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October 22, 2018

Via Electronic Filing

Public Utility Commission of Oregon
Attn: Filing Center
201 High St. SE, Suite 100
Salem OR 97301

Re: In the Matter of PORTLAND GENERAL ELECTRIC CO.
Investigation into Proposed Green Tariff
Docket No. UM 1953

Dear Filing Center:

Please find enclosed the Reply and Cross-Answering Testimony of Bradley G. Mullins (AWEC/200) on behalf of the Alliance of Western Energy Consumers in the above-referenced docket.

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

Sincerely,

/s/ Jesse O. Gorsuch
Jesse O. Gorsuch

Enclosure

BEFORE THE

PUBLIC UTILITY COMMISSION OF OREGON

UM 1953

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In the Matter of	)
	)
PORTLAND GENERAL ELECTRIC COMPANY,	)
	)
	)
Investigation into Proposed Green Tariff.	)
	)

REPLY AND CROSS-ANSWERING TESTIMONY OF BRADLEY G. MULLINS

ON BEHALF OF THE ALLIANCE OF WESTERN ENERGY CONSUMERS

October 22, 2018

I. Introduction and Summary

Q. PLEASE STATE YOUR NAME AND ADDRESS.

A. My name is Bradley Mullins. My address is 1750 SW Harbor Way, Suite 450, Portland, Oregon 97201.

Q. ARE YOU THE SAME WITNESS THAT PREVIOUSLY FILED RESPONSE TESTIMONY IN THIS MATTER?

A. Yes. I filed Response Testimony on July 18, 2018, on behalf of the Alliance of Western Energy Consumers ("AWEC").

Q. WHAT IS THE PURPOSE OF YOUR REPLY AND CROSS-ANSWERING TESTIMONY?

A. I respond to the Response Testimony filed by Staff and other intervenors in this Docket. In addition, following the filing of Response Testimony by Staff and intervenors, PGE filed Supplemental Testimony on August 17, 2018, where PGE provided new information with respect to its proposed Green Tariff. Accordingly, I also respond to PGE's Supplemental Testimony.

Q. PLEASE SUMMARIZE YOUR TESTIMONY.

A. In Response Testimony, I offered five recommendations that were necessary from a customer perspective to make PGE's Green Tariff program successful, and I continue to support those recommendations, which are as follows:

- *Credit customers based on the marginal cost of generation methodology;*
- *Give large customers control over the resource procurement decisions;*
- *Eliminate the risk adjustment at least for large customers;*
- *Eliminate the reference to "Revenue Requirement" in the tariff; and,*
- *Apply integration costs based on PGE's Open Access Transmission Tariff.*

In this testimony, I focus primarily on the crediting methodology for subscribing customers as it has generated the most controversy among the parties. To the extent I do not address the other issues identified above, I maintain my recommendations for the reasons provide in my Response Testimony.

Q. PLEASE SUMMARIZE YOUR TESTIMONY ON THE CREDITING METHODOLOGY FOR SUBSCRIBING CUSTOMERS.

A. For the Green Tariff program to be successful, it needs to be consistent with Oregon's marginal cost of service methodology. The marginal cost of service study defines how costs are allocated to the rate schedules, and accordingly, reliance on those studies provides a consistent approach for allocating the system energy and capacity benefits of the renewable power purchase agreement ("PPA") acquired through the Green Tariff program to the subscribing customer. In addition, by using those studies, the Commission can be assured that there will be no cost-shifting over the term of the subscription agreement.

Further, in contrast to the use of short-term marginal costs in the direct access program, using long-term marginal costs for the Green Tariff program is entirely appropriate because, unlike a direct access customer, a Green Tariff customer remains a cost of service customer and continues to pay rates based on the utility's marginal cost of service study for the entirety of its requirements and over the term of its subscription agreement.

Finally, the marginal cost of service studies are more transparent than PGE's proposal to calculate avoided costs of energy and capacity because the studies are vetted in general rate cases.

