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Via Electronic Mail puc.filingcenter@state.or.us
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August 13, 2012

Public Utility Commission of Oregon
550 Capitol Street NE, Suite 215
Salem, Oregon 97310
Attn: Filing Center

Re: Case No. UE-246

Dear Sir or Madam:

Please find enclosed the original and five (5) copies each of: 1) REBUTTAL TESTIMONY OF KEVIN C. HIGGINS on behalf of THE FRED MEYERS STORES AND QUALITY FOOD CENTERS, DIVISIONS OF THE KROGER CO.; and 2) MOTION TO ADMIT PRE-FILED REBUTTAL TESTIMONY OF KEVIN C. HIGGINS for filing in the above referenced matter.

Copies have been served on all parties of record. Please place this document of file.

Very truly yours,

Kurt J. Boehm, Esq.
Jody M. Kyler, Esq.
BOEHM, KURTZ & LOWRY

KJBkew
Enclosure
cc: Certificate of Service

BEFORE THE PUBLIC UTILITY COMMISSION
OF THE STATE OF OREGON

In the Matter of PacifiCorp's Filing of Revised Tariff Schedules for Electric Service in Oregon	)	**DOCKET NO. UE-246**

REBUTTAL TESTIMONY OF

KEVIN C. HIGGINS

ON BEHALF OF

FRED MEYER STORES

AUGUST 13, 2012

REBUTTAL TESTIMONY OF KEVIN C. HIGGINS

Introduction

Q. Please state your name and business address.

A. Kevin C. Higgins, 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 with 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 Fred Meyer Stores and Quality Food Centers ("Fred Meyer"), divisions of The Kroger Co.

Q. Please describe your professional experience and qualifications.

A. My academic background is in economics, and I have completed all coursework and field examinations toward a Ph.D. in Economics at the University of Utah. In addition, I have served on the adjunct faculties of both the University of Utah and Westminster College, where I taught undergraduate and graduate courses in economics. I joined Energy Strategies in 1995, where I assist private and public sector clients in the areas of energy-related economic and policy analysis, including evaluation of electric and gas utility rate matters.

Prior to joining Energy Strategies, I held policy positions in state and local government. From 1983 to 1990, I was economist, then assistant director, for the

Utah Energy Office, where I helped develop and implement state energy policy. From 1991 to 1994, I was chief of staff to the chairman of the Salt Lake County Commission, where I was responsible for development and implementation of a broad spectrum of public policy at the local government level.

Q. Have you ever testified before this Commission?

A. Yes. I have testified in several prior proceedings in Oregon, including the five most recent PacifiCorp Transition Adjustment Mechanism ("TAM") cases, UE-245 (2013 TAM), UE-227 (2012 TAM), UE-216 (2011 TAM), UE-207 (2010 TAM), and UE-199 (2009 TAM). I have also participated in four PacifiCorp general rate cases, UE-210 (2009), UE-179 (2006), UE-170 (2005), and UE-147 (2003) and three Portland General Electric ("PGE") general cases, UE-215 (2010), UE-197 (2008) and UE-180 (2006), as well as in the PGE restructuring proceeding, UE-115 (2001).

Q. Have you participated in any workshop processes sponsored by this Commission?

A. Yes. In 2003, I was an active participant in the collaborative process initiated by the Commission to examine direct access issues in Oregon, UM-1081.

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

A. Yes. I have testified in approximately 150 proceedings on the subjects of utility rates and regulatory policy before state utility regulators in Alaska, Arizona, Arkansas, Georgia, Idaho, Illinois, Indiana, Kansas, Kentucky, Michigan, Minnesota, Missouri, Montana, Nevada, New Mexico, New York, North Carolina, Ohio, Oklahoma, Pennsylvania, South Carolina, Texas, Utah,

Virginia, Washington, West Virginia, and Wyoming. I have also prepared affidavits that have been filed with the Federal Energy Regulatory Commission.

