



**RICHARDSON & O'LEARY**

ATTORNEYS AT LAW

Tel: 208-938-7900 Fax: 208-938-7904

P.O. Box 7218 Boise, ID 83707 - 515 N. 27th St. Boise, ID 83702

June 4, 2013

Public Utility Commission  
Attn: Filing Center  
550 Capitol Street NE #215  
PO Box 2148  
Salem, OR 97308

**Re: UE 264 – Noble Americas Energy Solutions LLC's Reply Testimony**

Dear Filing Center:

Enclosed please find Noble Americas Energy Solutions LLC's Reply Testimony for filing in the above-referenced docket. We are providing the Commission with an original and five copies of this filing.

We are also providing the confidential portions of the filing to the Commission and those parties who have executed the General Protective Order in this docket.

Please contact me with any questions. Thank you for your assistance.

Sincerely,

A handwritten signature in black ink, appearing to read 'Greg Adams'. The signature is fluid and cursive, with the first name 'Greg' and last name 'Adams' clearly distinguishable.

Gregory M. Adams  
Attorney for Noble Americas Energy Solutions LLC

cc: UE 264 Service List

## CERTIFICATE OF SERVICE

I HEREBY CERTIFY that on the 4<sup>th</sup> day of May, 2013, a true and correct copy of the within and foregoing **REPLY TESTIMONY OF KEVIN HIGGINS ON BEHALF OF NOBLE SOLUTIONS** was served as follows; electronic mail to all parties and U.S. Postal Service for confidential parties:

John Crider (C)  
Public Utility Commission of Oregon  
PO Box 2148  
Salem OR 97308-2148  
[john.crider@state.or.us](mailto:john.crider@state.or.us)

☐ Hand Delivery  
☒ U.S. Mail, postage pre-paid  
☐ Facsimile  
☒ Electronic Mail

Michael Weirich (C)  
PUC Staff - Department of Justice  
1162 Court Street, NE  
Salem OR 97301-4096  
[michael.weirich@doj.state.or.us](mailto:michael.weirich@doj.state.or.us)

☐ Hand Delivery  
☒ U.S. Mail, postage pre-paid  
☐ Facsimile  
☒ Electronic Mail

Robert Jenks (C)  
G Catriona McCracken (C)  
Citizens' Utility Board of Oregon  
610 SW Broadway Ste 400  
Portland OR 97205  
[bob@oregoncub.org](mailto:bob@oregoncub.org)  
[catriona@oregoncub.org](mailto:catriona@oregoncub.org)  
[dockets@oregoncub.org](mailto:dockets@oregoncub.org)

☐ Hand Delivery  
☒ U.S. Mail, postage pre-paid  
☐ Facsimile  
☒ Electronic Mail

Irion Sanger  
Melinda J Davison  
Davison Van Cleve  
333 SW Taylor Ste 400  
Portland OR 97204  
[ias@dvclaw.com](mailto:ias@dvclaw.com)  
[mjd@dvclaw.com](mailto:mjd@dvclaw.com)

☐ Hand Delivery  
☐ U.S. Mail, postage pre-paid  
☐ Facsimile  
☒ Electronic Mail

Regulatory & Cogeneration Services Inc  
Donald W Schoenbeck  
900 Washington St Ste 780  
Vancouver WA 98660-3455  
[dws@r-c-s-inc.com](mailto:dws@r-c-s-inc.com)

☐ Hand Delivery  
☐ U.S. Mail, postage pre-paid  
☐ Facsimile  
☒ Electronic Mail

Kevin Higgins (C)  
Energy Strategies LLC  
215 State St Ste 200  
Salt Lake City UT 84111-2322  
[khiggins@energystat.com](mailto:khiggins@energystat.com)

☐ Hand Delivery  
☒ U.S. Mail, postage pre-paid  
☐ Facsimile  
☒ Electronic Mail

Sarah Wallace  
Pacific Power  
825 NE Multnomah Ste 1800  
Portland OR 97232  
[sarah.wallace@pacificorp.com](mailto:sarah.wallace@pacificorp.com)

☐ Hand Delivery  
☐ U.S. Mail, postage pre-paid  
☐ Facsimile  
☒ Electronic Mail

PacifiCorp dba Pacific Power  
825 NE Multnomah St Ste 2000  
Portland OR 97232  
[oregondockets@pacificorp.com](mailto:oregondockets@pacificorp.com)

☐ Hand Delivery  
☐ U.S. Mail, postage pre-paid  
☐ Facsimile  
☒ Electronic Mail

Douglas C Tingey  
Portland General Electric  
121 SW Salmon 1WTC13  
Portland OR 97204  
[doug.tingey@pgn.com](mailto:doug.tingey@pgn.com)