II. The Green Tariff is Not Analogous to Direct Access

Q. WHAT PARTIES RECOMMENDED COMPARING THE GREEN TARIFF OFFERING TO DIRECT ACCESS?

A. Both Staff and the Northwest and Intermountain Power Producers Coalition ("NIPPC") advocate for using the same ratemaking methodology for the Green Tariff as is used for Oregon's existing direct access programs. Staff witness Kaufman advocated for the use of a "consistent theory of cost-shifting for VRET and direct access programs."[1/] Mr. Kahn also recommended on behalf of NIPPC that the Commission should use an identical ratemaking construct for the Green Tariff program as used for the permanent direct access program.[2/] I disagree that the two programs are directly comparable. In addition, failure to recognize the key differences between the two programs will result in making the Green Tariff an uncompetitive, and likely unused, product offering, which would be antithetical to Mr. Kahn's desire to advocate for a "competitive paradigm in the Northwest's electric power industry."[3/]

Q. IS A GREEN TARIFF COMPARABLE TO DIRECT ACCESS IN TERMS OF COST SHIFTING?

A. No. If the Green Tariff program is to be successful, it needs to recognize that there are many differences between the two programs. For example:

- Unlike a Direct Access customer, a Green Tariff participant remains, and is required to remain, a PGE generation customer for the long term;
- Unlike a Direct Access customer, a Green Tariff participant does not have the opportunity to leave the system portfolio in year 6, in favor of low-cost energy available in short-term bilateral markets;

1/ Staff/100, Kaufman/5:7-10.
2/ NIPPC/100, Kahn/2:3-6.
3/ Id. at 1:9.

- Unlike a Direct Access customer, a Green Tariff participant does not have the ability to freely select among competing market alternatives, and is instead locked into a single PPA agreement, negotiated by or in conjunction with the utility, over an extended period of time;
- Unlike a Direct Access customer, a Green tariff customer still pays PGE for balancing services for its load requirements.

The Green Tariff product offering is a vastly different concept than the direct access program, and therefore, it is neither necessary, nor appropriate, to apply the same ratemaking construct to the two energy supply opportunities.

Q. DOES THE ORDER IN UM 1690 PREVENT THE COMMISSION FROM RECOGNIZING THESE DIFFERENCES BETWEEN THE TWO PROGRAMS?

A. No. Unlike NIPPC, I do not believe the language in Commission Order 15-405 in Docket UM 1690 would prohibit the Commission from recognizing the valid differences between the Green Tariff and direct access when designing and implementing the Green Tariff program. However, to the extent the Commission does read this order consistently with NIPPC's interpretation, then I would encourage the Commission to reconsider this issue in its order approving PGE's Green Tariff program in light of the testimony I offer here.

Q. IS IT APPROPRIATE FOR THE GREEN TARIFF AND DIRECT ACCESS PROGRAMS TO USE THE SAME RATEMAKING METHODOLOGY?

A. No. If the desire was to make the two programs equivalent, there would be no need to develop the Green Tariff as a separate service offering to begin with. To make the two programs mirror one another, as NIPPC suggests, it would be necessary for the Green Tariff subscriber to be relieved of any continued stranded cost obligation beginning in year 6 of the subscription term. Further, if the two programs were equivalent, there should be no requirement for the subscribing customer to make a long-term commitment to purchase the output from a renewable power purchase agreement.

Yet, if the Commission were to make these changes to the Green Tariff program, making the two programs mirror each other identically, then the Green Tariff would no longer be a Green Tariff; it would be another direct access program. It would be absurd for PGE to be required to administer two identical direct access programs, and therefore, it is not reasonable to interpret Order 15-405 in UM 1690 in the manner described by NIPPC.

Q. SHOULD A CONSISTENT THEORY OF COST-SHIFTING BE APPLIED FOR BOTH DIRECT ACCESS AND THE GREEN TARIFF, AS STAFF RECOMMENDS?

A. Yes. However, applying a consistent *theory* necessarily leads one to conclude that different *treatment* is appropriate for the respective programs.

Q. DOES A GREEN TARIFF PRODUCE THE SAME IMPACT ON THE COSTS ALLOCATED TO OTHER CUSTOMERS AS DIRECT ACCESS?

A. No. The cost-shifting impacts associated with a Green Tariff customer are inherently different from those associated with a direct access customer.