Q. What is the purpose of your rebuttal testimony?

A. My rebuttal testimony responds to the recommendation of ICNU witness Michael C. Deen to abolish the TAM. As Kroger is a direct access customer in PacifiCorp's service territory, any changes to the TAM may have a direct bearing on Kroger's rates.

Response to Mr. Deen

Q. On page 14 of his direct testimony, Mr. Deen recommends that the Commission abolish the TAM and replace it with a "more streamlined mechanism that allows customers to choose direct access, but does not adjust net power costs on an annual basis." Do you object to elimination of the TAM?

A. No, I do not. However, if the TAM were eliminated it would be important to replace it with a viable mechanism that would not impede the ability of customers to choose Direct Access service.

Q. What does Mr. Deen propose with respect to setting the Schedule 294 and 295 transition adjustments if the TAM were eliminated?

A. Mr. Deen does not appear to have a formal proposal in this regard. Rather, he discusses a couple of alternative approaches. One suggestion he offers is to set the transition charges or credits under the same method as is currently employed, but to do so in the context of a general rate case [p. 21]. Presumably,

under this method, and in the absence of a PCAM, the Schedule 294 and 295 transition adjustments would remain unchanged until the next general case; however, Mr. Deen suggests that there could be an automatic review of the procedure if PacifiCorp reaches a "critical threshold" of open access.

Q. Do you wish to comment on this type of an approach?

A. I do not necessarily object to this type of approach but anticipate that it would be strongly resisted by PacifiCorp on the grounds that leaving the Schedule 294 and 295 transition adjustments unchanged from a prior year could make the Company susceptible to a large swing in demand for Direct Access service driven by outdated pricing information. However, to implement Mr. Deen's objective of abolishing the TAM process (as we now know it), it is not necessary to freeze the Schedule 294 and 295 transition adjustments at a prior year's level, as suggested by Mr. Deen.

Q. Please explain.

A. The Schedule 294 and 295 transition adjustments are calculated by PacifiCorp in the context of carrying out the "ongoing valuation" method for determining transition charges or credits, according to which Direct Access customers receive a transition credit or pay a transition charge equal to 100 percent of the net value of the Oregon share of all economic and uneconomic utility investments, as prescribed in OAC 860-038-0160(1). The salient characteristic of the Schedule 294 and 295 transition adjustments is that these riders represent the difference between the cost of variable generation costs *in rates* and the market value of freed-up energy from Direct Access. For this

calculation to remain current it is not necessary to change rates for *cost-of-service* customers on an annual basis, but rather to update the market value of freed-up energy annually, i.e., to update the Schedule 294 and 295 transition adjustments. In this sense, Mr. Deen is correct that it is not necessary to change rates for *cost-of-service* customers on an annual basis through the TAM in order to determine the Schedule 294 and 295 transition adjustments. However, in the context of the ongoing valuation method, it makes sense for the Schedule 294 and 295 transition adjustments themselves to be annually updated – even if cost-of-service rates are not.

Q. What approach does Mr. Deen suggest if a PCAM is adopted?

A. If a PCAM is adopted, Mr. Deen suggests that Schedule 294 and 295 charges could be updated based on the changes in PacifiCorp's actual power costs in the event the Company has not filed a rate case in a given year.

Q. Do you wish to comment on this type of an approach?

A. As a general matter, I do <u>not</u> agree that such an approach would be appropriate. As I stated above, the Schedule 294 and 295 transition adjustments represent the difference between the cost of variable generation costs *in rates* and the market value of freed-up energy. Therefore, *only to the extent that a change in net power costs affects going-forward cost-of-service rates* should the Schedule 294 and 295 transition adjustments be impacted by a change in net power costs. If a PCAM is adopted and its adjustor mechanism does not change going-forward rates, but rather trues up the difference between actual net power costs and net

power costs in rates on an after-the-fact basis, then the PCAM adjustor should have no impact whatsoever on the Schedule 294 and 295 transition adjustments.

