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August 28, 2015

VIA ELECTRONIC FILING

Public Utility Commission of Oregon
201 High Street SE, Suite 100
Salem, OR 97301-1166

Attn: Filing Center

RE: UM 1744—PacifiCorp's Response Testimony

PacifiCorp d/b/a Pacific Power encloses for filing its Response Testimony in the above-referenced docket.

If you have questions about this filing, please contact Erin Apperson, Manager Regulatory Affairs, at (503) 813-6642.

Sincerely,

A handwritten signature in black ink that reads "R. Bryce Dalley". To the right of the signature, there are initials "EAA" written in a smaller, less legible hand.

R. Bryce Dalley
Vice President, Regulation

Enclosure

Docket No. UM 1744
Exhibit PAC/100
Witness: Mary M. Wiencke

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

PACIFICORP

Response Testimony of Mary M. Wiencke

August 2015

RESPONSE TESTIMONY OF MARY M. WIENCKE

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RESPONSE TESTIMONY OF MARY M. WIENCKE

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1 **Q. Please state your name, business address, and present position with**
2 **PacifiCorp d/b/a Pacific Power (PacifiCorp or Company).**

3 A. My name is Mary M. Wiencke. My business address is 825 NE Multnomah
4 Street, Suite 2000, Portland, Oregon 97232. My title is Director, Environmental
5 Strategy and Policy.

6 **QUALIFICATIONS**

7 **Q. Briefly describe your education and professional experience.**

8 A. I have a B.A. in Environmental Science from Barnard College and a J.D. from
9 Lewis & Clark Law School. I have been employed by PacifiCorp for eight years
10 in various positions of responsibility in both legal and policy roles.

11 **Q. Have you testified in previous regulatory proceedings?**

12 A. No.

13 **PURPOSE AND SUMMARY OF TESTIMONY**

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

15 A. The purpose of my testimony is to respond to the Application of Northwest
16 Natural Gas Company (NW Natural) for a carbon emission reduction program
17 that incentivizes the development of combined heat and power projects (the CHP
18 Program). My testimony addresses certain aspects of the CHP Program that, if
19 adopted, would be inconsistent with the voluntary emission reduction program
20 policies adopted by the state and promulgated by the Public Utility Commission
21 of Oregon (Commission). Specifically, in my testimony I recommend that: 1) at a
22 minimum, the Commission should not allow NW Natural to receive an incentive
23 for activity in which it already has an incentive to engage in as part of the

1 ordinary course of business; and 2) the Commission should not lock in an
2 emissions reductions value for the entire duration of a particular project.

3 **VOLUNTARY EMISSION REDUCTION PROGRAM INCENTIVES SHOULD**
4 **NOT BE USED TO FACILITATE FUEL SWITCHING**

5 **Q. What is fuel switching?**

6 A. OAR 860-027-0310(1)(b) defines “fuel switching” as “any substitution of one
7 type of energy or fuel for another[.]”

8 **Q. Does the CHP Program proposed by NW Natural incentivize fuel switching**
9 **from electricity to natural gas?**

10 A. Yes. The CHP Program assumes both (1) an increase in the use of natural gas and
11 (2) a decrease in the purchase of electricity from the grid. The only way these
12 two statements can be true is if the CHP Program results in fuel switching from
13 electricity to natural gas. In fact, in response to the statutory factors set forth in
14 ORS 757.539, NW Natural states that the CHP Program benefits all NW Natural
15 customers by *increasing* overall load for NW Natural and thereby lowering
16 average system costs and increasing system reliability.¹ In other words, a primary
17 benefit of the program is increased load for NW Natural; it is telling that NW
18 Natural does not list any other benefit that accrues to its customers as the result of
19 the CHP Program.

20 **Q. What is the likely level of fuel switching from electricity to natural gas that**
21 **will occur if the CHP Program is adopted as proposed?**

22 A. It is unclear the full impact adoption of the CHP Program would have. However,

¹ NW Natural’s Application for Authorization of an Emission Reduction Project at 5-6.

1 the CHP Program provides a \$30 per MTCO₂(e) reduction and, in combination
2 with existing Oregon Department of Energy (ODOE), Energy Trust of Oregon
3 (ETO), and federal incentives, provides a strong financial incentive for customer
4 development of CHP projects.² NW Natural points out that the CHP Program
5 would “finally tip the scale to cause investment in CHP,”³ investment that would,
6 presumably, not otherwise occur without the additional incentive proposed by
7 NW Natural. It is fair to say that increased development of CHP after approval of
8 the CHP Program would be attributable to NW Natural’s CHP Program.