Q. HOW DOES THE PERMANENT DIRECT ACCESS PROGRAM ADDRESS COST-SHIFTING?

A. The permanent direct access program focuses on the potential for cost-shifting over a shorter-term, five-year period. The calculation of transition adjustments is accomplished using the market-minus approach. Under that approach, transition adjustments are calculated as the utility’s total embedded costs, less the market value of freed-up energy. This approach assumes that the benefit of the departing load to remaining customers is the short-term marginal cost of energy. No value is assumed for the long-term energy and capacity benefit associated with the departing customer. Accordingly, the direct access methodology results in a low "credit" to the departing customer, relative to the long-term marginal cost. Notwithstanding, the transition adjustments are paid only for five years, and after year 5, the departing customer has no further obligation to pay for PGE's generation portfolio.

As I discussed in Docket UE 335, if the departing customer load is viewed in the long term, the value of freed up energy and capacity generally increases. This occurs due to the fact that, over the long term, the utility may avoid building new resources, or retire existing high-cost resources, as a result of the departure of the direct access customer load. Using short-term marginal costs for the direct access program, however, is not necessarily unreasonable because the transition period is a relatively short-term period.[4/] If direct access customers were required to pay transition adjustments over a fifteen-year period—the proposed Green Tariff term—instead of five, however, it would be more appropriate to value freed-up energy and capacity based upon long-term marginal costs, rather than short-term. If that were the case, then the two programs might be more analogous.

Q. WHY IS IT INAPPROPRIATE TO APPLY THE SAME SHORT-TERM METHODOLOGY TO THE GREEN TARIFF PROGRAM?

A. The Green Tariff program is a long-term program, and therefore, it would be inappropriate to apply the same five-year, market-minus approach that is used for the direct access program. In contrast to the direct access program, the subscribing Green Tariff customer remains a cost of service customer and, indeed, is committing to remain a cost-of-service customer for the term of the PPA. The subscribing customer is responsible for its full share of the fixed costs associated with its load requirements over the term of the subscription agreement. Accordingly, when valuing the energy and capacity associated with the subscription resource,

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[4/] As an aside, I believe it is appropriate to consider some amount of capacity benefits within the five-year period for the direct access program, although that is an issue for another docket.

it is more appropriate to consider the long-term marginal cost impacts of the subscribing customer's choice, not the short-term marginal cost that are used for direct access. Since the subscribing customer must still pay their full share of costs based upon Oregon's cost of service methodology, it is also appropriate to allocate the energy and capacity benefits of the subscription resource in a manner that is consistent with how other system costs are being allocated to the subscribing customer.

Q. PLEASE SUMMARIZE WHY THE GREEN TARIFF IS NOT ANALOGOUS TO DIRECT ACCESS.

A. If in year six, the Green Tariff customer was no longer responsible for any fixed generation costs, then Green Tariff and direct access programs might be more analogous. Given the fundamental differences in the customer commitments associated with the two programs, however, it is not appropriate to analogize the Green Tariff offering to the direct access program.

III. Recognition of a Sufficiency Period Is Appropriate

Q. WHAT DID STAFF RECOMMEND WITH RESPECT TO A SUFFICIENCY PERIOD?

A. Staff notes that the Green Tarif would result in the acquisition of "PPAs based on VRET customer subscription[s that] may not align with PGE's capacity and energy needs"[5/] This is a valid concern, which I believe is fairly addressed in PGE's proposal through the application of a sufficiency period.

Q. WHY DO YOU RECOMMEND ADOPTING A SUFFICIENCY PERIOD?

A. As discussed in my Response Testimony, one factor that the long-term marginal cost of service study does not consider is timing. As a result of the subscribing customer's choice, PGE will

[5/] Staff/100, Kaufman/9:9-15.

be in a position of acquiring capacity sooner than it would have otherwise. This is a real cost to customers that should be considered in order to avoid short-term cost-shifting through the use of long-term marginal costs. My recommendation was for the capacity value to be applied based on the resource deficiency period established in PGE's most recent IRP, similar to what PGE has proposed in its filing.

