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BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

IN THE MATTER OF THE INVESTIGATION OF THE COSTS AND BENEFITS OF PACIFICORP'S NET METERING PROGRAM	Docket No. 14-035-114

UAE'S PREFILED TESTIMONY OF NEAL TOWNSEND

REGARDING SETTLEMENT STIPULATION

The Utah Association of Energy Users (UAE) hereby submits Prefiled Testimony of Neal Townsend regarding the Settlement Stipulation in this docket.

DATED this 12th day of September 2017.

HATCH, JAMES & DODGE

Phillip J. Russell
Attorneys for UAE

Certificate of Service
Docket No. 14-035-114

I hereby certify that a true and correct copy of the foregoing was served by email this day 12th day of September 2017 on the following:

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BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Investigation of the Costs and Benefits of PacifiCorp's Net Metering Program	)))))	Docket No. 14-035-114

Testimony of Neal Townsend Regarding Settlement Stipulation

On Behalf of

Utah Association of Energy Users (UAE)

September 12, 2017

I. <u>INTRODUCTION AND SUMMARY</u>

Q. Please state your name and business address.

A. My name is Neal Townsend. My business address is 215 South State Street, Suite 200, Salt Lake City, Utah, 84111.

Q. By whom are you employed and in what capacity?

A. I am a Principal in the firm of Energy Strategies, LLC. Energy Strategies is a private consulting firm specializing in economic and policy analysis applicable to energy production, transportation, and consumption.

Q. On whose behalf are you testifying in this proceeding?

A. My testimony is being sponsored by the Utah Association of Energy Users ("UAE").

Q. Please describe your educational background.

A. I received an MBA from the University of New Mexico in 1996. I also earned a B.S. degree in Mechanical Engineering from the University of Texas at Austin in 1984.

Q. Please describe your professional experience and background.

A I have provided regulatory and technical support on a variety of energy projects at Energy Strategies since I joined the firm in 2001. Prior to my employment at Energy Strategies, I was employed by the Utah Division of Public Utilities as a Rate Analyst from 1998 to 2001. I have also worked in the aerospace, oil and natural gas industries.

Q Have you previously filed testimony before this Commission?

A. Yes. Since 1997, I have testified in 14 dockets before the Utah Public Service Commission on electricity and natural gas matters.

Q. Have you testified before utility regulatory commissions in other states?

A. Yes. I have testified in utility regulatory proceedings before the Arkansas Public Service Commission, the Illinois Commerce Commission, the Indiana Utility Regulatory Commission, the Kentucky Public Service Commission, the Michigan Public Service Commission, the New Mexico Public Regulation Commission, the Public Utilities Commission of Ohio, the Public Utility Commission of Oregon, the Public Utility Commission of Texas, the Virginia Corporation Commission, and the Public Service Commission of West Virginia.

Q. What is the purpose of your testimony?

A. My testimony will present UAE's response to the Settlement Stipulation ("Stipulation") submitted in this docket on August 28, 2017, signed by Rocky Mountain Power (RMP) and several other parties (collectively, the "Settling Parties").

Q. Please summarize UAE's response to the Settlement Stipulation.

A. UAE recognizes that significant efforts by the Settling Parties went into the Stipulation and UAE generally supports resolution of complicated issues such as those presented in this docket by stipulation, where feasible. Moreover, UAE views most aspects of the Stipulation as reasonable compromises of the complicated disputes at issue. Nevertheless, UAE did not join, and cannot support, the Stipulation for the primary reason that it does not include provisions necessary to protect larger energy users—such as Schedule 9 customers and special contract customers who are ineligible for the net metering program and who had no reason to participate in this docket or the settlement discussions—from inappropriate cost shifting. The Stipulation provides that RMP will collect export credits during the Transition Period through the Energy Balancing Account (EBA), but fails to ensure that the above-market cost of those export credits will remain isolated within the customer classes that receive the benefits of the new transitional rooftop solar program, as has been the case in the past.

In addition, UAE does not support the Stipulation to the extent it proposes any changes to the net metering program for Schedules 6 and 8 customers, in that no representatives of commercial net metering customers support the Stipulation and RMP's evidence in this docket does not warrant making changes to that program for those customers. The proposed Transition Export Credit Rates for Schedules 6 and 8 customers are not based on the costs and benefits of the current net metering program.

Q. Please elaborate on your primary concern relating to RMP's recovery of export costs in excess of market value through the EBA.

