



Portland General Electric Company
121 SW Salmon Street • Portland, Oregon 97204
PortlandGeneral.com

March 31, 2017

Email / FedEx

puc.filingcenter@state.or.us

Public Utility Commission of Oregon
Attn: Filing Center
201 High Street, S.E.
P.O. Box 1088
Salem, OR 97308-1088

RE: UE 319 – Supplemental Testimony and Confidential Exhibits

Filing Center:

Enclosed please find one original and five copies of PGE's Supplemental Testimony with one Confidential Exhibit submitted and filed in Docket No. UE 319. The confidential material is subject to Protective Order No. 17-057 and is provided on CD only.

PGE indicated in Exhibit 300 that it was discussing a new purchase power agreement with Douglas County for a share of the energy produced at the Wells Hydroelectric Project. This Supplemental Testimony provides details regarding the now completed agreement and its effect on PGE's 2018 Net Variable Power Costs.

If you have any questions, please feel free to contact Greg Batzler at (503) 464-8644. Please direct all formal correspondence and requests to the following e-mail address: pge.opuc.filings@pgn.com.

Sincerely,

A handwritten signature in black ink that reads "Jay Tinker". The signature is written in a cursive, flowing style.

Jay Tinker
Director, Rates and Regulatory Affairs

JT:sp
encls.

CC: John Crider, OPUC Staff
Bob Jenks, Citizens' Utility Board of Oregon
S. Bradley Van Cleve, ICNU

BEFORE THE PUBLIC UTILITY COMMISSION
OF THE STATE OF OREGON

UE 319

Supplemental Testimony

PORTLAND GENERAL ELECTRIC COMPANY

Direct Testimony and Exhibits of

Mike Niman
Darrington Outama
Aaron Rodehorst

March 31, 2017

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I. Introduction

1 **Q. Please state your names and positions with Portland General Electric (PGE).**

2 A. My name is Mike Niman. My position at PGE is Manager, Financial Analysis. My
3 qualifications appear in PGE Exhibit 300.

4 My name is Aaron Rodehorst. My position at PGE is Senior Analyst, Regulatory
5 Affairs. My qualifications appear in PGE Exhibit 300.

6 My name is Darrington Outama. While my current position is Director, Financial
7 Forecasting & Planning, I was the Manager of Origination and Structuring until April 1,
8 2016. My qualifications appear at the end of this testimony.

9 **Q. What is the purpose of your Supplemental Testimony?**

10 A. In PGE Exhibit 300, we stated that PGE continues to engage in efforts to retain legacy hydro
11 resources in a cost-effective manner for customers. In particular, we highlighted the
12 continued negotiations with Douglas County for a share of the energy produced at the Wells
13 Hydroelectric Project (Wells). PGE executed the Wells agreement on March 29, 2017. Our
14 supplemental testimony provides details of this agreement, the basis for entering into it, and
15 the effect of this agreement on PGE's 2018 Net Variable Power Cost (NVPC) forecast.

16 **Q. Will you be providing any other updates to PGE Exhibit 300?**

17 A. Yes. We will also be providing a brief update on the status of incorporating the most recent
18 Headwater Benefits Study into MONET.

19 **Q. How is the remainder of your testimony organized?**

20 A. Our testimony has three additional sections. In Section II, we discuss the terms and details
21 of PGE's long-term contract with Douglas County for a share of the energy produced at

- 1 Wells. In Section III, we will briefly discuss the status regarding our validation of the
- 2 Headwater Benefits Study. In the last section, we provide Mr. Outama’s qualifications.

II. Wells Hydroelectric Project

1 **Q. Please provide a brief description of the Wells Hydroelectric Project (Wells).**

2 A. Wells, completed in 1967, is located on the Columbia River, downstream of Chief Joseph.
3 Wells has ten generating units rated at a combined 840 megawatts. The Public Utility
4 District No. 1 of Douglas County, Washington (Douglas PUD) owns and operates the
5 project. In addition to PGE, the entities receiving power from Wells include Douglas PUD,
6 Confederated Tribes of the Colville Indian Reservation (Colville), Puget Sound Energy,
7 PacifiCorp, Avista Corporation and the Okanogan County Public Utility District.

8 **Q. Please summarize PGE's current Purchase Power Agreement (PPA) with Douglas**
9 **PUD for energy produced from Wells.**

10 A. The current Wells' PPA between PGE and Douglas PUD commenced in 1967 and will
11 expire August 31, 2018. PGE's percent slice share of the project capacity under that
12 contract was a fixed percentage for the full term of the contract through August 31, 2018,
13 that was subsequently reduced by approximately 1% percent pursuant to the Colville
14 Settlement of 2004. The actual generation output of PGE's share of Wells is dependent on
15 actual hydro conditions. Additionally, PGE entered into a separate agreement with Douglas
16 PUD in 1989 (Wells Settlement Agreement) in which PGE purchases a proportionate share
17 of surplus energy from Douglas PUD's share of Wells after they meet their obligations. The
18 Wells Settlement Agreement is also set to expire August 31, 2018.

19 **Q. What is PGE's interest in seeking a new contract to replace the 2018 expiration of**
20 **PGE's Wells PPA?**

21 A. PGE negotiated a new 10-year contract¹ for a portion of Wells output for three reasons:

¹ The contract period is active starting September 1, 2018 through September 30, 2028.