☐ Hand Delivery  
☐ U.S. Mail, postage pre-paid  
☐ Facsimile  
☒ Electronic Mail

Jay Tinker  
Portland General Electric  
121 SW Salmon 1WTC-0702  
Portland OR 97204  
[pge.opuc.filings@pgn.com](mailto:pge.opuc.filings@pgn.com)

☐ Hand Delivery  
☐ U.S. Mail, postage pre-paid  
☐ Facsimile  
☒ Electronic Mail

Lissa Maldonado  
George Waidelich  
Safeway INC  
5918 Stoneridge Mall Road  
Pleasanton CA 94588-3220  
[lissa.maldonado@safeway.com](mailto:lissa.maldonado@safeway.com)  
[george.waidelich@safeway.com](mailto:george.waidelich@safeway.com)

☐ Hand Delivery  
☐ U.S. Mail, postage pre-paid  
☐ Facsimile  
☒ Electronic Mail

Samuel L Roberts  
Hutchinson Cox Coons Orr & Sherlock  
777 High St Ste 200  
PO Box 10886  
Eugene OR 97440  
[sroberts@eugenelaw.com](mailto:sroberts@eugenelaw.com)

☐ Hand Delivery  
☐ U.S. Mail, postage pre-paid  
☐ Facsimile  
☒ Electronic Mail

Katherine A McDowell  
McDowell Rackner & Gibson PC  
419 SW 11<sup>th</sup> Ave Ste 400  
Portland OR 97205  
[katherine@mcd-law.com](mailto:katherine@mcd-law.com)

☐ Hand Delivery  
☐ U.S. Mail, postage pre-paid  
☐ Facsimile  
☒ Electronic Mail

Steve W Chriss  
Wal-Mart Stores Inc  
2001 SE 10<sup>th</sup> St  
Bentonville AR 72716-0550  
[stephen.chriss@wal-mart.com](mailto:stephen.chriss@wal-mart.com)

☐ Hand Delivery  
☐ U.S. Mail, postage pre-paid  
☐ Facsimile  
☒ Electronic Mail

Signed   
Gregory M Adams

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

|   |   |                          |
|---|---|--------------------------|
| <b>In the Matter of PacifiCorp, dba</b> | ) |                          |
| <b>Pacific Power</b>                    | ) | <b>Docket No. UE-264</b> |
| <b>2014 Transition Adjustment</b>       | ) |                          |
| <b>Mechanism</b>                        | ) |                          |

**Reply Testimony of Kevin C. Higgins**

**on behalf of**

**Noble Americas Energy Solutions LLC**

**June 4, 2013**

**REPLY 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 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 phase of the proceeding?**

A. My testimony is being sponsored by Noble Americas Energy Solutions  
("Noble Solutions"), formerly Sempra Energy Solutions LLC. Noble Solutions is  
a retail energy supplier that serves commercial and industrial end-use customers  
in 16 states, the District of Columbia, and Baja California, Mexico. Noble  
Americas serves more than 15,000 retail customer sites nationwide, with an  
aggregate load in excess of 4,500 MW. Noble Solutions' retail customers are  
located in the service territories of 55 utilities. In Oregon, Noble Solutions is  
currently serving customers in Portland General Electric's service territory and  
PacifiCorp's territory.

**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

1 of Utah. In addition, I have served on the adjunct faculties of both the University  
2 of Utah and Westminster College, where I taught undergraduate and graduate  
3 courses in economics. I joined Energy Strategies in 1995, where I assist private  
4 and public sector clients in the areas of energy-related economic and policy  
5 analysis, including evaluation of electric and gas utility rate matters.

6 Prior to joining Energy Strategies, I held policy positions in state and local  
7 government. From 1983 to 1990, I was economist, then assistant director, for the  
8 Utah Energy Office, where I helped develop and implement state energy policy.  
9 From 1991 to 1994, I was chief of staff to the chairman of the Salt Lake County  
10 Commission, where I was responsible for development and implementation of a  
11 broad spectrum of public policy at the local government level.

12 **Q. Have you ever testified before this Commission?**

13 A. Yes. I have testified in over a dozen prior proceedings in Oregon,  
14 including the five previous PacifiCorp Transition Adjustment Mechanism  
15 (“TAM”) cases, UE-245 (2013 TAM), UE-227 (2012 TAM), UE-216 (2011  
16 TAM), UE-207 (2010 TAM), and UE-199 (2009 TAM). I have also participated  
17 in four PacifiCorp general rate cases, UE-210 (2009), UE-179 (2006), UE-170  
18 (2005), and UE-147 (2003). In addition, I have testified in three Portland General  
19 Electric (“PGE”) general rate cases, UE-215 (2010), UE-197 (2008) and UE-180  
20 (2006), as well as in the PGE restructuring proceeding, UE-115 (2001).