Q. Should Direct Access customers pay a PCAM Adjustor that only trues up historical net power costs?

A. No, with the exception of Direct Access customers that were served under cost-of-service rates during the period being trued up by the PCAM Adjustor. If a PCAM is adopted, the customers who should pay the PCAM Adjustor charge are those who received cost-of-service pricing for the time period being trued up. For example, if the true up is for Year 1, and a customer that took cost-of-service rates in Year 1 switches to Direct Access service in Year 2, then that customer should still be subject to the PCAM Adjustor for Year 1. Similarly, if a customer was on Direct Access service in Year 1, then that customer should not be subject to the PCAM Adjustor for Year 1 irrespective of whether that customer continues to take Direct Access service or switches back to cost-of-service rates in Year 2. The reason for this distinction is straightforward: the Direct Access customers in Year 1 purchased their power in the market; any deviation in PacifiCorp's net power costs that occurred in that year was incurred serving the Company's cost-of-service customers, not its Direct Access customers. Consequently, it would be fundamentally unreasonable to assign PCAM Adjustor charges (or credits) to customers who were taking Direct Access service during the true-up period.

Q. On pages 21-22 of his direct testimony, Mr. Deen comments on the very low Direct Access penetration rate in PacfiCorp's service territory and indicates

that ICNU is open to exploring other avenues toward promoting open access. Do you wish to respond to this statement?

A. Yes. PGE has significantly greater participation in direct access than PacifiCorp. One of the major differences between PGE's direct access program and that of PacifiCorp is that PGE offers an option that allows customers to transition over a five-year period to a cessation of the transition adjustment. This option allows interested customers to achieve genuine market pricing. I believe it makes sense for a similar program to be implemented in the PacifiCorp service territory. Such an option could go a long way toward improving Direct Access participation in the PacifiCorp service territory. It is my understanding that this subject may be further explored in the open investigatory docket, UM-1587.

Q. Does this conclude your rebuttal testimony?

A. Yes, it does.

BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON

UE 246

In The Matter Of PACIFICORP, dba PACIFIC POWER Request for a General Rate Revision	**MOTION TO ADMIT PRE-FILED REBUTTAL TESTIMONY OF KEVIN C. HIGGINS ON BEHALF OF THE KROGER CO**

The Kroger Co. moves that the PRE-FILED REBUTTAL TESTIMONY OF KEVIN C. HIGGINS be admitted into the record of this proceeding. The affidavit attesting to the truth and accuracy of the testimony is attached.

DATED this 13th day of August, 2012.

Respectfully submitted,

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BEFORE THE PUBLIC UTILITY COMMISSION
OF THE STATE OF OREGON

In the Matter of PacifiCorp's Filing of Revised Tariff Schedules for Electric Service in Oregon	)))	**Docket No. UE-246**

AFFIDAVIT OF KEVIN C. HIGGINS

STATE OF UTAH)
)
COUNTY OF SALT LAKE)

Kevin C. Higgins, being first duly sworn, deposes and states that:

1. He is a Principal with Energy Strategies, L.L.C., in Salt Lake City, Utah;

2. He is the witness who sponsors the testimony entitled "Rebuttal Testimony of Kevin C. Higgins";

3. Said testimony was prepared by him and under his direction and supervision;

4. If inquiries were made as to the facts and schedules in said testimony he would respond as therein set forth; and

5. The aforesaid testimony and schedules are true and correct to the best of his knowledge, information and belief.

Kevin C. Higgins

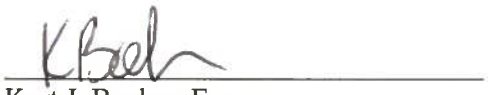
Subscribed and sworn to or affirmed before me this 13th day of August, 2012, by Kevin C. Higgins.

Notary Public

Notary Public
DANIKA HOLMES
Commission #606101
My Commission Expires
February 07, 2015
State of Utah

CERTIFICATE OF SERVICE

I hereby certify that true copy of the foregoing was served via electronic mail this 13th day of August, 2012.



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