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June 16, 2017

Public Utility Commission of Oregon
201 High Street SE, Suite 100
Salem, Oregon 97301-3398
Attn: Filing Center

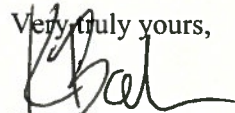
Re: Case No. UE-319

Dear Sir or Madam:

Please find attached the OPENING TESTIMONY AND EXHIBITS OF NEAL TOWNSEND on behalf of THE KROGER CO. AND QUALITY FOOD CENTERS, DIVISION OF THE FRED MEYER STORES, INC. for filing in the above referenced matter.

Copies have been served on all parties of record. Please place this document of file.

Very truly yours,



Kurt J. Boehm, Esq.
Jody Kyler Cohn, Esq.

BOEHM, KURTZ & LOWRY

KJBkew
Enclosure
cc: Certificate of Service

**BEFORE THE PUBLIC UTILITY COMMISSION
OF THE STATE OF OREGON**

UE 319

In the Matter of)
)
PORTLAND GENERAL ELECTRIC)
COMPANY)
)
Request for a General Rate Revision.)

**OPENING TESTIMONY OF
NEAL TOWNSEND
ON BEHALF OF
FRED MEYER STORES**

JUNE 16, 2017

1 **OPENING TESTIMONY OF NEAL TOWNSEND**

2
3 **Introduction**

4 **Q. Please state your name and business address.**

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

7
8 **Q. By whom are you employed and in what capacity?**

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

12
13 **Q. On whose behalf are you testifying in this proceeding?**

14 A. My testimony is being sponsored by Fred Meyer Stores and Quality Food
15 Centers (“Fred Meyer”), divisions of The Kroger Co. Kroger receives most of its
16 service from Portland General Electric (“PGE”) under Schedules 485 and 585.
17 For ease of exposition, I will refer to Schedule 85 and its Direct Access
18 counterparts, Schedules 485 and 585, collectively as the Schedule 85 rate group.

19
20 **Q. Please describe your educational background.**

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

1 **Q. Please describe your professional experience and background.**

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

7
8 **Q. Have you previously testified before this Commission?**

9 A. Yes. I filed opening testimony in PGE's 2015 general rate case, Docket
10 No. UE-294, and joint testimony in support of the stipulation in PGE's 2013
11 general rate case, Docket No. UE-262. I also filed direct and joint testimony in
12 support of the stipulation in Pacific Power's 2012 general rate case, Docket No.
13 UE-246, and joint testimony in support of the stipulation in Pacific Power's 2010
14 general rate case, Docket No. UE-217.

15
16 **Q. Have you testified before utility regulatory commissions in other states?**

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

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Overview and Conclusions

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

A. My testimony addresses the Distribution Facilities charges for customers taking service under the Schedule 85 rate group, as well as PGE’s proposed revenue allocation to this group.

Q. What are your primary conclusions and recommendations?

A. Regarding the Schedule 85 rate group Distribution Facilities charges, I am concerned that the differentials in the Distribution Facilities charges between the Schedule 85 rate group customers served at Secondary and Primary voltage proposed by PGE do not accurately reflect the difference in cost of service for these two distinct groups of customers. I recommend that the differential in Distribution Facilities charges between Primary and Secondary service be increased, in a revenue neutral manner, so that the overall Distribution Facilities rate increase for Schedule 85 Primary customers is approximately 75% of the overall Distribution Facilities rate increase borne by Schedule 85 Secondary customers. Further, I recommend that PGE perform an evaluation of secondary Distribution Facilities costs and incorporate the results in its marginal cost study in the next general rate case.

PGE’s proposed revenue allocation to the Schedule 85 rate group as a whole is reasonable, as it calls for no cross subsidization between the Schedule 85 rate group and other customer classes.

1 **Schedule 85 – Distribution Charges for Primary and Secondary Service**

2 **Q. By way of background, please describe the type of service provided by**
3 **Schedule 85-S and 85-P.**

4 A. Schedule 85 applies to Standard Service provided to Large Non-
5 Residential Customers – customers whose billing demands generally are greater
6 than 200 kW, but have not exceeded 4,000 kW more than once in the past thirteen
7 months. Schedule 85-S is used for customers taking service at secondary voltage,
8 whereas Schedule 85-P is used for customers taking service at primary voltage.
9 In addition, Schedule 85 has counterpart Direct Access rate schedules, Schedule
10 485 (Multi-Year Opt-Out) and Schedule 585 (annual Direct Access). The
11 Distribution Charges for Schedules 85-S, 485-S, and 585-S are identical, and the
12 Distribution Charges for Schedules 85-P, 485-P, and 585-P are identical.