Q. WHEN SHOULD THE DEFICIENCY PERIOD BEGIN?

A. PGE has reported a need for new generation resources as early as 2021, and thus, the capacity payments under the first tranche of the Green Tariff program should be fully phased in by 2021.

Q. IF PGE IS NOT PAYING FOR THE CAPACITY, SHOULD IT GET THE CAPACITY FROM THE SUBSCRIPTION RESOURCE?

A. No. If there is no capacity payment considered in the credit, the underlying PPA should not be required to deliver firm power. Thus, the counterparty would be entitled to retain the resource adequacy associated with the PPA and may resell it to another party. Or, in the alternative, the customer should be given the right to the excess resource adequacy associated with the subscription PPA and have the ability to monetize or use the resource adequacy at another location.

IV. Valuing the Credit to Subscribers at the Long-Term Marginal Cost Will Not Shift Costs to Non-Participating Customers

Q. CAN THE GREEN TARIFF PROGRAM BENEFIT PARTICIPATING CUSTOMERS WITHOUT HARMING NON-PARTICIPANTS?

A. Yes. Staff proposes language that would "prevent the total rate under the VRET from being below the total rate under COS."[6/] I disagree that such language is necessary. Staff appears to

[6/] Staff/100, Kaufman/16.

be operating under the misconception that, if the rate being paid by the participating customer is lower than what it would have otherwise paid in its cost-of-service rates, other non-participating customers are correspondingly paying more. That logic is faulty, however, because it solves to a false counterfactual and assumes that non-participating customers receive no long-term benefit associated with the Green Tariff program.

Q. DOES THE USE OF LONG-TERM MARGINAL COSTS RESULT IN COST SHIFTING?

A. No. By definition, if valid marginal costs are used, valuing the energy and capacity based on those cost estimates will not result in any cost-shifting. Use of long-term marginal costs does, however, have the potential to produce short-term cost shifting. This occurs because the long-term marginal costs provide for capacity value, even though in the short-term, the utility may not have a need for new capacity. These short-term cost-shifting impacts, however, can be resolved by adopting a resource sufficiency period as described above.

In contrast, Staff's proposal is basically a ceiling on the credit rate that compares back to cost of service. The cost of service rates, however, include all of the benefits associated with the subscription resource, and therefore are not a proper counterfactual to determine whether non-participating customers have been harmed. Staff's proposal is a zero-sum analysis that assumes that there are no benefits associated with the subscription resource in revenue requirement. The basic assumption is that, if the subscribing customer receives any benefit from the program, other customers are harmed by an equivalent amount. That is not a valid way to consider the Green Tariff program, however. As a result of the subscription resource, all non-participating customers' rates will be lower due to the fact the subscription customer is paying for 100% of the cost of the subscription resource, while the energy and capacity benefits of the resource are reflected in production costs. The proper counterfactual to determine whether non-participating customers are harmed is to compare back to the cost of service with the long-term beneficial impact of the subscription resource removed.

As noted, after the subscription resource has been placed into service, PGE will be able to avoid future capacity and energy additions, or retire other existing high-cost resources, resulting in significant benefits. The benefit of avoiding those additions will be embedded in cost of service rates and allocated to all customers. The benefit is also not always apparent, since it is representative of resource actions that the utility would have taken in the absence of the Green Tariff program. As I noted in Docket No. UE 335, it can be difficult to say what resource actions PGE would have taken in the absence a particular program. This necessarily leads one to rely on the marginal cost of service study, with the recognition of a deficiency period, as the most reliable information available to consider the counterfactual impact of the Green Tariff program.

Q. WHAT IF THE COST OF THE PPA IS LESS THAN THE MARGINAL COSTS?

A. There may be circumstances where the cost of the subscription resource is less than the marginal cost. This may be particularly true in the later years of a levelized PPA. Under such circumstances, it is entirely appropriate for the customer to receive a credit based on the full marginal cost. In fact, failure to credit the full amount of marginal cost will result in cost shifting to the participating customer. If the full credit is not given, and instead is capped using Staff's recommendation, the non-participating customers will receive benefits over the long-run that equal the long-term marginal costs, but will only be required to compensate the participating customer for a fraction of those benefits.

