

**BEFORE THE PUBLIC UTILITY COMMISSION  
OF THE STATE OF OREGON**

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**UM-1081**

**In the Matter on an Investigation into Direct Access Issues for Industrial and  
Commercial Customers under SB 1149**

Direct Testimony of  
Lorne Whittles on behalf of  
EPCOR Merchant and Capital (US) Inc.

May 27, 2004

**Q: Please state your name, business address and present position with EPCOR Merchant and Capital (US) Inc. (“EMC”).**

A. My name is Lorne J.R. Whittles. My business address is Suite 250, 1161 W. River Street, Boise, ID, 83702. My present position with EMC is Manager, Pacific Northwest Energy Marketing.

**Q: Briefly describe your education and professional background.**

A: I hold a Master of Business Administration (MBA) degree from the University of Calgary as well as a Bachelor of Science (BSc.) degree from the University of Lethbridge. I have worked with EMC since April 2002, and I am responsible for the development and support of EMC’s wholesale and retail presence in the Pacific Northwest region. This includes the support of EPCOR’s generation assets and transmission portfolio in the region. Moreover, I have been actively involved for more than two years on various regulatory initiatives and issues, working to remove barriers for large commercial and industrial customers seeking Direct Access in the Oregon market, as enabled by SB 1149.

**Q: Why is EMC interested in issuing testimony on the subject of PacifiCorp's Transition Adjustment calculation?**

A: EMC is certified by the Oregon Public Utilities Commission as a Scheduling ESS. Additionally, EMC is also certified by Portland General Electric ("PGE") as a Scheduling ESS, and currently serves industrial load under Direct Access in PGE's service territory. EMC has a strong interest in serving customers situated in PacifiCorp's service territory under Direct Access. To date, however, given the uneconomic nature of Direct Access resulting from PacifiCorp's current Transition Adjustment calculations (among other concerns relating to the structure of PacifiCorp's Direct Access program), EMC has not initiated the certification process in PacifiCorp's service territory. Accordingly it is EMC's hope to promote improvements in the structure of Direct Access in PacifiCorp's territory so as to facilitate customer participation at a level greater than zero.

**Q: What is the purpose of your testimony?**

A: The purpose of my testimony is to assess PacifiCorp's current approach to calculating its Transition Adjustment and its effect in rendering Direct Access uneconomic for PacifiCorp's large industrial customers.

**Q: Why do you say that Direct Access is “uneconomic”?**

A: The manner in which PacifiCorp calculates the Transition Adjustment either undervalues the credit – or, as applicable, overvalues the charge - that a customer who elects to take service from an ESS under Direct Access would receive or pay. The result is that the Direct Access customer must pay a premium – relative to PacifiCorp’s cost of service rate - to receive service under Direct Access.

**Q: Exactly how is the value of the Transition Adjustment diminished?**

A: PacifiCorp’s current Transition Adjustment calculation is predicated *on the sale of freed up energy*. PacifiCorp bases its adjustment on the concept that energy is “freed up” by a PacifiCorp customer who elects to take service from an ESS under Direct Access, and that this energy is then resold by PacifiCorp at a market hub. This approach is reflected in the current Transition Adjustment calculation, resulting in PacifiCorp charges: (a) to wheel the freed up power through its system to move it to PacifiCorp’s boundary (per the cost of the FERC Regulated PacifiCorp Transmission Wheel and Losses); and (b) for a Bonneville Power Administration (“BPA”) wheel and the associated losses to move the freed up power from PacifiCorp’s boundary to the market hub. The current calculation generates a credit for the avoided cost of State Regulated PacifiCorp Transmission Wheel and Losses, so some offset occurs for the first charge denoted as (a) above. However, with respect to the second charge, the BPA

Wheel and Losses denoted as (b) above, a Direct Access customer would effectively pay these charges a second time when they purchase and pay for power from an ESS. This second charge largely represents the premium that a customer would incur on Direct Access.

**Q: Is this reduction in the value of the Transition Adjustment noted by PacifiCorp in its testimony?**

A: Yes. PacifiCorp witness John Apperson recognizes that parity, relative to PacifiCorp's cost of service rate, is not achieved because PacifiCorp bases its Transition Adjustment on the market hub price minus the BPA Wheel, to reflect the concept that freed up energy is sold at the market hub, generating proceeds net of the BPA wheel and losses. In this manner, Mr. Apperson claims that this approach is "cost neutral to other customers."