13
14 **Q. What Distribution Facilities charge increase has PGE proposed for the**
15 **Schedule 85 rate group?**

16 A. For Secondary service, PGE is proposing an increase to the secondary
17 Distribution Facilities charge of \$0.53/kW for both blocks from 0-200 kW and
18 over 200 kW, which is 17.8% and 25.6%, respectively.

19 For Primary service, PGE is proposing a similar substantial increase to the
20 primary Distribution Facilities charge of \$0.52/kW for both blocks from 0-200
21 kW and over 200 kW, which is 17.9% and 26.0%, respectively.

1 **Q. What is the basis for the differentiation between PGE’s proposed Primary**
2 **and Secondary Distribution Facilities rates?**

3 A. Based on my review of PGE’s testimony and workpapers, the sole
4 difference between the Distribution Facilities charges for Secondary and Primary
5 service is estimated peak demand losses. As explained by PGE witnesses Marc
6 Cody and Robert Macfarlane, “[t]he difference between secondary and primary
7 voltage Facility Capacity Charges reflect the difference in estimated peak demand
8 losses for the respective delivery voltages.”¹

9
10 **Q. Do you believe it is reasonable for the Facility Charges for Secondary and**
11 **Primary customers to be identical except for peak demand losses?**

12 A. No. There is a portion of the distribution system that it built exclusively to
13 serve secondary customers. As I explained in UE 294, secondary conductors
14 comprise 22% of the overhead circuit miles and 7% of the underground circuit
15 miles in PGE’s distribution system.² These secondary voltage conductors serve
16 only Secondary customers, while the primary voltage conductors serve both
17 Secondary and Primary customers. Thus, none of the costs associated with
18 operating and maintaining these secondary conductors are attributable to Primary
19 voltage customers, and neither is the return earned on any net investment in these
20 facilities. Yet, the rate design for the Schedule 85 rate group reflects none of this
21 difference in the cost to serve.

¹ PGE Exhibit 1400, pp 19.

² Neal Townsend Opening Testimony UE 294/FM/100, pp 7-8.

1 **Q. What is your understanding as to why PGE's Schedule 85 rates do not reflect**
2 **a difference in conductor costs between Secondary and Primary customers?**

3 A. My understanding, based on my experience in UE 294,³ is that because
4 PGE's current distribution construction and design standards are comprised of
5 underground facilities with a minimal amount of secondary conductors, the
6 Company does not separately allocate these secondary voltage facilities through
7 its marginal cost study.

8

9 **Q. As a general proposition, do you believe it is reasonable in cost allocation to**
10 **ignore the fact that Primary customers do not utilize a material portion of**
11 **the PGE system conductors, specifically, the secondary voltage conductors?**

12 A. No. Even though PGE uses a marginal cost method to *allocate* costs, it is
13 the embedded costs of the system that the Company *actually recovers* from
14 customers through its rates. I believe it is unreasonable for the costs of a portion
15 of the system that was constructed exclusively to serve secondary customers to be
16 allocated pro rata to primary customers simply because the Company's current
17 construction and design standards may have changed. After all, PGE is not
18 abandoning its own cost recovery of its secondary facilities due to its change in
19 construction and design standards. Yet somehow the change in construction and
20 design standards is allowed to cause higher-voltage customers, who do not use
21 these facilities, to be responsible for recovering the costs of those facilities.

22

³ See Id.

1 **Q. Have you expressed concerns about this issue in past cases?**

2 A. Yes. I raised similar concerns in UE 294. In response, the Second Partial
3 Stipulation filed in that case includes a provision requiring an evaluation of the
4 costs of secondary conductors in this case.⁴

5
6 **Q. Please describe PGE's evaluation of costs for secondary conductors that was
7 directed by the UE 294 Second Partial Stipulation.**

8 A. The UE 294 Second Partial Stipulation directed PGE to evaluate the
9 maintenance costs of secondary voltage conductors and the applicability of those
10 costs to specific rate schedules and delivery voltages. PGE's evaluation consisted
11 of a review of the transformers and service laterals that serve Schedule 7
12 Residential customers. Based on this review, PGE incorporated an updated
13 configuration, based on its current underground standards, for transformers
14 serving multiple residential customers, into its marginal cost study. Since PGE
15 allocates its projected maintenance costs on the basis of each schedule's marginal
16 capital costs, this change in the marginal capital cost changes the allocation of
17 maintenance costs to Schedule 7.