9 **Q. Is fuel switching from electricity to natural gas problematic in the context of**
10 **the CHP Program proposed by NW Natural?**

11 A. Yes. NW Natural has an existing, business-as-usual incentive for encouraging
12 CHP projects on its system. As noted above, NW Natural benefits to the extent
13 CHP projects increase NW Natural load while decreasing electric load. Among
14 the eligibility criteria for emission reduction programs, ORS 737.539(3)(d)
15 requires that a public utility, without the emission reduction program, would not
16 invest in the project in the ordinary course of business. NW Natural points out
17 that customers may not otherwise invest in CHP unless the incentive proposed by
18 NW Natural is adopted. But showing that customers would not otherwise invest is
19 not what the statute requires. The focus of ORS 737.593(3)(d) is the utility’s
20 investment and NW Natural already has a compelling economic incentive to
21 invest in CHP incentives: increased load. NW Natural has not sufficiently

² NW Natural assumes CHP customers will also receive ODOE, ETO, and federal incentives, on top of the incentive payment proposed as part of the CHP Program. See Direct Testimony of Ms. Barbara Summers at 9. (“The NW Natural incentive was then calculated assuming the [ODOE, ETO, and federal] incentives were applied in advance of NW Natural’s program incentives.”).

³ Direct Testimony of Barbara Summers at 7.

1 demonstrated that it would not invest in such CHP projects to increase its load
2 without its proposed incentive.

3 Furthermore, ratepayer money should not be used to incentivize a public
4 utility to encourage customers to switch from one fuel source to another.
5 PacifiCorp supports the ability of a customer to make economic choices with
6 regard to installations of energy-related technologies, but the individual choices of
7 customers should not be the result of ratepayer-funded incentive programs that
8 includes fuel switching as a primary and necessary component. This is
9 particularly inappropriate in the case of a utility proposing to receive an incentive.

10 NW Natural took this same position in docket UM 1565, a docket that
11 addressed ETO marketing materials and an incentive program related to high-
12 efficiency electric heat pumps. In UM 1565, NW Natural argued that no
13 ratepayer money should be used to incentivize fuel switching. NW Natural
14 acknowledged that natural gas and electric utilities directly compete with each
15 other for customers and suggested that competition between the two energy
16 sources should be on the basis of “price, product qualities, and service” and not on
17 an “incentive offered to gas customers to switch fuels.”⁴ In its CHP Proposal,
18 NW Natural appears to have completely reversed position and is now advancing a
19 program that would place electric utilities and natural gas utilities in direct
20 competition, not on the basis of their fundamental service characteristics, but on
21 the basis of ratepayer-funded incentives.

⁴ Reply Testimony of Bill Edmonds at 3.

1 **INCENTIVE PAYMENTS FOR DECREASED DELIVERY OF ELECTRICITY**

2 **UTILITY GENERATION**

3 **Q. What are the incentives proposed by NW Natural as part of its CHP**
4 **Program?**

5 A. NW Natural proposes two incentives: an incentive paid to CHP customers that
6 participate in the program and an incentive paid to NW Natural.

7 **Q. What are the levels of incentive payments proposed by NW Natural?**

8 A. NW Natural proposes a \$30 per metric tonne of CO2 equivalent (MTCO2(e))
9 reduction for CHP customers⁵ and a \$10 per MTCO2(e) reduction for NW
10 Natural.⁶

11 **Q. How does NW Natural propose to calculate the MTCO2(e) reductions for**
12 **purposes of determining the incentive payments?**

13 A. As set forth in the Direct Testimony of Ms. Barbara Summers, the MTCO2(e)
14 savings inputs are “1) net incremental natural gas usage at the site; 2) the avoided
15 MTCO2(e) emissions from reduced electric transmission and distribution line
16 losses; 3) the avoided central station electric transmission and distribution line
17 losses; and 4) efficiency of the rated thermal production equipment that the heat
18 recovery will displace.”⁷ NW Natural proposes to use an emissions reduction
19 value of 1,340 pounds per megawatt hour, which is the United States
20 Environmental Protection Agency’s (EPA) non-baseload eGrid carbon emissions

⁵ NW Natural proposes to pay CHP customers an incentive payment of \$30/MTCO2(e) emissions reduced. Direct Testimony of Barbara Summers at 8.

