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June 22, 2015

Via Electronic Filing

Public Utility Commission of Oregon
Attn: Filing Center
3930 Fairview Industrial Drive SE
Salem OR 97302

Re: PORTLAND GENERAL ELECTRIC and
PACIFICORP d/b/a PACIFIC POWER
Request for a Generic Power Cost Adjustment Mechanism Investigation
Docket No. UM 1662

Dear Filing Center:

Enclosed for filing in the above-referenced docket, please find the Cross-Answering Testimony of Bradley G. Mullins on behalf of the Industrial Customers of Northwest Utilities.

Thank you for your assistance. If you have any questions, please do not hesitate to call our office.

Sincerely,

/s/ Jesse O. Gorsuch
Jesse O. Gorsuch

Enclosure

BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UM 1662

In the Matter of)
)
PORTLAND GENERAL ELECTRIC)
COMPANY)
)
and)
)
PACIFICORP d/b/a PACIFIC POWER)
)
Request for Generic Power Cost Adjustment)
Mechanism Investigation.)
_____)

CROSS-ANSWERING TESTIMONY OF BRADLEY G. MULLINS

ON BEHALF OF THE INDUSTRIAL CUSTOMERS OF NORTHWEST UTILITIES

June 22, 2015

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CROSS-ANSWERING TESTIMONY OF BRADLEY G. MULLINS**

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1 **I. INTRODUCTION AND SUMMARY**

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

3 A. My name is Bradley G. Mullins, and my business address is 333 SW Taylor Street, Suite
4 400, Portland, Oregon 97204.

5 **Q. ARE YOU THE SAME BRADLEY G. MULLINS WHO FILED REPLY**
6 **TESTIMONY, ON MAY 11, 2015, IN THIS DOCKET?**

7 A. Yes.

8 **Q. WHAT IS THE PURPOSE OF YOUR CROSS-ANSWERING TESTIMONY?**

9 A. My testimony responds to the reply testimony filed by the Oregon Public Utility
10 Commission Staff (“Staff”) and the Citizens’ Utility Board (“CUB”). Specifically, my
11 testimony focuses on the alternative proposal discussed in Staff’s reply testimony.

12 **Q. PLEASE PROVIDE AN OVERVIEW OF THE REPLY TESTIMONY FILED BY**
13 **THE PARTIES IN THIS DOCKET.**

14 A. Portland General Electric Company (“PGE”) and PacifiCorp (collectively, the “Joint
15 Utilities”) have proposed to institute a “renewable resources tracking mechanism”
16 (“RRTM”) that would allegedly separate the costs of their resources used for compliance
17 with Oregon’s renewable portfolio standard (“RPS”) from their power cost adjustment
18 mechanisms (“PCAM”) and true these costs up, dollar-for-dollar, annually. All parties
19 that filed testimony in response to the Joint Utilities’ RRTM proposal oppose it.

20 My Reply Testimony shows that the RRTM proposal: (1) is not necessary to
21 comply with Oregon’s RPS law; (2) is similar to proposals the Joint Utilities have made
22 in the past, which the Commission rejected; and (3) contains a number of technical
23 problems, including that it: (a) would likely result in double-recovery of net power costs;
24 (b) does not satisfy the Commission’s design criteria for a proper PCAM; (c) does not

1 recognize the difficulty in carving out one aspect of overall power costs; (d) incorporates
2 the impacts of market prices, rather than just renewable resource variability; and (e)
3 improperly includes production tax credits (“PTCs”), which are a component of overall
4 taxes computed in a general rate case.

5 CUB also categorically rejects the Joint Utilities’ RRTM proposal, raising
6 concerns that are similar to my own. Staff’s primary recommendation is also to reject the
7 RRTM and continue to allow for recovery of RPS-related variable costs through the Joint
8 Utilities’ annual power cost cases and PCAMs. Staff argues that the RRTM would
9 improperly shift risk to customers and improperly includes the variability of market
10 prices. However, Staff also offers an alternative proposal to the RRTM in the event the
11 Commission chooses not to reject the RRTM outright.

12 **Q. PLEASE DESCRIBE STAFF’S ALTERNATIVE PROPOSAL.**

13 A. Staff proposes to remove the impact of market price variance from the RRTM by valuing
14 both forecasted and actual energy at the same market price.^{1/} Staff’s proposal would also
15 remove the load forecasting error from the RRTM by comparing the hourly cost forecast
16 with that hour’s actual load.^{2/} In hours when the load forecast error is greater than the
17 energy forecast error, no recovery would be allowed because there would be no need for
18 the Joint Utilities to purchase replacement energy.^{3/}

^{1/} Staff/100 at 12:2-3.

^{2/} Id. at 12:19-21.

^{3/} Id. at 13:5-18.