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

1 A. Yes. In 2003, I was an active participant on behalf of Fred Meyer Stores  
2 in the collaborative process initiated by the Commission to examine direct access  
3 issues in Oregon, UM-1081. More recently, in 2012, I participated in drafting  
4 comments on behalf of Noble Solutions as part of UM-1587, the Commission's  
5 investigation of issues relating to direct access.

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

7 A. Yes. I have testified in approximately 165 proceedings on the subjects of  
8 utility rates and regulatory policy before state utility regulators in Alaska,  
9 Arizona, Arkansas, Georgia, Idaho, Illinois, Indiana, Kansas, Kentucky,  
10 Michigan, Minnesota, Missouri, Montana, Nevada, New Mexico, New York,  
11 North Carolina, Ohio, Oklahoma, Pennsylvania, South Carolina, Texas, Utah,  
12 Virginia, Washington, West Virginia, and Wyoming. I have also prepared  
13 affidavits that have been filed with the Federal Energy Regulatory Commission.

14

15 **Overview and Conclusions**

16 **Q. What is the purpose of your testimony in this proceeding?**

17 A. My testimony addresses the calculation of the Schedule 294 and 295  
18 transition adjustments as well as the methodology used for this purpose.

19 **Q. What are the conclusions and recommendations in your testimony?**

20 A. I offer the following conclusions and recommendations:

21 Eleven years after the statutory implementation of direct access in Oregon,  
22 the direct access program in PacifiCorp's service territory remains stymied by  
23 program design failure. Shopping participation levels in 2012 were only 1.4% of



1 eligible shopping load, far below the 10.7% participation rate in the PGE  
2 territory.<sup>1</sup> With Oregon unemployment above the national average and among the  
3 highest in the western United States, Oregon businesses continue to be denied  
4 reasonable access to market-priced power in PacifiCorp's territory, despite the  
5 proximity to major wholesale trading hubs, and in contravention of the objectives  
6 of the Oregon Legislature in enacting direct access legislation in 1999.<sup>2</sup>

7 A major contributing cause of this failure is the methodology used by  
8 PacifiCorp to calculate the Schedule 294 and 295 transition adjustments. The  
9 calculation methodology used by PacifiCorp places customers who select direct  
10 access in an uneconomic position by producing a valuation of energy freed-up by  
11 direct access that is materially below the market prices that direct access  
12 customers must actually pay. PacifiCorp's calculation virtually ensures that  
13 customers lose money if they select direct access. This result does not occur  
14 because PacifiCorp's power is more competitive than the market; it is not.  
15 Rather, this negative economic outcome occurs because the combination of fixed  
16 generation charges paid by direct access customers to PacifiCorp and the  
17 transition adjustment calculated by the Company, when added to the market price  
18 of power, is structured to be greater than the bundled cost of service rate.  
19 Consequently, any reasonable development of direct access service in the  
20 PacifiCorp service territory has been – and continues to be – thwarted.

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<sup>1</sup> Source: Oregon Public Utilities Commission, Status Report: Oregon Electric Industry Restructuring (July 2012).

<sup>2</sup> ORS 757.601(1) provides that “[a]ll retail electricity consumers of an electric company, other than residential electricity consumers, shall be allowed direct access beginning on March 1, 2002.”

1           To help remedy this problem, I recommend that the Commission require  
2           PacifiCorp to calculate the Schedule 294 and 295 transition adjustments using the  
3           value of energy freed up by direct access as measured directly from the  
4           Company's projection of market prices at the California-Oregon Border ("COB")  
5           and Mid-Columbia ("Mid-C") trading hubs rather than through the GRID-based  
6           analysis the Company currently performs. For purposes of this case, I have  
7           performed this calculation using PacifiCorp's forward prices for Mid-C and COB  
8           using a 50/50 blend. I recommend that this approach be used in this case rather  
9           than the GRID-based approach. Going forward, the Commission may wish to  
10          open an investigatory docket for the purpose of inviting input from parties  
11          regarding the best mix of hub pricing for this purpose.

12           In addition, recognition of a Bonneville Power Administration ("BPA")  
13          transmission credit is necessary to address a structural impediment to the pricing  
14          of direct access service associated with the need for an Electricity Service  
15          Supplier ("ESS") to obtain wheeling from BPA to reach the PacifiCorp service  
16          territory from the Mid-C trading hub. This impediment is reasonably mitigated if  
17          the calculations of the Schedule 294 and 295 transition adjustments are adjusted  
18          to recognize that the direct access load "frees up" BPA transmission capacity that  
19          can then be resold to an ESS to reach PacifiCorp's load. I recommend that the  
20          Schedule 294 and 295 transition adjustment calculations be modified to include a  
21          credit for the resale of BPA transmission of \$(1.422)/MWH.

