

PUC DOCKET 28818

PETITION OF ENTERGY GULF
STATES, INC. FOR CERTIFICATION
OF AN INDEPENDENT
ORGANIZATION FOR THE
ENERGY SETTLEMENT AREA IN
TEXAS

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BEFORE THE
PUBLIC UTILITY COMMISSION
OF TEXAS

Testimony of

BRUCE E. BIEWALD,

Synapse Energy Economics, Inc.

Prepared on Behalf of

THE OFFICE OF PUBLIC UTILITY COUNSEL

April 26, 2004

LIST OF EXHIBITS

- Exhibit 1 Bruce Biewald Resume
- Exhibit 2 List of Electric System Cost Benefit Analyses

LIST OF ATTACHMENTS

- Attachment 1 Response to OPC 2-5
- Attachment 2 Response to OPC 2-6
- Attachment 3 Response to OPC 2-7
- Attachment 4 Response to OPC 2-8
- Attachment 5 Response to OPC 2-9
- Attachment 6 Response to OPC 2-10

1 **Q. PLEASE STATE YOUR NAME, BUSINESS POSITION AND ADDRESS.**

2 A. My name is Bruce Edward Biewald. I am president of Synapse Energy
3 Economics, Inc., 22 Pearl Street, Cambridge, Massachusetts, 02139.

4 **Q. PLEASE DESCRIBE YOUR EMPLOYMENT, QUALIFICATIONS, AND**
5 **EXPERIENCE?**

6 A. I am president and owner of Synapse Energy Economics, Inc., a consulting
7 company specializing in economic and policy analysis of the electricity industry,
8 particularly issues of restructuring, market power, electricity market prices,
9 consumer protection, stranded costs, efficiency, renewable energy, environmental
10 quality, and nuclear power. I graduated from the Massachusetts Institute of
11 Technology in 1981, where I studied energy use in buildings. I was employed for
12 15 years at the Tellus Institute, where I was Manager of the Electricity Program,
13 responsible for studies on a broad range of electric system regulatory and policy
14 issues. I have testified on energy issues in more than eighty regulatory
15 proceedings in twenty-five states and two Canadian provinces. I have co-
16 authored more than one hundred reports, including studies for the Electric Power
17 Research Institute, the U.S. Department of Energy, the U.S. Environmental
18 Protection Agency, the Office of Technology Assessment, the New England
19 Governors' Conference, the New England Conference of Public Utility
20 Commissioners, and the National Association of Regulatory Utility
21 Commissioners. My papers have been published in the *Electricity Journal*,
22 *Energy Journal*, *Energy Policy*, *Public Utilities Fortnightly* and numerous
23 conference proceedings, and I have made presentations on the economic and
24 environmental dimensions of energy throughout the U.S. and internationally. I
25 also have consulted for federal agencies, including the Department of Energy, the
26 Department of Justice, the Environmental Protection Agency, and the Federal
27 Trade Commission. Details of my experience are provided in Exhibit 1.

28 **Q. ON WHOSE BEHALF DO YOU APPEAR IN THIS PROCEEDING?**

29 A. On behalf of the Office of Public Utility Counsel.

30 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

31 A. The OPUC asked me to comment on the costs and benefits of the Entergy Gulf
32 States, Inc.'s (EGSI or the Company) "Independence Proposal."

1 **Q. PLEASE SUMMARIZE YOUR KEY CONCLUSIONS AND**
2 **RECOMMENDATIONS.**

3 A. My conclusions are as follows:

- 4 • The Company has provided insufficient information to determine whether the
5 estimated costs for its proposal are reasonable.
- 6 • The Company has provided no information about the benefits of its proposal.
- 7 • It would be unwise to proceed with the Company's proposal in the absence of
8 an analysis of the expected costs and benefits.