18 However, it does not appear that this evaluation considered the
19 maintenance costs of the secondary conductors currently on the distribution
20 system or the applicability of secondary maintenance costs to rate classes other
21 than Schedule 7 Residential, e.g., *within* Schedule 85. Maintenance costs
22 continue to be allocated pro rata based on the marginal capital cost, with no
23 consideration of the actual ongoing maintenance costs for the *existing*, and

⁴ UE 294 Second Partial Stipulation (August 28, 2015), Term 1.(j.)(viii.).

1 material, secondary facilities on the distribution system. Further, the company
2 has acknowledged the existence of some secondary conductors in its *current*
3 *distribution* construction and design standards, yet there is no indication that the
4 Company's evaluation considered those secondary conductor facility costs or
5 incorporated those costs into the marginal cost study.

6

7 **Q. What is your assessment of PGE's evaluation of secondary conductor**
8 **maintenance costs?**

9 A. While I appreciate the evaluation that PGE has performed, I believe that a
10 more comprehensive application of this evaluation is warranted. As described
11 above, secondary facilities are present in the current distribution design standards
12 and there is a material proportion of the current distribution system that consists
13 of secondary voltage facilities that do not serve Primary customers. Recognition
14 of the secondary conductors that exist in the current design standards would result
15 in more accurate marginal capital costs. An evaluation of the actual ongoing
16 maintenance costs for existing secondary conductors would provide better
17 information to allocate future operations and maintenance expenses for a
18 distribution system with existing facilities that were built according to older
19 standards. This kind of additional evaluation that identifies the difference in
20 capital and maintenance costs between Primary and Secondary voltages on the
21 distribution system would provide the necessary information to develop marginal
22 costs that are more closely aligned with the costs to serve different customer
23 groups.

1 In the future, secondary conductor components in the current design
2 standards as well as the maintenance costs of the existing secondary facilities on
3 the distribution system should be reflected in the marginal cost of service study.
4 This should be applied to all rate schedules, not just for Schedule 7 Residential
5 customers, and should differentiate between non-residential Primary and
6 Secondary customers. In short, the capital and maintenance costs associated with
7 secondary conductors should not be allocated to Primary voltage customers.

8

9 **Q. Do you believe that PGE's proposed distribution rate design for the Schedule**
10 **85 rate group is reasonable for this case?**

11 A. No. The rate differential between Schedule 85 Primary and Secondary
12 customers for the Distribution Facilities charges is based solely on the estimated
13 peak demand losses. It does not consider the cost of secondary facilities on the
14 distribution system that are not utilized by Primary customers. The differentials
15 in Distribution Facilities charges between Primary and Secondary customers
16 should be larger to account for the difference in costs to serve these two customer
17 groups.

18

19 **Q. What is your recommendation on this issue?**

20 A. I recommend that the Company conduct a further evaluation of the
21 differences in the costs to serve Primary versus Secondary customers. This
22 should include an evaluation of the *current distribution* design standards for
23 primary and secondary distribution facilities and the ongoing maintenance costs

1 of *existing* facilities on the distribution system. The applicability of those costs to
2 all rate schedules should be considered, with a specific focus on the difference
3 between Primary and Secondary customers within a single rate class. It should
4 identify the costs for secondary facilities on the distribution system that Primary
5 voltage customers do not utilize and therefore should not be included in Primary
6 customers' rates. The results of this evaluation should be incorporated into the
7 marginal cost study used to allocate distribution system costs.

8 I recognize that it may be challenging for the Company to perform this
9 evaluation for consideration in this general rate case. Therefore, I am
10 recommending that this evaluation be performed as part of the next general case.
11 In order to account for the difference in distribution system costs between Primary
12 and Secondary customers in this case, I recommend that the Schedule 85 rate
13 design be adjusted by increasing the Distribution Facilities charge differential
14 between Primary and Secondary, in a revenue neutral manner, so that the overall
15 Distribution Facilities increase for Schedule 85 Primary customers is
16 approximately 75% of the overall increase of Schedule 85 Secondary customers.

17
18 **Q. Have you prepared a calculation that illustrates your recommendation at**
19 **PGE's proposed revenue requirement?**

20 A. Yes, I have. This calculation is presented in Exhibit FM/101.

21

1

Rate Spread

2 **Q. What general guidelines should be employed in spreading any change in**
3 **rates?**

4 A. In determining rate spread, or revenue apportionment, it is important to
5 align rates with cost causation, to the greatest extent practicable. Properly
6 aligning rates with the costs caused by each customer group is essential for
7 ensuring fairness, as it minimizes cross subsidies among customers. It also sends
8 proper price signals, which improves efficiency in resource utilization.