1    **Calculation of the Transition Adjustment (Schedules 294 and 295)**

2    **Q.     What is your understanding of the purpose of the transition adjustment?**

3    A.           The purpose of the transition adjustment is to provide the appropriate  
4               credit or charge for customers who choose direct access service. The transition  
5               adjustment is applied either through Schedule 294 or Schedule 295. The former is  
6               applied to customers who choose a one-year direct access option, whereas the  
7               latter is applied to customers who choose a three-year direct access option.

8               PacifiCorp's transition adjustment calculation is a form of Ongoing  
9               Valuation as prescribed in OAR 860-038-0140. According to OAR 860-038-  
10              0005(42):

11             Ongoing Valuation means the process of determining transition costs or benefits  
12             for a generation asset by comparing the value of the asset output at projected  
13             market prices for a defined period to an estimate of the revenue requirement of the  
14             asset for the same time period.

15             The logical premise behind Ongoing Valuation is to credit or charge direct  
16             access customers the difference between market prices and cost-of-service rates.

17             The design logic in this approach places customers in an economically "break  
18             even" position with respect to the choice of direct access service; that is, if market  
19             prices are below cost-of-service rates at the time the transition adjustment is  
20             calculated, the direct access customer is charged the difference via the transition  
21             adjustment. Conversely, if market prices are *above* cost-of-service rates, the  
22             direct access customer is *credited* the difference via the transition adjustment.

23             The corollary to this design logic is that it holds non-participating  
24             customers harmless, as the utility, which buys and sells billions of kilowatt-hours  
25             over the course of a year, should be able to dispose of the energy freed up by

1 direct access through market transactions. In the case of PacifiCorp, the transition  
2 adjustment analysis consists of evaluating the impact of a mere 25 MW of direct  
3 access load on a 10,000 MW system.

4 PacifiCorp's transition calculation, however, is not consistent with this  
5 design premise, as it does not place direct access customers in an economically  
6 "break even" position, but in a financially negative position.

7 **Q. Before addressing the problems with PacifiCorp's calculation, please explain**  
8 **how direct access can be viable if the design logic of Ongoing Valuation**  
9 **places direct access customers in an economically break even position.**

10 A. For customers who attempt to select direct access service on a year-to-year  
11 basis, the Ongoing Valuation approach indeed makes direct access a tenuous  
12 value proposition. A one-year direct access selection may be economically viable  
13 in certain circumstances, such as, for example, if some market movement occurs  
14 during the shopping window, after the transition adjustment has been set.  
15 Alternatively, some customers may have a strong corporate preference for  
16 participating in the market, despite the barrier of contending with a "break even"  
17 transition adjustment design. But in general, the year-to-year "break even" model  
18 is not particularly attractive for customers. In Oregon, the only direct access  
19 program that has shown signs of sustained success is PGE's five-year opt-out  
20 program, in which customers pay PGE's Ongoing Valuation transition adjustment  
21 for five years, and then migrate fully to market prices (with no further transition  
22 adjustments). Pursuant to the Commission's order in UM-1587, PacifiCorp has

1        been ordered to develop a five-year opt-out program, which is the subject of UE-  
2        267.

3        **Q.     If the “break even” logic of the Ongoing Valuation approach makes direct**  
4        **access a tenuous value proposition to start with, why is it important to**  
5        **calculate the transition adjustment properly?**

6        A.            Given the tenuous nature of the direct access value proposition under  
7        Ongoing Valuation, if the transition adjustment calculation is biased to produce a  
8        negative value proposition rather than simply a break even outcome, the barrier to  
9        shopping can become insurmountable. As I will demonstrate later in my  
10       testimony, this reasonably describes what is occurring in PacifiCorp’s service  
11       territory under its GRID-based transition adjustment calculation.

12                Moreover, the transition adjustment calculation plays an important role in  
13       developing a five-year opt-out program. If the transition adjustment calculation is  
14       biased to produce a negative value proposition, it will impair an otherwise viable  
15       long-term opt-out program. Thus, the methodology used to calculate PacifiCorp’s  
16       Schedules 294 and 295 – the subject of this proceeding – has implications for the  
17       viability of the long-term opt-out program under consideration in UE-267.

