Citizens' Utility Board
of Oregon

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September 16, 2016

Oregon Public Utility Commission
Attn: Filing Center
201 High Street SE, Suite 100
Salem, Oregon 97301-3612

RE: **UE 308 – Errata CUB's Opening Testimony**

Attention: Filing Center

The Citizens' Utility Board of Oregon files herewith two corrections to its originally submitted Opening Testimony filed on August 12, 2016. A sentence on page 5, line 4 has been corrected, and a sentence on page 10, line 12 has been corrected. CUB requests that its original testimony filing be replaced with the corrected version attached. CUB further requests that the parties to this docket delete electronic and paper files of CUB's original filing.

Please contact me if you have any questions with this filing.

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A. Used and Useful

Because PGE needs natural gas as a fuel to burn at its power plants, there is little doubt that this meets the definition of used and useful. However, CUB notes that the contract anticipates a 35-year[8] fuel supply—extending beyond the life of the current IRP. There is no record relating to PGE's natural gas needs in 2051, so it is difficult to say with any real certainty whether the gas anticipated by this contract will be *fully* used and useful.

B. Necessary to Provide Service

Utilities are licensed monopolies that provide a public good. Generally, they are only allowed to recover costs that are necessary to provide service to customers. This protects customers from utilities spending money on things (such as excessive advertising) that may provide company benefits (such as corporate good will) but do not provide much value to customers. It protects customers from utilities taking risks in activities that do not provide value to customers, when that risk could financially damage the utility and, therefore, harm the customer who is footing the bill. Finally, this principle protects competitive markets from utilities that can use their monopoly power to harm someone else's business model.

On the one hand, natural gas is needed to run PGE's power plants, so securing fuel is necessary for the provision of electricity. On the other hand, fuel is available in the competitive market, so it is not necessary for PGE to make a capital investment in its only drilling program. Further, PGE typically procures its natural gas on the competitive

[8] Five year drilling program with 30 year production from wells. *See* CUB footnote 6.

While some of these risks can be reduced by contract – and PGE has done some risk reduction in this case – these are risks that are inherent to long-term natural gas production. Impacts from earning a return on fueling a natural gas plant is a regulatory change that could have an impact on resource choices, and the build versus buy incentive.

i. Resource Choice

If each gas plant that the Company builds comes with an opportunity to earn a return on 30% of its fuel then this creates an added incentive for the Company to build gas generation. PGE notes that "gas generation will account for over 40% of our energy portfolio in 2017."[13] CUB is not sure that the appropriate regulatory solution to a growing dependence on natural gas is to increase the incentive to invest in gas plants. It is also important to recognize that with the subsequent drilling program, the proposed contract extends beyond the expected useful life of PGE's Carty gas plant. [14] Therefore PGE will have to build additional gas plants in the future whose lives extend beyond the current assets. This creates a circular investment cycle: With so many gas plants, PGE must invest in long-term gas supply to hedge the price. With long-term owned gas supply, PGE must invest in gas plants to burn the fuel.

ii. Build Versus Buy Incentive

The PUC requires competitive bidding before a utility invests in a large, new power plant, such as a gas plant. However because it is recognized that the utility has an incentive to own their own plant, that competitive bidding process is overseen by an

[13] UE 308/ UE /PGE/ 100/Tinker – Sims/9.
[14] https://www.oregon.gov/energy/Siting/docs/CGS/Carty_Exhibits_W-DD.pdf, page W-1.