9

10 **Q. What is your general assessment of PGE's proposed revenue allocation to the**
11 **Schedule 85 rate group?**

12 A. I believe that PGE's proposed rate spread for the Schedule 85 rate group is
13 reasonable, as it calls for no cross subsidization between the Schedule 85 rate
14 group and other classes. Further, to the extent that PGE's proposed revenue
15 requirement is reduced by the Commission, I recommend that the Schedule 85
16 class revenue requirement should remain closely aligned with cost of service at
17 the lower revenue level.

18

19 **Q. Does this conclude your opening testimony?**

20 A. Yes, it does.

Fred Meyer Exhibit 101

SCHEDULE 85	Billing Determinants		Current Rate	Current Revenue	PGE Rate	PGE Revenue	PGE Increase	Kroger Rate	Kroger Revenue	Kroger Increase	
	Amount	Unit									
Distribution Facilities Charges											
Secondary Facilities Charge											
First 200 kW	3,464,400	kW faccap	\$ 2.97	\$ 10,289	\$3.50	\$ 12,125	17.85%	\$3.540	\$ 12,264	19.19%	
Over 200 kW	4,760,092	kW faccap	\$ 2.07	\$ 9,853	\$2.60	\$ 12,376	25.60%	\$2.640	\$ 12,567	27.54%	
Primary Facilities Charge											
First 200 kW	583,400	kW faccap	\$ 2.90	\$ 1,692	\$3.42	\$ 1,995	17.93%	\$3.290	\$ 1,919	13.45%	
Over 200 kW	2,028,652	kW faccap	\$ 2.00	\$ 4,057	\$2.52	\$ 5,112	26.00%	\$2.390	\$ 4,848	19.50%	
Schedule 85 Secondary Facilities Charges											
Schedule 85 Primary Facilities Charges				\$ 20,143		\$ 24,502	21.64%		\$ 24,831	23.27%	
Total Distribution Facilities Charges				\$ 5,749		\$ 7,107	23.63%		\$ 6,768	17.72%	
Ratio of Primary Increase to Secondary Increase											
				\$ 25,892		\$ 31,609	22.08%		\$ 31,598	22.04%	
							109.17%				
Economies of Scale Blocking, Rate Continuum											
Secondary/Primary Facilities Delta	\$	0.90									Revenue Check (\$11)
Secondary Up Delta	\$	0.26									
Primary Down Delta	\$	0.08									
	\$	0.17									

BEFORE THE PUBLIC UTILITY COMMISSION
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UE 319

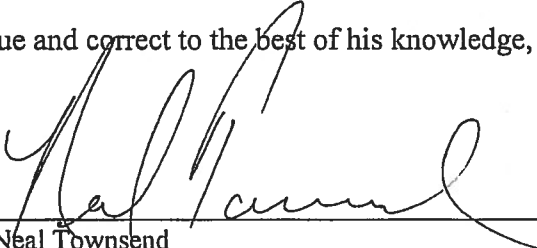
In the Matter of)
)
PORTLAND GENERAL ELECTRIC COMPANY)
)
Request for a General Rate Revision.)
_____)

AFFIDAVIT OF NEAL TOWNSEND

STATE OF UTAH)
)
COUNTY OF SALT LAKE)

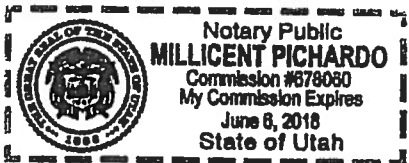
Neal Townsend, being first duly sworn, deposes and states that:

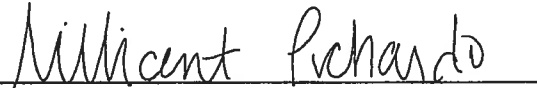
1. He is a Principal with Energy Strategies. L.L.C., in Salt Lake City, Utah;
2. He is the witness who sponsors the accompanying testimony entitled "Opening Testimony of Neal Townsend;"
3. Said testimony was prepared by him and under his direction and supervision;
4. If inquiries were made as to the facts and schedules in said testimony he would respond as therein set forth; and
5. The aforesaid testimony and schedules are true and correct to the best of his knowledge, information and belief.



Neal Townsend

Subscribed and sworn to or affirmed before me this 16th day of June, 2017 by Neal Townsend.





Notary Public