18       **Q.     How is PacifiCorp’s transition adjustment mechanism calculated today?**

19       A.            PacifiCorp’s transition adjustment charges (or credits) direct access  
20       customers the difference between PacifiCorp’s net power cost (as reflected in  
21       Schedule 201) and the estimated market value of the electricity that is freed up  
22       when a customer chooses direct access service.<sup>3</sup> This is calculated by subtracting

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<sup>3</sup> Direct access customers in PacifiCorp’s service territory already pay for the Company’s fixed generation costs through Schedule 200. Thus, the transition adjustment is calculated by subtracting *net power costs*

1 the former from the latter, after adjusting the latter for line losses to reflect its  
2 value at the point of retail delivery. If the result is a positive number, the  
3 difference is applied as a credit to the direct access customer. If the result is a  
4 negative number, the difference is applied as a charge to the direct access  
5 customer.

6 **Q. If Schedule 294 or 295 is a credit, does that mean that PacifiCorp's**  
7 **generation costs are less expensive than the market and that direct access**  
8 **customers are being paid to leave cost-of-service rates?**

9 A. No. PacifiCorp direct access customers must continue to pay for the  
10 Company's fixed generation costs through Schedule 200. A Schedule 294 credit  
11 simply means that the Company's *net power costs* are less than market prices.  
12 Only if the Schedule 294 credit were greater than the Schedule 200 charge could  
13 it be accurate to state that direct access customers were being "paid" to leave cost-  
14 of-service rates. That is far from the case today.

15 **Q. Please continue with your explanation of how PacifiCorp's transition**  
16 **adjustment mechanism is calculated today.**

17 A. The current practice is to calculate the transition adjustment using  
18 PacifiCorp's GRID model. According to PacifiCorp's tariff, the estimated market  
19 value of the electricity that is freed up when a customer chooses direct access  
20 service is determined by running two system simulations – one simulation with  
21 PacifiCorp serving the direct access load and one simulation with the Company

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from the value of freed-up energy rather than subtracting *total generation costs* from the value of freed-up energy. Calculating the transition adjustment in this manner is logically equivalent to subtracting total generation costs from the value of freed-up energy while *not* charging direct access customers for Schedule 200.

1        not serving the direct access load. At the present time, these simulations are run  
2        assuming direct access occurs in 25 MW decrements, which are shaped using the  
3        load shape of the rate schedule being analyzed for purposes of determining its  
4        Schedule 294 or 295 credit (charge). The difference between the two scenarios is  
5        used to calculate the impact on PacifiCorp's total system, which is then used to  
6        determine the "weighted market value of the energy freed up" due to direct  
7        access. The weighted market value of the energy is then compared to the  
8        customer's price under Schedule 201 to determine the Schedule 294 or 295 credit  
9        (charge).

10    **Q.    What is wrong with this approach?**

11    A.        First of all, this approach does not adhere strictly to the definition of  
12        Ongoing Valuation articulated in According to OAR 860-038-0005(42). As I  
13        stated above, Ongoing Valuation requires that transition costs or benefits for a  
14        generation asset be determined by comparing the value of the asset output at  
15        projected *market prices* to an estimate of the revenue requirement of the asset.  
16        PacifiCorp's use of the GRID model to calculate transition costs does not produce  
17        a valuation based exclusively on projected market prices as required in the OAR,  
18        but a valuation that is based on a blend of market prices and thermal generation  
19        costs. Because the incremental cost of PacifiCorp's thermal generation is  
20        typically less than market prices, blending market prices and the Company's  
21        thermal costs invariably produces a lower valuation of freed-up energy than  
22        would occur if market prices alone were used for this purpose. Because the value  
23        of freed-up energy is a credit against the cost-of-service price for direct access

1 customers in the calculation of Schedules 294 and 295, using a lower price for  
2 this purpose increases the transition adjustment charge (or alternatively, reduces  
3 the transition adjustment credit), all other things being equal. Indeed, because  
4 shopping customers must pay market prices for power, if the value of freed-up  
5 energy used in the calculation of the transition adjustment is less than the actual  
6 market price direct access customers pay, then it creates a negative value  
7 proposition for year-to-year shoppers rather than the break-even proposition  
8 inherent in the logic of Ongoing Valuation.

9 **Q. Have refinements been developed to mitigate the impact of including thermal**  
10 **costs in the calculation of Schedules 294 and 295?**

11 A. Yes. In UE-199 (2009 TAM), a Stipulation approved by the Commission  
12 in Order No. 08-543 modified the valuation of the thermal generation assumed to  
13 be backed down due to direct access by providing for a partial weighting using  
14 market prices. Specifically, the parties agreed as follows:

15 15. Transition Adjustment: The Parties agree to modify the calculation of  
16 the Transition Adjustment for direct access in two ways: (1) the Company  
17 will relax the market cap limitations in the GRID model by 15 MW at  
18 Mid-Columbia and 10 MW at COB to determine the value of the freed up  
19 power; and (2) any remaining monthly thermal generation that is backed  
20 down for assumed direct access load will be priced at the simple monthly  
21 average of the COB price, the Mid-Columbia price, and the avoided cost  
22 of thermal generation as determined by GRID. The monthly COB and  
23 Mid-Columbia prices will be applied to the heavy load hours or light load  
24 hours separately. The existing balancing account mechanisms will remain  
25 in effect.

