Davison Van Cleve PC
Attorneys at Law
TEL (503) 241-7242 ● FAX (503) 241-8160 ● jog@dvclaw.com
107 SE Washington St., Suite 430
Portland, OR 97214

September 8, 2023

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.
Request for a General Rate Revision.
Docket No. UE 416

Dear Filing Center:

Please find enclosed the General Rate Case Supplemental Rebuttal Testimony of Lance D. Kaufman (AWEC/800) on behalf of the Alliance of Western Energy Consumers in the above-referenced docket.

Thank you for your assistance. Please do not hesitate to contact me if you have any questions.

Sincerely,

/s/ Jesse O. Gorsuch
Jesse O. Gorsuch

Enclosure

BEFORE THE

PUBLIC UTILITY COMMISSION OF OREGON

UE 416

In the Matter of	)
	)
Portland General Electric Company,	)
	)
Request For a General Rate Revision.	)
	)

SUPPLEMENTAL REBUTTAL GENERAL RATE CASE TESTIMONY

OF

LANCE D. KAUFMAN

ON BEHALF OF

THE ALLIANCE OF WESTERN ENERGY CONSUMERS

September 8, 2023

I. LINE EXTENSIONS

Q. PLEASE SUMMARIZE STAFF'S LINE EXTENSION TESTIMONY.

A. Staff raised a new issue related to line extensions in Rebuttal Testimony Line Extensions for Large Customers.[1] Staff asserts, without quantitative analysis, that large customers are completely avoiding the cost of connecting to Portland General Electric's ("PGE") grid, and that increases in large customer load will lead to cross subsidization.[2] Staff recommends modifying PGE's line extension rule to include transmission, sub transmission, and substation costs as line extension costs for schedules 85, 89, and 90, but to exclude these costs for other customers. Staff also recommends applying Schedule 300 line extension allowance rate for Schedule 89 to Schedule 90, but that customers larger than 25 MW only receive line extension allowances associated with metering costs.[3]

Q. IS STAFF'S TESTIMONY PROPERLY CHARACTERIZED AS REBUTTAL TESTIMONY?

A. No, Staff's line extension testimony is not rebuttal testimony. The Staff rebuttal testimony provides no citation to the testimony of other parties, and I am not aware of any party discussing changes to the line extension treatment of substation costs to date. Staff asserts that its testimony furthers the discussion of the "spread of transmission and distribution costs…."[4] However, the testimony makes no recommendations regarding the spread of these costs.

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[1] Staff/4100.
[2] Staff/4100, Bolton-Stevens/5, lines 7 and 8.
[3] Staff/4100, Bolton-Stevens/4, lines 1 to 5.
[4] Staff/4100, Bolton-Stevens/1, lines 19 to 21.

Q. HAVE YOU COMPLETED YOUR INVESTIGATION OF THE NEW LINE EXTENSION ISSUES RAISED BY STAFF?

A. No, I have outstanding discovery for both Staff and PGE. The schedule for this docket was not developed to allow time for intervenors to respond to new issues raised by intervenors in rebuttal testimony. The Commission should be aware that much of the analysis that AWEC would like to perform on this issue is ongoing due to the minimal time allowed to respond to Staff's new recommendations. Thus, the record on this issue is not sufficiently developed to inform the Commission of all relevant facts.

Q. WHAT CONCERNS DO YOU HAVE REGARDING STAFF'S LINE EXTENSION TESTIMONY?

A. Staff's recommended changes are unfounded because Staff has not provided any material evidence that large customers are being subsidized. In this testimony I show that Staff's assertions that large customers are avoiding costs are false. Even if Staff's assertions are found accurate and material, Staff's recommendation will result in unduly discriminatory and preferential rates and rules. Staff's concerns, if material, are more properly addressed by evaluating the prudence of specific special contracts.