Q. WILL THE GREEN TARIFF FORECLOSE THE COMPANY FROM ACQUIRING COST COMPETITIVE RESOURCES FOR NON-PARTICIPATING CUSTOMERS?

A. No. To the extent that resource opportunities are available at rates below PGE's long-term marginal costs, PGE would still have the opportunity to enter into those contracts in a manner that benefits non-participating customers. Customers would not be foreclosed from pursuing the benefits associated those opportunities as a result of the Green Tariff, and I understand that PGE is currently making such a resource proposal in UM 1934.

Q. DO YOU CONTINUE TO RECOMMEND THAT THE MARGINAL COST OF ENERGY AND CAPACITY VALUES BE UPDATED IN RATE CASES?

A. Yes. Doing so is appropriate because it requires the subscribing customer to assume the risk of changes to marginal costs going forward. Staff notes one of the risks of this program is that lower cost resource alternatives might become available, negating the benefits (and thus the subscription credits) associated with the Green Tariff program. I agree that is a risk associated with the program, which is why I made the proposal to update the marginal cost of energy and capacity used to calculate the subscription credit each time the utility files a rate case. If the marginal cost of energy were to decline dramatically, for example, then the subscription credit would also decline, if my proposal is adopted. By setting this value in the rate case, the subscribing customer would be assured, however, that there will be parity between the way costs are allocated in the marginal cost of service study and the subscription credit amount.

Q. DOES THE DIRECT ACCESS PROGRAM HAVE A CAP SIMILAR TO STAFF'S PROPOSAL TO CAP THE GREEN TARIFF CREDIT?

A. No. There is no provision in the direct access program that would prohibit the direct access customer from paying a total cost for energy that is less than what it would have paid based upon cost of service rates over the transition period. From that perspective applying a cap on the Green Tariff program is not consistent with the direct access program, and I have not identified any valid justification for why a cap might apply to one program, but not the other.

Q. PLEASE SUMMARIZE WHY YOU BELIEVE IT IS NOT NECESSARY TO CAP THE SUBSCRIPTION CREDIT.

A. The marginal cost of service studies are the best information available to determine the long-term impact of the subscription resource on non-participating customers. If Staff, or any party, believes that those values are not accurate representations of marginal costs, then Staff could propose changes to those values in PGE's next general rate case.

Applying a cap on the subscription credit, however, will likely result in cost- shifting to the participating customers, who would not receive the full capacity and energy benefits of the subscription resource, even though they are taking on the full cost and risk associated with the subscription resource. If the Green Tariff program is to be successful, ratepayers need to have the potential to reduce their rates. If there are no circumstances where the participating customer might benefit from the Green Tariff program through reduced rates, then customers are unlikely to bear the risk of the subscription resource and participate in the program. AWEC desires for the Green Tariff program to be successful and requests the Commission reject Staff's proposal for a cap on the subscription credit.

Q. IF THE COMMISSION NEVERTHELESS ADOPTS PGE'S PROPOSAL TO VALUE THE CREDIT TO SUBSCRIBING CUSTOMERS BASED ON AVOIDED COSTS RATHER THAN MARGINAL COSTS, SHOULD PARTICIPATING CUSTOMERS BE PROHIBITED FROM RECEIVING A RATE THAT IS BELOW COST OF SERVICE?

A. No. In PGE's ongoing renewable RFP, Docket UM 1934, the Company has evaluated bids by comparing their levelized cost with individually determined values of energy and capacity from these resources. In other words, PGE has attempted to forecast the net value to customers of each RFP bid over the long term. I disagreed with PGE's approach for the reasons stated in comments I provided on PGE's 2016 IRP (Docket LC 66). Notwithstanding, if the Commission determines that this is a proper way to identify the value of a resource to customers, then there is no reason why a Green Tariff subscriber should not receive the same energy and capacity value from the PPA it subscribes to, even if that value exceeds the cost of the PPA.