- 1 • This transaction is consistent with Commission Order No. 14-415, in which the Public
2 Utility Commission of Oregon stated: “We agree that PGE should seek to renew its
3 expiring hydro-facility contracts to the extent it is cost-effective to do so and
4 acknowledge the company's pursuit of cost effective hydro contract renewals.²”
- 5 • The transaction with Douglas PUD is forecast to produce a net benefit for customers
6 over the life of the contract.
- 7 • The execution of this PPA will reduce PGE’s projected capacity deficit and continue to
8 provide load following and balancing services.

9 **Q. Please summarize how the new PPA differs from the expiring contract with respect to**
10 **product quantity.**

11 A. The new contract, negotiated between Douglas PUD, PGE, and other parties associated with
12 the expiring contract, provides PGE with a slice of Wells output similar in size to the current
13 PPA, after accounting for Douglas PUD’s share and other associated obligations. The new
14 contract does not include a surplus energy component. Volume Four of PGE’s Minimum
15 Filing Requirements (MFRs) provides the original contract terms and modeling
16 methodology. PGE Confidential Exhibit 1501 contains a copy of the new agreement with
17 Douglas County and PGE’s step documentation provides the new modeling methodology.
18 PGE’s step documentation will be part of PGE’s MFRs submitted on or before April 15,
19 2017.

20 **Q. How did PGE determine the PPA’s economic value?**

21 A. PGE compared the contract terms against market forward curves for energy using an
22 internally developed financial model. While the pricing structure of the expiring agreement

² Commission Order No. 14-415, page 7.

1 is calculated based on the Wells project costs, the new PPA price is calculated using a
2 simple fixed and variable payment schedule. PGE found that the contract terms, which
3 provide PGE with both capacity and energy, are competitively priced when compared to the
4 market references, are beneficial for both parties, and offer benefits to PGE's portfolio.³

5 **Q. What are the benefits of this contract?**

6 A. PGE's contracts for dispatchable⁴, multi-purpose Mid-C hydro have diminished over time
7 and continue to expire. Additionally, as the amount of variable energy resources (VERs) in
8 the region continues to increase, the need for dispatchable resources that can provide energy,
9 capacity, and associated ancillary services continues to increase. PGE relies on Wells to
10 provide regulation and load following services, and operating reserves. With the recent and
11 projected future increase in PGE's VERs and the shift to full self-integration of these
12 resources beginning in 2018, PGE will require firm access to dispatchable capacity
13 resources to handle the increasing variability of wind, solar, and other VERs. This contract
14 will allow PGE to continue to serve load and meet reliability for the next ten years with
15 competitively priced power that is dispatchable and produces zero carbon emissions.
16 Additionally, PGE is able to realize this flexibility through the dynamic transfer capacity
17 already established between our system and Wells.

18 **Q. Did PGE issue an RFP for the output acquired under the contract?**

19 A. No. PGE is following the Commission guidance from its last acknowledged Integrated
20 Resource Plan, agreeing that PGE should seek to renew legacy hydro contracts when
21 cost-effective to do so. Furthermore, PGE is simply exercising a Right of First Refusal

³ PGE's financial model will be part of its MFRs submitted on or before April 15, 2017.

⁴ The dispatch capabilities of hydro resources vary by the hour, day, month, and season depending on several factors such as fish passage, run off, reservoir elevations, required operations for FERC license compliance, maintenance, etc.

1 clause that exists in the current contract. This right allows PGE and the other current
2 purchasers to have exclusive rights to negotiate an extension for the output of this project.
3 Because of these negotiations, PGE will continue to purchase a similar product from
4 Douglas County that it has purchased over the last fifty years.

5 **Q. What is the NVPC effect of the new Wells PPA?**

6 A. The new Wells agreement increases PGE's NVPC forecast by approximately \$2.6 million.

III. Headwater Benefits Study

1 **Q. In PGE Exhibit 300, you stated that PGE was working to validate the results of the**
2 **2015-2016 Headwater Benefits Study. Are the results of this study included in the**
3 **March 31, 2017 NVPC update?**

4 A. No. We have yet to resolve an unexplained issue affecting the study results. We are
5 currently working with the Northwest Power Pool to isolate and correct the root cause of this
6 issue. We expect to have additional information and will provide an update during the
7 scheduled May 5, 2017 Staff workshop.

IV. Qualifications

1 **Q. Mr. Outama, please state your educational background and experience.**

2 A. I received a Bachelor of Science degree in Accounting and Finance from University of
3 Washington in 1996. I have over 18 years of experience with PGE working in accounting,
4 financial planning, risk management, and structuring and origination. I have been involved
5 in originating and pricing of custom products, asset acquisitions, as well as ad hoc project
6 management including the 2012 Request for Proposals on behalf of PGE's customers. I
7 became the Director of Financial Forecasting & Planning on April 1, 2016. However, my
8 position prior to this was Manager, Origination, Structuring and Fundamental Analysis.

9 **Q. Does this complete your testimony?**

10 A. Yes.

List of Exhibits

<u>PGE Exhibit</u>	<u>Description</u>
1501C	Wells Project Power Sales Contract & Purchasers Withdrawal Payment Agreement