Q. WHY DO YOU CONSIDER STAFF'S RECOMMENDATIONS UNFOUNDED?

A. Staff's recommendations are based on an ad-hoc and incomplete evaluation of the Hillsboro Reliability Project. Staff observed that the load growth in Hillsboro is predominantly associated with large customers and argues that the marginal cost model is not adequately allocating these costs.[5] Staff bases its assertion that costs are not allocated according to the cost causation principle on two characteristics: Transmission costs are allocated using the 12-month

[5] Staff/4100, Bolton-Stevens/2, lines 15 to 19.

coincident peak, and that distribution costs are allocated using class non-coincident peak. Staff asserts that these factors do not appropriately account for geographic concentration.[6] However, Staff provides no evidence that geographic concentration increases the cost of either distribution or transmission service. Staff also makes an even more extreme and patently false assertion that "PGE's largest customers are completely avoiding the cost associated with projects dedicated to connecting them to PGE's distribution."[7]

Q. WHY DO YOU DISAGREE WITH STAFF'S ASSUMPTION THAT GEOGRAPHICALLY CONCENTRATED LOAD GROWTH IS MORE EXPENSIVE TO SERVE?

A. The only rationale that Staff provides for its assertion that geographic concentration increases cost of service is that concentrated load growth puts more strain on PGE's system than geographically diverse load growth.[8] Again, this assertion is made without any supporting evidence. Staff's assertion can be demonstrated to be false under the assumption that economies of scale apply to the increase of transmission, sub transmission, and substation capacity.

Consider a scenario where PGE has eleven substations, ten serving 50 MW each of residential load and one serving 500 MW of geographically concentrated industrial load, and all at capacity. If residential load increases by 50 MW, evenly distributed across the system, and the industrial load increases by 50 MW, concentrated at the single industrial substation, the cost of accommodating growth will be higher for the geographically dispersed residential due to economies of scale. The residential load growth requires ten engineering studies, ten

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[6] Staff/3300, Stevens/24.
[7] Staff/4100, Bolton-Stevens/3, lines 11 to 13.
[8] Staff/3300, Stevens/24, lines 7 to 9.

locations for permitting and developing construction sites, and generally requires more resources per MW of growth than accommodating the same amount of capacity at a single location.

Furthermore, long-run marginal cost studies assume that all inputs are variable, and thus rather than focusing on incremental cost of load growth, PGE's cost study focuses on the cost to serve the entire system, assuming all facilities are built at today's prices. The border space for fencing, right of ways, and land buffers make ten 50 MW substations, and ten transmission lines to geographically disperse regions require substantially more land and right of ways than a concentrated load. Transmission towers have substantial economies of scale, and a single set of transmission towers can serve the concentrated load, while ten sets of transmission towers are required to serve the geographically dispersed load.

Q. WHY IS STAFF'S CLAIM THAT LARGE CUSTOMERS COMPLETELY AVOID CONNECTION COSTS FALSE?

A. This assertion is false for two reasons. First, large customers pay for connection costs directly. PGE provided data on the line extension costs and allowances for residential and large customers. These data show that large customers' line extension allowance covered 81 percent of line extension costs, while the allowance for residential development extensions covered 89 percent of extension costs.[9] The amount of line extension costs not covered through line extension allowances is paid directly by customers as customer contributions in aid of construction. Large customers pay a larger share of line extension expenses than residential development customers. Furthermore, even if large customer line extension allowances did

[9] Calculated from PGE's response to OPUC DR 886. *See* Staff/4101, Bolton-Stevens/2.

fully cover line extension costs, these customers are paying for these costs through distribution and transmission rates. When industrial load increases, the allocation of costs to industrial rate schedules increases. Thus, industrial customers pay for the cost of connecting both directly through contributions in aid of construction, and indirectly through distribution and transmission rates.

Furthermore, the current treatment of costs for large and small customers is symmetric. Both large and small customers do not pay for transmission and substation connection costs directly, but they do pay for these costs through rates. To the extent that there is any accuracy in Staff's statement that large customers completely avoid connection costs, it applies equally or greater to small customers. But if this is correct, then it would mean that all customers completely avoid connection costs, which is clearly false. Therefore, Staff's statement cannot be accurate.