**Q: Is there another approach that does not disadvantage Direct Access customers yet is cost neutral to other customers?**

A: Yes. Rather than base the Transition Adjustment calculation on the premise that PacifiCorp is selling energy freed up by a Direct Access customer, the calculation should be based on the concept that PacifiCorp is *avoiding purchases*.

**Q: Why would this be appropriate?**

A: In its Integrated Resource Plan (“IRP”), PacifiCorp has identified the need for additional power in the western side of their system, indicating a resource-load gap in the short-term, starting in 2004. These short-term needs could be filled if customers are permitted to choose Direct Access, thus allowing PacifiCorp to *avoid market purchases* to fill the resource gap. In this manner, as energy is not being redirected to a market hub for remarketing (but rather, being redistributed to other PacifiCorp customers), the PacifiCorp Transition Adjustment calculation would no longer need to encompass charges for either the wheel across PacifiCorp’s territory, or for the BPA wheel and losses to move power from PacifiCorp’s boundary to the market hub. Moreover, by avoiding purchases of power at the market hub to meet its load-resource deficit, PacifiCorp would avoid both the price of power at the market hub - and the cost of the BPA wheel and losses required to move it to PacifiCorp’s service territory.

**Q: What is the impact of this?**

A: The resultant Transition Adjustment calculation would reflect the avoided cost of power at the hub *plus* the avoided cost of the BPA wheel, in contrast to the current approach which reflects a sale of power at the hub *minus* the cost of the BPA wheel. Accordingly, the premium that is characteristic of the current Transition Adjustment calculation is largely neutralized, as shown in the example

appearing in Exhibit A. Note that Exhibit A isolates only those elements of the Transition Adjustment calculation that are addressed in this testimony, specifically the BPA wheel and associated losses, and is not intended to represent the calculation in its entirety.

**Q: Please summarize your testimony.**

A: I have shown that PacifiCorp's current method of calculating the Transition Adjustment renders Direct Access uneconomic. I propose adopting an "avoided purchase" approach to calculating PacifiCorp's Transition Adjustment.

**Q: Does this conclude your testimony?**

A: Yes.

## EXHIBIT A

All values are expressed in \$/MWh

Assumptions:

1. Forward price of power at market hub is \$43.00
2. PacifiCorp regulated cost of service energy rate is \$27.00
3. Cost of BPA wheel and losses from PacifiCorp boundary to market hub is \$2.50
4. Cost of BPA wheel and losses from market hub to PacifiCorp boundary is \$2.50

### Current Calculation - Sale of energy at market hub

Gross proceeds on sale:	\$43.00	(forward price of power at hub)
<u>Charge: BPA Wheel:</u>	<u>\$ 2.50</u>	(cost of delivery to hub)
Net proceeds:	\$40.50	("net proceeds" on sale at hub)

Calculate: Transition Credit:

	\$40.50	("net proceeds" on sale)
<u>PacifiCorp Cost of Service Rate:</u>	<u>- \$27.00</u>	
Transition Credit:	\$13.50	

Direct Access Customer pays:	\$43.00	(forward price of power at hub)
+	\$ 2.50	(BPA wheel to PacifiCorp boundary)
-	\$13.50	(Transition Credit from PacifiCorp)

**NET: \$32.00 (\$5.00 premium over cost of service)**

### Proposed Calculation – Avoided Purchase at market hub

Avoided cost at hub:	\$43.00	(forward price of power at hub)
<u>Avoided cost: BPA wheel</u>	<u>+ \$ 2.50</u>	(cost of delivery from hub to PacifiCorp)
Total avoided cost:	\$45.50	(total of avoided purchase)

Calculate: Transition Credit:

	\$45.50	(total avoided purchase cost)
<u>PacifiCorp Cost of Service Rate:</u>	<u>- \$27.00</u>	
Transition Credit:	\$18.50	

Direct Access Customer pays:	\$ 43.00	(forward price of power at hub)
+	\$ 2.50	(BPA wheel: hub to PacifiCorp boundary)
-	\$18.50	(Transition Credit from PacifiCorp)

**NET: \$27.00 Parity with PacifiCorp cost of service**