston.com

W
NOBLE AMERICAS ENERGY SOLUTIONS, LLC
GREG BASS
401 WEST A ST., STE. 500
SAN DIEGO CA 92101
gbass@noblesolutions.com

W
CONSTELLATION NEWENERGY, INC.
JOHN DOMAGALSKI
550 WEST WASHINGTON BLVD, STE 300
CHICAGO IL 60661
john.domagalski@constellation.com

W
PUBLIC UTILITY COMMISSION OF OREGON
MARC HELLMAN **(C)**
PO BOX 1088
SALEM OR 97308-1088
marc.hellman@state.or.us

W
ENERGY STRATEGIES LLC
KEVIN HIGGINS **(C)**
215 STATE ST - STE 200
SALT LAKE CITY UT 84111-2322
khiggins@energystrat.com

W
SAFEWAY INC
LISSA MALDONADO
5918 STONERIDGE MALL ROAD
PLEASANTON CA 94588-3229
lissa.maldonado@safeway.com

W
REGULATORY & COGENERATION SERV. INC
DONALD W SCHOENBECK **(C)**
900 WASHINGTON ST STE 780
VANCOUVER WA 98660-3455
dws@r-c-s-inc.com

W
NW & INTERMOUTAIN POWER PRODUCERS COALITION
ROBERT D KAHN
1117 MINOR AVENUE, SUITE 300
SEATTLE WA 98101
rkahn@nippc.org

W
MCDOWELL RACKNER & GIBSON PC
KATHERINE A MCDOWELL
419 SW 11TH AVE., SUITE 400
PORTLAND OR 97205
katherine@mcd-law.com

W
FRED MEYER STORES/KROGER
NONA SOLTERO
3800 SE 22ND AVE
PORTLAND OR 97202
nona.soltero@fredmeyer.com

W
BOEHM, KURTZ & LOWRY
JODY KYLER COHN **(C)**
36 E SEVENTH ST STE 1510
CINCINNATI OH 45202
jkyler@bkllawfirm.com

W
SHELL ENERGY NORTH AMERICA
MARCIE MILNER
4445 EASTGATE MALL STE 100
SAN DIEGO CA 92121
marcie.milner@shell.com

W
PACIFIC POWER & LIGHT
JOELLE STEWARD **(C)**
825 NE MULTNOMAH STE 2000
PORTLAND OR 97232
joelle.steward@pacificorp.com

W
SHELL ENERGY
JOHN LESLIE
600 WEST BROADWAY SUITE 2600
SAN DIEGO CA 92101
jleslie@mckennalong.com

W
PUC STAFF - DEPARTMENT OF JUSTICE
JOHANNA RIEMENSCHNEIDER **(C)**
BUSINESS ACTIVITIES SECTION
1162 COURT ST NE
SALEM OR 97301-4796
johanna.riemenschneider@doj.state.or.us

W
PORTLAND GENERAL ELECTRIC
DOUGLAS C TINGEY
121 SW SALMON 1WTC13
PORTLAND OR 97204
doug.tingey@pgn.com

W
CABLE HUSTON BENEDICT HAAGENSEN & LLOYD LLP
RICHARD LORENZ **(C)**
1001 SW FIFTH AVE - STE 2000
PORTLAND OR 97204-1136
rlorenz@cablehuston.com

W
HUTCHINSON COX COONS ORR & SHERLOCK
SAMUEL L ROBERTS **(C)**
777 HIGH ST STE 200
PO BOX 10886
EUGENE OR 97440
sroberts@eugenelaw.com

JAY TINKER
121 SW SALMON ST 1WTC-0702
PORTLAND OR 97204
pge.opuc.filings@pgn.com

W
CONSTELLATION ENERGY COMMODITIES GROUP, INC.
MARY LYNCH
5074 NAWAL DRIVE
EL DORADO HILLS CA 95762
mary.lynch@constellation.com

W
DAVISON VAN CLEVE
IRION A SANGER **(C)**
333 SW TAYLOR - STE 400
PORTLAND OR 97204
ias@dvclaw.com

W
DAVISON VAN CLEVE PC
S BRADLEY VAN CLEVE **(C)**
333 SW TAYLOR - STE 400
PORTLAND OR 97204
bvc@dvclaw.com

W

SAFEWAY INC
GEORGE WAIDELICH
5918 STONERIDGE MALL RD
PLEASANTON OR 94588-3229
george.waidelich@safeway.com

(C) = Confidential

Karen R. Tofte
Legal Secretary
Business Activities Section