Q. HOW IS STAFF'S PROPOSAL DISCRIMINATORY?

A. Under Staff's proposal, substation costs will be included as line extension costs for some schedules, but not other schedules.[10] Two aspects of Staff's proposal are preferential.

First, Staff asserts without evidence that special contracts allow associated customers to "completely" avoid the costs associated with connecting customers, and uses this assertion to support its proposal to include transmission, sub transmission, and substation costs as line extension costs for Schedules 85, 89, and 90, but not in line extension costs for other rate schedules. If Staff's premise is correct, and the Commission finds that special contracts allow avoidance of costs, then the current line extension policy, which treats these costs equally for

[10] Staff/4100, Bolton-Stevens/3, lines 20 to 25.

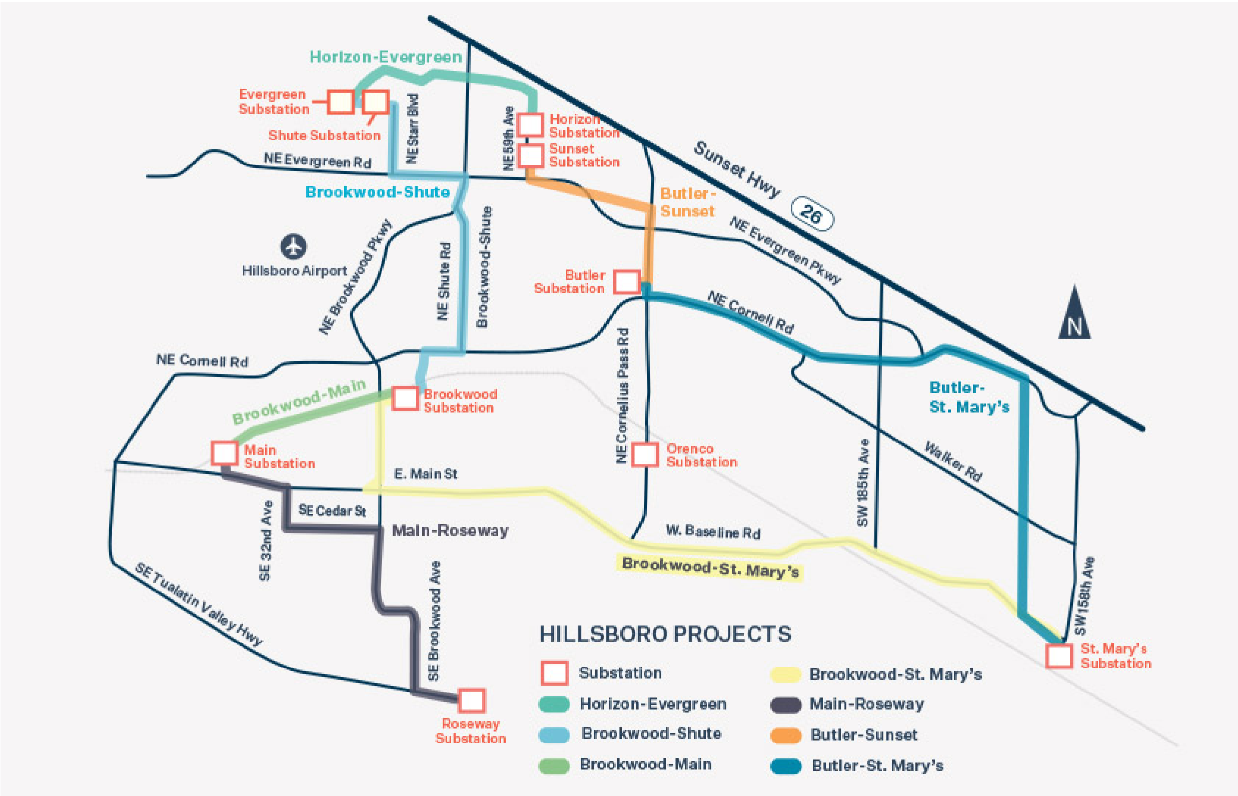
all customers, is non-preferential because customers of all classes avoid costs equally, while Staff's proposal, which only allows residential and small commercial schedules to benefit from special contracts, is preferential and discriminatory because it allows small customers to avoid costs while preventing large customers from doing so.