A. As the evidence in this docket illustrates, there is a wide divergence of opinions as to the costs and benefits of the residential net metering program. While these issues are interesting and complex, it has not been necessary in the past for Schedule 9 or special contract customers—who are not eligible for net metering—to pay close attention to the debate because the primary costs of the net metering program, along with the primary benefits, have always remained isolated within the affected customer classes—as they should be. The Stipulation fails, however, to ensure that this will continue for the contemplated successor to the net metering program during the Transition Period.

Q. What potential benefits of net metering are you addressing, and which customer classes enjoy those benefits?

A. The "benefits" that I am addressing here are in the form of lower costs for electric service. When a customer installs solar panels to generate electricity for a portion of its own loads, the self-generating customer benefits through lower power costs. In addition, however, the Utah jurisdiction and the customer class to which the self-generating customer belongs also benefit because of the operation of existing cost allocation protocols.

The energy that is no longer supplied by RMP to a self-generating customer will reduce the Utah jurisdiction's allocated share of PacifiCorp's energy related costs under the MSP protocol. Similarly, to the extent rooftop solar panels reduce the Utah jurisdiction's contribution to the PacifiCorp system coincident peak in any month, the Utah jurisdiction's responsibility for PacifiCorp's capacity related costs will also be reduced. The benefits to the Utah jurisdiction in energy and capacity cost allocation savings are all then passed on through intra-state cost allocation protocols to the customer classes to which the self-generating customers belong. Thus, the benefits of reduced cost responsibility resulting from residential net metering customers inure solely to the residential class. The same is true for net metering customers in other classes.

Q. What potential revenue recovery issue of the net metering program are you addressing, and which customer classes are impacted?

A. The potential revenue recovery issue that I am addressing here is the reduced revenue collected by RMP, which takes two primary forms. First, revenues collected by RMP are lower as a result of the self-generating customers buying less electricity from RMP. Second, RMP's revenues are also lower because of the credits against future bills provided to net metering customers for generation that exceeds the customers' needs at any given point in time. These credits appear to provide a significant inducement to the willingness of many customers to invest in rooftop solar panels. To the extent the value of the excess energy credits exceeds the net power cost savings realized by RMP, these revenue reductions result in an increase in cost responsibility for the affected class. Under the current net metering program, these costs—like the benefits discussed above—remain solely within the affected customer class.

Q. The Stipulation proposes to close the current net metering program to new participants and replace it with specified Export Credits during a Transition Period in which the Commission will determine the value of excess generation from new rooftop solar installations. Will the costs and benefits of this new program continue to remain isolated within the affected customer classes as they were with the net metering program?

A. That is not made clear in the Stipulation, which is why UAE cannot support it. The Stipulation specifies certain "Export Credits" negotiated by the Settling Parties to be paid to new rooftop solar customers during the Transition Period for excess generation in any 15-minute period. The Stipulation indicates that the negotiated Export Credits for the residential classes reflect a large percentage of the current savings enjoyed by residential net metering customers. These credits thus mimic and reflect the bulk of the revenue recovery issue discussed above of the current net metering program resulting from lower contributions to class revenues. Therefore, the negotiated Export Credits have a significant nexus to residential rate design. The Stipulation provides that RMP will recover the amount by which these Export Credits exceed their market value, adjusted for line losses, on a Utah-situs basis through the Energy Balancing Account or a similar pass-through account. I will refer to this cost in excess of market value that RMP intends to recover through the EBA as the “Above Market Cost.”

UAE’s primary concern with the Stipulation is that it is silent on how the Above Market Cost will be allocated to or collected from customer classes. Currently, EBA costs are allocated to customer classes based predominantly on relative energy use. If that same allocation were to be used for the Above Market Cost of Export Credits, the result would be that a cost that is isolated today within customer classes would be socialized to all customer classes based on relative energy use—a result that is particularly unfair to large energy users. The residential classes would thus continue to enjoy the benefits of the new residential rooftop solar program—in the form of lower cost allocations to the residential classes—while a significant portion of the costs of the program—the Above Market Cost of excess generation—would be shifted to other classes, including classes that are not eligible to participate in and do not receive benefits from the program. This would violate fundamental ratemaking principles, including the principle that cost allocation should follow cost causation and mirror benefits received. Cost allocation is not even discussed in the Stipulation. Indeed, by remaining silent on the cost allocation of Above Market Costs while using the EBA mechanism for cost recovery, one might assume that at least some of the Settling Parties intend this unfair outcome.

Q. Is it possible that the transitional rooftop solar program will provide benefits beyond reduced cost allocations that could potentially benefit all customer classes?