9

10 I recommend that the Commission decide not to proceed with the Company's
11 Independence Proposal at this time.

12 **Q. WHAT IS THE BASIS FOR YOUR CONCLUSION THAT THE**
13 **COMPANY HAS PROVIDED INSUFFICIENT INFORMATION ABOUT**
14 **THE COSTS OF ITS PROPOSAL?**

15 A. I have reviewed Patricia Waters' Supplemental Direct Testimony on behalf of
16 EGSI, the associated exhibits, and EGSI's responses to OPC's second set of data
17 requests. In these materials the Company has provided some detail about the
18 components of its cost estimate (e.g., in Exhibit PCW-2) and the business
19 processes that it plans to implement (e.g., in the "ESAT Requirements
20 Framework" document provided in response to Question OPC 2-1) but the
21 Company has provided little basis for the estimated costs. In response to
22 Question OPC 2-5 (provided here as attachment 1) the Company explains that
23 experienced personnel along with an outside consulting firm identified the
24 "business process and system changes" required, and then estimated the labor and
25 hardware and software costs that would be required for implementation. But that
26 is really all that is provided. There are no specifics provided about how this was
27 done for the individual items. And there was no comparative or benchmarking
28 analysis done (see Company responses to OPC 2-6 and 2-7 (provided here as
29 Attachments 2 and 3).

30 The Company believes that the costs are reasonable, but there is no clear
31 basis or standard for this belief. It is simply "because they {the cost estimates}

1 have been derived based on experienced personnel’s analysis of business process
2 and system changes required to implement the ESAT protocols” (see the response
3 to OPC 2-8, provided here as Attachment 4).

4 **Q. WHAT IS THE BASIS FOR YOUR CONCLUSION THAT THE**
5 **COMPANY HAS PROVIDED NO INFORMATION ABOUT THE**
6 **BENEFITS OF ITS PROPOSAL, AND WHY DO YOU BELIEVE THIS TO**
7 **BE A PROBLEM?**

8 A. In the materials that I reviewed in this case, the only mention of benefits was in
9 response to the two OPC data requests that specifically asked about benefits. In
10 the first of these (response to Question No. OPC 2-9, provided here as Attachment
11 5) the Company answers with a single word “yes” indicating that it has
12 “considered the benefits” of the proposal.

13 The second question (OPC No. 2-10, provided here as Attachment 6) asks
14 for identification and quantification of benefits, or where quantification is not
15 possible for an explanation of why and “whatever information would be useful in
16 understanding whether and to what extent the benefit is important to customers.”
17 The Company’s answer does not quantify the benefits, and specifically states that
18 the Company has not attempted to. Rather, the response points out that the
19 Company’s proposal “will allow forward movement toward retail open access and
20 customer choice in the ESAT region” and that the Legislature has indicated that a
21 competitive retail electric market is in the public interest. In my view, the broader
22 transition and the specific step proposed by the Company in this case (setting up
23 the ETO in order to run the pilot) should be evaluated in terms of expected costs
24 and benefits.

25 **Q. WHAT INFORMATION ABOUT THE BENEFITS DO YOU THINK IS**
26 **NEEDED IN ORDER TO JUSTIFY PROCEEDING WITH THE**
27 **COMPANY’S INDEPENDENCE PROPOSAL?**

28 A. A reasonable effort should be made to identify and quantify the benefits of the
29 Company’s proposal relative to other courses of action. Those alternative courses
30 of action should include cases in which retail open access is delayed in order to

1 allow for the establishment of a truly independent grid operator to support retail
2 open access as well as wholesale electricity markets.

3 **Q. HAVE THERE BEEN COST BENEFIT STUDIES DONE TO ANALYZE**
4 **ELECTRICITY MARKET RESTRUCTURING POLICIES?**

5 A. Yes. I have assembled a list of some studies of the costs and benefits of
6 electricity market restructuring policies, and provide that list here as Exhibit 2.

7 **Q. WHAT IS THE PURPOSE OF THE LIST OF COST-BENEFIT STUDIES**
8 **TO THIS CASE?**

9 A. I present the list in Exhibit 2 in order to document that such studies can and have
10 been done. To be clear, I do not claim that any of these studies is exactly the type
11 of study that should be done to understand the policy options available in the
12 EGSI area. Nor do I endorse the specific assumptions, methods, or conclusions of
13 any of the studies listed.

14 **Q. WILL YOU BE ADDRESSING THE ISSUE RAISED IN THE**
15 **COMMISSION'S ORDER NO. 9 DATED APRIL 19?**

16 A. No. The possibility of EGSI joining the Southwest Power Pool is an interesting
17 possibility that deserves serious consideration. It appears that the SPP is regarded
18 by FERC as an acceptably independent entity, and it would, I believe be
19 appropriate to analyze the costs and benefits, advantages and disadvantages, and
20 risks of a course in which EGSI (possibly along with other portions of the Energy
21 system) joins SPP.

22 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

23 A. Yes, it does.