26 The partial weighting using market prices was implemented pursuant to the  
27 second provision quoted above.

28 **Q. Has this second provision been applied continuously since its initial adoption**  
29 **in UE-199?**



1 A. Yes. PacifiCorp has continued to apply this provision in each TAM  
2 proceeding since it was initiated in 2009. However, PacifiCorp indicates that it  
3 “has voluntarily continued to use the non-precedential stipulated method and  
4 reserves the right to challenge it in the future.”<sup>4</sup>

5 **Q. Did Noble Solutions agree to this provision?**

6 A. Yes. I helped to negotiate this provision on behalf of Noble Solutions’  
7 corporate predecessor, Sempra Energy Solutions.

8 **Q. Having agreed to this second provision, why is it now insufficient to produce**  
9 **a reasonable result?**

10 A. The second provision was negotiated as a part of a package, which  
11 included the first provision quoted above, addressing the treatment of market cap  
12 limitations. That first provision pertaining to market caps is no longer being  
13 applied by PacifiCorp. With the first provision no longer in operation, the  
14 compromise to which Noble Solutions agreed for pricing displaced thermal  
15 generation is not sufficient by itself to produce reasonable overall results for  
16 calculating the transition adjustment using the GRID model.

17 **Q. Please explain the first provision quoted above relating to market caps.**

18 A. In calculating net power costs, the GRID model assumes that there are  
19 restrictions on the liquidity of power markets. Accordingly, if GRID shows that  
20 PacifiCorp has resources available that can earn a margin at market prices, these  
21 resources are constrained from selling power into “capped” markets once the  
22 assumed restriction, or market cap, is reached. In the first provision quoted  
23 above, the Company agreed to relax the market cap limitations in the GRID

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<sup>4</sup> PacifiCorp Response to Noble Solutions Data Request 8(c).

1 model by 15 MW at Mid-Columbia and 10 MW at COB to determine the value of  
2 the freed up power – for the limited purpose of calculating the transition  
3 adjustment. This modification was perfectly reasonable in light of the fact that  
4 the transition adjustment calculation, by definition, assumes that 25 MW of  
5 incremental market demand is added by virtue of direct access.

6 **Q. Following the adoption of this provision in UE-199, was it applied in**  
7 **subsequent TAMs?**

8 A. Yes. My understanding is that this provision was applied in each  
9 subsequent TAM until 2013.

10 **Q. Had a version of this provision been used prior to the 2009 TAM?**

11 A. Yes. The origins of this provision actually date back to UE-170,  
12 PacifiCorp's 2005 general rate case. In one of several partial stipulations  
13 approved by the Commission in that case in Order 05-1050, parties agreed that:  
14 For purposes of calculating the Transition Adjustment as proposed in the  
15 [Resource Valuation Mechanism], the Parties agree that if 25 MW of Direct  
16 Access load is assumed in the calculation, the wholesale market caps during the  
17 graveyard hours will be increased by 10 MW for the COB and Mid C wholesale  
18 markets, respectively. If the amount of Direct Access load assumed in the  
19 calculation is different than 25 MW, the wholesale market caps assumed during  
20 graveyard hours at COB and Mid-C will be changed proportionately. The increase  
21 in wholesale market caps is limited to the Transition Adjustment calculation and  
22 shall not otherwise be used in the calculation of Net Power Costs or revenue  
23 requirement.

24 Significantly, this agreement governed the very first PacifiCorp TAM  
25 using the GRID model (2006), which was authorized in the same Order 05-1050.  
26 Thus, this treatment of market caps was an integral part of the Commission's  
27 initial adoption of the GRID model for the purpose of calculating the transition  
28 adjustment.

1   **Q.     What happened in the 2013 TAM?**

2   A.           In the 2013 TAM, PacifiCorp decided unilaterally to stop applying this  
3               provision; that is, the Company stopped relaxing the market caps by 25 MW for  
4               the purpose of determining the transition adjustment.

5   **Q.     Did PacifiCorp provide notice to the parties that it was no longer applying**  
6               **this provision?**

7   A.           No. The Company neither provided notice nor an explanation in its  
8               testimony that it had decided to stop applying this provision. I only discovered  
9               the change after conducting a detailed due diligence review of the Company's  
10              2013 TAM workpapers in UE-245.