A. Yes, that is possible, and some parties have claimed the existence of such benefits. However, the Above Market Cost of Export Credits is clearly not based on any determination of benefits received by customer classes, and the Stipulation includes no requirement that the Above Market Cost will be allocated based on relative benefits received. Indeed, the Stipulation by its nature does not appear to contemplate a means by which the Commission can timely and properly make a determination of relative benefits received by various classes until after the Transitional Period. Unless and until the Commission can conduct a full investigation, in which representatives of all potentially affected customer classes can participate, there is simply no supportable basis for the allocation of the Above Market Cost of Export Credits to any other classes.

Q. Given that allocation of cost responsibility for the Above Market Cost of Export Credits is not addressed in the Stipulation, why are you raising it now?

A. In my view, approval of the Stipulation cannot properly be found to be in the public interest unless the Commission makes it clear in its order that such approval will not be allowed to force additional costs on other rate classes, unless proper findings can be made by the Commission regarding quantifiable benefits received by other classes. The Above Market Cost of the transitional successor to the net metering program should remain isolated within the customer classes that enjoy the benefits, as is the case with the current net metering program. UAE thus respectfully asks the Commission to clarify in any order approving the Stipulation or a transitional rooftop solar program that the Above

Market Cost of Export Credits will remain solely within each customer class until the Commission can make proper determinations of benefits to be received by each class from the transitional program and appropriate cost allocation decision in light of those benefits.

Q. Please explain your other objection to proposed changes to the net metering program for Schedules 6 and 8 customers.

A. The parties who signed the stipulation, in addition to RMP and the Division, appear primarily to be residential ratepayer advocates, environmental groups and rooftop solar developers. To my understanding, nobody representing non-commercial net metering customers supports the Stipulation. Some UAE members take electric service from RMP under Schedules 6 and 8, and UAE thus intervened in this docket. However, the vast majority of testimony, discovery, proceedings and settlement discussions focused solely on residential net metering issues that would not reasonably be expected to affect customers in other classes, and UAE was not in a position to bear the significant burden and expense of active participation on residential issues. UAE believes that the proposed changes to the net metering program for Schedules 6 and 8 are inappropriate under the circumstances, particularly given the available evidence on the costs and benefits of that portion of the program.

As I am not a lawyer, I will not offer any legal opinions. The factual and legal basis for UAE's objections to any significant changes to the net metering program for Schedules 6 and 8 in this docket are laid out in UAE's Initial Comments on Rocky Mountain Power's Compliance Filing which was filed hereon on June 6, 2017, to which I refer the Commission. In brief summary, the UAE comments identify the Commission's statutory obligation to determine the costs and benefits of the current net metering program and to set just and reasonable charges, credits, and ratemaking structures *based on* those costs and benefits.

While ample evidence in the docket appears to address the costs and benefits of residential net metering, the UAE Comments note that the scant evidence relating to costs and benefits of net metering for Schedule 6 and 8 customers provided by RMP does not demonstrate that the costs outweigh the benefits. According to RMP's rebuttal testimony, the net metering program provides a net benefit of $160,000 for Schedule 8 customers, while showing only a minimal net cost for Schedule 6.[1] RMP's data also shows that net metering customers in Schedules 6 and 8 pay a higher percentage of their claimed cost of service than do the non-net metering customers in those rate classes.[2] The net metering customers are subsidizing the non-net metering customers, according to RMP's data.

Thus, there is no record basis to support any significant changes to the current net metering program for those schedules. Also, and for similar reasons, there is no basis for any finding that the Transition Export Credit Rates proposed in the Stipulation for Schedules 6 and 8 customers are based upon demonstrated costs and benefits of net metering.

[1] *See* Exhibit RMP___(RMM-2R) at page 3 of 3, accompanying the rebuttal testimony of Rocky Mountain Power witness Robert M. Meredith.
[2] *See* Exhibit RMP___(RMM-5R) at Column M, page 1 of 1, accompanying the rebuttal testimony of Rocky Mountain Power witness Robert M. Meredith.

Because no representatives of Schedules 6 and 8 net metering customers signed the Stipulation and there is no basis for finding that the proposed changes to the net metering program for those schedules are based on demonstrated costs and benefits, UAE submits that the aspects of the Stipulation purporting to affect net metering for Schedules 6 and 8 be not be approved. UAE sees no valid reason why the proposed changes for residential net metering cannot be approved, while declining to approve the proposed changes for the commercial schedules.

Q. Does this conclude your testimony?

A. Yes, it does.