⁶ Direct Testimony of Barbara Summers at 17 (requesting a \$10.00/MTCO2(e) reduction incentive payment).

⁷ Direct Testimony of Barbara Summers at 11.

1 value associated with the Northwest Power Pool (NWPP) subregion.⁸ This value
2 will be used in calculations of the carbon incentive for the entire duration of the
3 project and will be valid for ten years.⁹ This value was last updated by EPA in
4 2010.¹⁰

5 **Q. Does NW Natural's emissions reduction calculation accurately calculate**
6 **emissions reductions associated with the CHP Program?**

7 A. No. Using the EPA's non-baseload eGrid carbon emissions value for the NWPP
8 in the calculation is likely to significantly overstate emissions reductions because
9 that value was determined in 2010 and because it is likely the EPA's non-
10 baseload eGrid carbon emissions value will go down over time as the result of
11 state and federal policies designed to reduced emissions.¹¹

12 **Q. In the current state and federal regulatory and political environment, is it**
13 **appropriate to "lock in" an emissions reduction value for a period of ten**
14 **years?**

15 A. No. On August 3, 2015, the EPA issued its final rule regulating carbon emissions
16 from power plants. This rule, as well as other state and federal laws and policies,
17 will result in significant carbon emission reductions over the course of the next
18 fifteen years. If the Commission allows the same emissions reduction value to be
19 used over the course of a ten year project based on a value that was last updated
20 five years ago and before the implementation of state and federal policies
21 designed to decrease emissions, emissions reductions associated with this

⁸ Direct Testimony of Barbara Summers at 12.

⁹ NWN/101, Summers/46.

¹⁰ <http://www.epa.gov/cleanenergy/energy-resources/egrid/index.html>.

¹¹ It is possible the EPA's non-baseload eGrid carbon emissions value for the NWPP will go up, but given the current regulatory environment, an upward trend in the eGrid value is unlikely.

1 incentive program will very likely be significantly overstated over time. NW
2 Natural states that this emissions reduction value will not change over the course
3 of a project to eliminate uncertainty.¹² However, NW Natural has not sufficiently
4 explained why the benefit of such certainty justifies the potentially significant
5 overstatement of achieved emissions reductions associated with CHP projects. I
6 recommend that the Commission direct NW Natural to develop a methodology
7 for estimating emissions reductions that is more current and may change over the
8 life of a project.

9 **Q. Are there other issues with the MTCO₂(e) reductions calculation proposed**
10 **by NW Natural?**

11 A. Yes. NW Natural includes emissions reductions associated with decreased
12 purchases of electricity from the grid—i.e., electricity that would have been
13 purchased from an electric utility such as PacifiCorp or Portland General Electric
14 (PGE).¹³

15 **Q. Is it appropriate to include MTCO₂(e) reductions associated with decreased**
16 **electricity consumption in the calculation of total MTCO₂(e) emissions**
17 **reductions?**

18 A. It may be reasonable to include MTCO₂(e) emissions reductions associated with
19 decreased electricity consumption in some instances. For example, it may be
20 reasonable to reflect all emissions reductions associated with a CHP project for
21 purposes of determining an incentive payment to the CHP customer or for

¹² NWN/101, Summers/46.

¹³ Direct Testimony of Barbara Summers at 12 (“Avoided MTCO₂(e) emissions from electricity generation will be the difference between monitored and verified MTCO₂(e) savings and calculated MTCO₂(e) emissions if the same volume of electricity had been purchased from the grid.”).

1 accurately reporting on and monitoring the impact to emissions as the result of
2 increased CHP project development.

3 **Q. Are there instances when emissions reductions associated with decreased**
4 **electricity consumption should not be included in the calculation of total**
5 **MTCO₂(e) emissions reductions?**

6 A. Yes. NW Natural proposes to receive an incentive payment for the *total*
7 MTCO₂(e) emissions reductions associated with CHP installations, including
8 reduced emissions reductions from decreased electricity use. It is not appropriate
9 for NW Natural to receive an incentive payment for emissions reductions that are
10 the result of decreased use of another utility's product. Instead, PacifiCorp
11 recommends that, for purposes of determining the level of emissions reductions
12 eligible for determining NW Natural's incentive payment, only emissions
13 reductions associated with decreased use of natural gas should be taken into
14 consideration

15 **Q. Does this conclude your response testimony?**

16 A. Yes.