1 **II. RESPONSE TO STAFF’S ALTERNATIVE PROPOSAL**

2 **Q. DOES STAFF’S ALTERNATIVE PROPOSAL RESOLVE THE CONCERNS**
3 **YOU RAISED WITH THE RRTM IN YOUR REPLY TESTIMONY?**

4 A. No. While Staff’s alternative proposal may remove the impact of market price variance
5 from the RRTM, it does nothing to resolve the other problems that I and other parties
6 have identified with the RRTM.

7 **Q. WOULD THE JOINT UTILITIES STILL LIKELY DOUBLE-RECOVER SOME**
8 **OF THEIR POWER COSTS UNDER STAFF’S ALTERNATIVE PROPOSAL?**

9 A. Yes. Staff’s alternative proposal still allows for dollar-for-dollar recovery of variable
10 costs associated with renewable resources, while maintaining the PCAM design for all
11 other variable costs. Thus, in instances where the Joint Utilities have over-recovered
12 total power costs, but under-recovered renewable power costs, the Joint Utilities would
13 collect their under-recovered renewable power costs, while simultaneously being
14 insulated from refunding their over-collection of other power costs due to the dead bands,
15 sharing bands, and earnings test in the PCAM. This would result in double-recovery of a
16 portion of the Joint Utilities’ overall power costs.

17 **Q. DOES STAFF’S ALTERNATIVE PROPOSAL SATISFY THE COMMISSION’S**
18 **DESIGN CRITERIA FOR A PROPER PCAM?**

19 A. No. The Commission’s PCAM design criteria are intended to balance the interests of the
20 utility shareholder and the ratepayer.^{4/} As Staff recognizes, dollar-for-dollar recovery of
21 variable costs shifts all risk of this variability to customers. Staff states that it does not

^{4/} See Docket Nos. UE 180, UE 181, UE 184, Order No. 07-015 at 26-27 (Jan. 12, 2007).

1 “believe it is appropriate to shift any risk to ratepayers,”^{5/} yet its alternative proposal, like
2 the Joint Utilities’ RRTM, would do just that.

3 **Q. IS THE DIFFICULTY OF ACCURATELY CARVING OUT A PORTION OF**
4 **POWER COSTS FOR SEPARATE RECOVERY ADDRESSED BY STAFF’S**
5 **ALTERNATIVE PROPOSAL?**

6 A. No. As I showed in my Reply Testimony, the Joint Utilities’ supply portfolio operates as
7 an integrated whole, which benefits from a diversity of resources. Over- or under-
8 generation of renewable resources is offset by higher or lower thermal generation, and
9 potentially, higher or lower hydro generation. Isolating the costs of one portion of the
10 Joint Utilities’ portfolios does not recognize the complex interactions—and associated
11 costs—between these various resource types. Staff’s alternative proposal does not
12 resolve this issue because it still attempts to separate the variable costs associated only
13 with renewable resources from the total supply portfolio.

14 **Q. DOES STAFF’S ALTERNATIVE PROPOSAL ADDRESS THE ISSUES YOU**
15 **RAISED WITH INCLUDING PTCs IN THE RRTM?**

16 A. Staff’s reply testimony does not specifically address whether PTCs would be included in
17 its alternative proposal, so I assume for purposes of this testimony that PTCs would be
18 included, consistent with the Joint Utilities’ proposal. As I discussed in my Reply
19 Testimony, PTCs are one component of broader tax provision calculations that should be
20 addressed as a revenue requirement issue in general rate cases. The level of PTCs usable
21 in a year impacts the amount of accumulated deferred income taxes (“ADIT”).
22 Therefore, truing-up PTCs annually under the RRTM or Staff’s alternative proposal
23 would likely result in an inaccurate level of ADIT benefit reflected in rates. Thus, the

^{5/} Staff/100 at 11:14-15.

1 Joint Utilities could benefit by truing up in the RRTM actual PTCs that were less than
2 forecast, but without giving customers the corresponding ADIT benefit, which would
3 continue to be established in general rate cases.

4 **III. CONCLUSION**

5 **Q. PLEASE SUMMARIZE YOUR CROSS-ANSWERING TESTIMONY.**

6 A. The Joint Utilities' RRTM is a flawed proposal that is not needed to comply with
7 Oregon's RPS law, is similar to proposals that the Commission has rejected in the past,
8 and has numerous technical deficiencies. While Staff's alternative proposal attempts to
9 address the problem of market price variance in the RRTM, it does not resolve the other
10 problems with this mechanism that I and the other parties have identified. I agree with
11 Staff's primary recommendation and with CUB's recommendation that the Commission
12 reject the RRTM and continue to review the Joint Utilities' total power costs, including
13 renewable power costs, under their current PCAMs.

14 **Q. DOES THIS CONCLUDE YOUR CROSS-ANSWERING TESTIMONY?**

15 A. Yes.