11  **Q.     What did the Commission determine in UE-245?**

12  A.           The Commission concluded that Noble Solutions' argument that market  
13               caps in GRID "unreasonably limit assumptions about how much of the generation  
14               freed up by 25 MW of direct access load will be sold is effectively the same in  
15               nature as the more general arguments made by ICNU and Staff about the  
16               limitations of market caps." The Commission was not persuaded that there is any  
17               reason to depart from its decision to retain but revise the market caps in GRID.<sup>5</sup>  
18               In short, the market cap relaxation provision, which had been in place in one form  
19               or another since the initial use of GRID to determine the transition adjustment in  
20               2006, was abandoned.

21  **Q.     Do you agree with the Commission's decision to support PacifiCorp's**  
22               **abandonment of the market cap relaxation provision?**

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<sup>5</sup> OPUC Order No. 12-409 at 16.

1 A. No. I respectfully disagree with the Commission's conclusion on this  
2 point. The logic behind relaxing the market caps for the purpose of determining  
3 the transition adjustment is independent of the level of market caps applied in  
4 determining net power cost: the relaxation is limited to the mere 25 MW of direct  
5 access load assumed to exist as part of the exercise of determining the transition  
6 adjustment. Thus, the market cap relaxation is directly tied to the logic of the  
7 transition adjustment exercise that assumes a 25 MW incremental market demand  
8 for direct access power has been created. Failing to relax the market caps in this  
9 assumed situation simply rigs the result in advance to the detriment of direct  
10 access customers.

11 **Q. What are the consequences of the decision to abandon the market cap**  
12 **relaxation provision in determining the Schedule 294 and 295 transition**  
13 **adjustment?**

14 A. With the market cap relaxation provision removed, the use of GRID for  
15 determining reasonable transition adjustments for direct access customers has  
16 shifted from being "challenging" to ineffectual. I say this from the perspective of  
17 one who has engaged in the process for five consecutive TAMs and who has  
18 attempted to find ways to "make the GRID approach work" through negotiation  
19 over the details of the calculation. I also negotiated the provisions in UE-170 that  
20 were applied to the initial use of GRID in the 2006 TAM.

21 At this juncture, I believe it is necessary to take stock of the situation and  
22 recognize the failure of a GRID-based approach. It is not a reasonable approach  
23 for determining the transition adjustment.

1   **Q.     Why is the use of GRID to determine the transition adjustment**  
2   **unreasonable?**

3   A.           As I stated above, the Ongoing Valuation approach articulated in the OAR  
4               requires a valuation based on market prices, whereas PacifiCorp's use of the  
5               GRID model produces a blend of thermal costs and market prices. Thus, the  
6               GRID approach does not adhere to the straightforward objective set out in the  
7               OAR. Whereas prior compromises produced transition adjustments that were  
8               tenuously workable, elimination of the market cap relaxation provision undoes  
9               this carefully negotiated balance, and renders the GRID-based approach too  
10              biased to produce reasonable results on a going-forward basis.

11   **Q.     Can you demonstrate the negative bias against shopping customers inherent**  
12   **in the GRID calculation of the transition adjustment in its current form?**

13   A.           Yes. In Confidential Exhibit Noble Solutions 101, I compare the value of  
14               energy freed-up by direct access produced by PacifiCorp's GRID calculation with  
15               the Company's own projection of market prices at Mid-C and COB for 2014.  
16               This comparison is based on the Company's sample Schedule 294 filed in this  
17               case. As shown in the Confidential exhibit, the value assigned by PacifiCorp to  
18               energy freed-up by direct access is significantly less than a 50/50 blending of  
19               Mid-C and COB prices during heavy load hours (HLH) for every month of the  
20               year. For light load hours (LLH), the monthly results are mixed. Taking HLH  
21               and LLH together, the value assigned by PacifiCorp to energy freed-up by direct  
22               access is about \$2/MWH less than market prices over the full year.

1   **Q.     Why do these results represent a negative value proposition for direct access**  
2   **customers?**

3   A.           The Mid-C and COB prices are indicative of the market prices that the  
4   ESSs who supply direct access customers must pay for power. The value  
5   assigned by PacifiCorp to energy freed-up by direct access represents the credit  
6   against the cost-of-service rate that the Company recognizes in the transition  
7   adjustment. If this value is less than the market price that shopping customers  
8   actually pay for power, it results in a negative value proposition for these  
9   customers. The bigger the difference, the worse the value proposition becomes.

10           In Confidential Exhibit Noble Solutions 102, I calculate the Schedule 294  
11   transition adjustment using a 50/50 blend of Mid-C and COB monthly pricing for  
12   both HLH and LLH. In Tables KCH-1, KCH-2, and KCH-3, below, I compare  
13   these transition adjustment results to two alternative cases: (1) the transition  
14   adjustment calculated by PacifiCorp using the GRID methodology and (2) the  
15   transition adjustment using the GRID methodology, but relaxing the market caps  
16   per the pre-UE-245 settlement agreements. The differences between these GRID-  
17   based transition adjustments and the transition adjustment calculated using a  
18   50/50 blend of Mid-C and COB market pricing is then presented in Table KCH-4.