V. Green Tariff Customer Pays For Services in Cost of Service Rates

Q. WHAT WAS STAFF'S PROPOSAL WITH RESPECT TO MARKETING AND ADMINISTRATIVE COSTS?

A. Staff recommended additional marketing and administrative costs be allocated to the Green Tariff customer, although Staff questioned whether PGE had the appropriate data to identify these costs.[7/]

Q. WHAT WAS STAFF'S PROPOSAL WITH RESPECT TO CAPITAL CARRYING COSTS?

A. Staff also argues that additional capital carrying costs should be allocated to the subscribing customer because the subscription decision might increase the utility's cost of capital.[8/]

Q. IS IT NECESSARY TO ALLOCATE THESE ADDITIONAL COSTS TO THE GREEN TARIFF CUSTOMER?

A. No. The Green Tariff customer will still be a part of the system, responsible for its share of all system costs. Accordingly, it is not necessary to directly assign any costs to the participating customer other than those that flow through general cost of service allocations. These customers are already paying for marketing and administrative services in rates, and it would

7/ Staff/100, Kaufman/10:5-21
8/ Id. at 11:8-18

be inconsistent with the cost of service methodology to begin directly assigning discrete service costs, while still allocating the same service costs through cost of service rates.

For example, the participating customer is already being allocated marketing costs through the cost of service study. Therefore, if one were to undertake a rigorous process of directly assigning marketing costs to the participating customer, it would be necessary to undergo a review of all marketing costs that are allocated through the cost of service study and remove all other allocated marketing costs for which the participating customer receives no benefit. That is, if direct assignment is used, the participating customer should receive no allocation of the cost of marketing associated with any of PGE's resources, other than the subscription resource. The same is true for administrative, general, and other similar costs. If those costs are to be directly assigned, it is necessary to review all of the other administrative costs to determine if some should be excluded from the Green Tariff customer's rates. Rather than undertaking to directly assign these costs, I believe it is more appropriate to continue to rely on the cost of service study to determine what amount of common costs get allocated to the Green Tariff customer.

I also find the connection between the utility's cost of capital and the Green Tariff to be tenuous. Many utilities across the country have green tariff programs and I have seen no evidence that these programs have impacted their capital costs. Accordingly, I recommend the Commission reject Staff's recommendation to directly assign these costs to the Green Tariff customer.

VI. Renewable Energy Certificates

Q. WHAT WAS RENEWABLE NORTHWEST'S POSITION WITH RESPECT TO REC RETIREMENTS?

A. Mr. O'Brien notes that RECs associated with the Green Tariff facility should be retired to the participating customer's load and should not be used for general RPS compliance purposes[9/]

Q. DO YOU AGREE?

A. Generally, yes. Any RECs associated with serving participants should be retired by or on behalf of participants. It would be inappropriate, for example, for the utility to use RECs generated from the Green Tariff program and retire those RECs on behalf of other customers for purposes of achieving RPS compliance. Notwithstanding, the utility should not be required to acquire any additional RECs, other than those acquired through the subscription resource, to serve the load of the participating customer. A rule that categorically requires the utility to exclude RECs generated from the Green Tariff program from the RPS might have this effect, requiring the utility to acquire RECs for more than 100% of the Green Tariff customer's load requirements.

From this point of view, the proper REC accounting is to exclude only those RECs generated from the Green Tariff program that are in excess of the currently effective RPS percentage. Thus, if a customer were subscribing to a 50 aMW resource, and the current RPS percentage were 20%, the utility should be allowed to claim 10 aMW of RECs towards the RPS. The remaining 40 aMW of RECs would be retired to the Green Tariff customer load, and not eligible for the RPS.

9/ RNW/100, O'Brien/5.

If this treatment is not adopted, and the utility was still required to acquire additional RECs to serve the Green Tariff customer load, then the utility would be required to purchase RECs for more than 100% of the Green Tariff customer's load requirements. In the above example, the utility would be required to acquire 60 aMW in RECs in order to comply, with respect to the 50 aMW load.

Q. DOES THIS CONCLUDE YOUR REPLY AND CROSS ANSWERING TESTIMONY?

A. Yes.