Second, Staff proposes that line extension allowances for customers over 25 MW be limited to metering equipment.[11] This proposal is clearly discriminatory and preferential, as all secondary and primary service rate schedules pay for excluded distribution costs in their distribution rates, and all rate schedules pay for excluded transmission costs in transmission rates. However, under Staff's proposal only customers under 25 MW receive advanced credit for these margins in their line extension allowance, while customers over 25 MW receive no credit for these revenues in their line extension allowance. Under Staff's proposal, customers over 25 MW will be charged twice for connection costs, once directly through the contributions in aid of construction that would not occur if the costs were subject to line extension allowances, and again through the allocation of these costs to the customer's rate schedule.

Q. IS STAFF'S PROPOSAL PRACTICAL?

A. No, Staff's proposal is not practical because transmission, sub transmission, and substation costs often provide system benefits while line extensions typically do not provide system benefits. Thus, treating these costs as line extensions introduces additional complexity in partitioning costs between system and customer costs. The figure below illustrates the substations and lines involved in the Hillsboro Reliability Project.

[11] Staff/4100, Bolton-Stevens/4, lines 1 to 5.



The density and interconnectedness of these substations show that the facilities serve the region, not just specific customers. The substations are all networked, distribution circuits may be fed by multiple substations, and increasing transmission, sub transmission, and distribution capacity clearly provides local system benefits beyond specific customers requesting service of additional load. The allocation of these costs between extension and system costs cannot be treated according to fixed rules, in the same manner as the allocation of distribution line, transformer, and metering costs.

Q. IS THE COMMISSION OBLIGATED TO ELIMINATE ALL CROSS SUBSIDIZATION IN RATES?

A. No, in fact, the Commission has approved cross subsidizations that could easily be avoided without the introduction of discriminatory rates. For example, the Commission regularly approves the use of the Customer Impact Offset to explicitly subsidize rate schedules.[12]

Q. WHAT DO YOU RECOMMEND IF THE COMMISSION IS PERSUADED BY STAFF'S ARGUMENT THAT A MATERIAL CROSS SUBSIDY EXISTS DUE TO THE USE OF SPECIAL CONTRACTS, BUT AGREES THAT STAFF'S PROPOSAL IS UNDULY DISCRIMINATORY?

A. Special contracts associated with load growth can only introduce cross subsidies if the contracts themselves have not properly allocated costs between system and customer costs or have not specified sufficient charges or minimum loads to recover the customer's share of costs. According to OAR 860-022-0035(1), special contracts are subject to supervision, regulation, and control. Thus, to the extent that the Commission finds such contracts to be imprudent, the costs associated with these contracts should be excluded from rates. I recommend that the Commission direct Staff to identify specific special contracts that it finds to be causing cross subsidization, to use cost models to quantify the share of costs that are not recovered under the special contract, and to exclude these costs from rates.

Q. IF THE COMMISSION APPROVES STAFF'S PROPOSED EDITS TO RULE I, ARE ANY ADDITIONAL CHANGES NECESSARY?

A. Yes, if the Commission adds transmission, sub transmission, and substation costs to line extension cost for only a limited number of schedules, the line extension allowances for these schedules should also be increased to reflect the asymmetric treatment of these customers.

[12] *See, e.g.,* Docket No. UE 394, Order No. 22-129 at 10 (Apr. 25, 2022).

Alternatively, the marginal cost model should be modified to exclude these schedules from the allocation of transmission, sub transmission, and substation costs.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.