**Table KCH-1**

| Schedule 294 Transition Adjustment<br>using 50/50 blend of Mid-C and COB |                  |               |                |               |
|--|------------------|---------------|----------------|---------------|
|  | 30/730 Secondary |               | 48/748 Primary |               |
|  | HLH              | LLH           | HLH            | LLH           |
| Jan-14   | -1.624           | -0.918        | -1.782         | -1.076        |
| Feb-14   | -1.378           | -0.645        | -1.535         | -0.803        |
| Mar-14   | -1.009           | -0.372        | -1.166         | -0.530        |
| Apr-14   | -1.023           | 0.576         | -1.181         | 0.419         |
| May-14   | -0.453           | 1.329         | -0.611         | 1.171         |
| Jun-14   | -0.296           | 1.330         | -0.454         | 1.172         |
| Jul-14   | -1.766           | 0.217         | -1.924         | 0.059         |
| Aug-14   | -2.301           | -0.664        | -2.458         | -0.822        |
| Sep-14   | -2.172           | -1.040        | -2.329         | -1.197        |
| Oct-14   | -1.521           | -1.048        | -1.679         | -1.206        |
| Nov-14   | -1.865           | -1.107        | -2.022         | -1.265        |
| Dec-14   | <u>-2.213</u>    | <u>-1.286</u> | <u>-2.371</u>  | <u>-1.443</u> |
| Average  | -1.468           | -0.302        | -1.626         | -0.460        |
| % of hours   | 56.07%           | 43.93%        | 56.07%         | 43.93%        |
| Wtd. Avg.  | -0.956           |               | -1.114         |               |

Source: Noble Americas Confidential Exhibit 102

**Table KCH-2**

| Schedule 294 Transition Adjustment<br>using GRID Methodology |                  |               |                |               |
|--|------------------|---------------|----------------|---------------|
|  | 30/730 Secondary |               | 48/748 Primary |               |
|  | HLH              | LLH           | HLH            | LLH           |
| Jan-14   | -0.909           | -0.540        | -1.023         | -0.679        |
| Feb-14   | -0.919           | -0.738        | -1.084         | -0.894        |
| Mar-14   | -0.742           | -0.552        | -0.899         | -0.698        |
| Apr-14   | -0.148           | -0.056        | -0.307         | -0.186        |
| May-14   | -0.130           | 0.283         | -0.274         | 0.127         |
| Jun-14   | 0.088            | 0.340         | -0.064         | 0.130         |
| Jul-14   | -0.877           | -0.453        | -1.055         | -0.562        |
| Aug-14   | -1.898           | -1.034        | -2.037         | -1.107        |
| Sep-14   | -1.768           | -0.912        | -1.931         | -1.017        |
| Oct-14   | -1.288           | -0.806        | -1.442         | -0.940        |
| Nov-14   | -1.361           | -0.982        | -1.509         | -1.125        |
| Dec-14   | <u>-1.437</u>    | <u>-0.753</u> | <u>-1.582</u>  | <u>-0.909</u> |
| Average  | -0.949           | -0.517        | -1.101         | -0.655        |
| % of hours   | 56.07%           | 43.93%        | 56.07%         | 43.93%        |
| Wtd. Avg.  | -0.759           |               | -0.905         |               |

Source: PacifiCorp 15-M1 - ORTAM14w\_Transition Adjustment Summary

**Table KCH-3**

| Schedule 294 Transition Adjustments with Relaxed COB/Mid-C<br>Market Caps Using GRID Methodology |                  |        |                |        |
|--|------------------|--------|----------------|--------|
|  | 30/730 Secondary |        | 48/748 Primary |        |
|  | HLH              | LLH    | HLH            | LLH    |
| Jan-14   | -1.176           | -1.053 | -1.349         | -1.202 |
| Feb-14   | -1.058           | -1.048 | -1.252         | -1.197 |
| Mar-14   | -0.776           | -0.632 | -0.934         | -0.770 |
| Apr-14   | -0.476           | -0.725 | -0.646         | -0.741 |
| May-14   | -0.152           | 0.226  | -0.298         | 0.080  |
| Jun-14   | 0.092            | 0.270  | -0.060         | 0.075  |
| Jul-14   | -0.959           | -0.787 | -1.133         | -0.826 |
| Aug-14   | -1.925           | -1.418 | -2.059         | -1.401 |
| Sep-14   | -1.893           | -1.420 | -2.077         | -1.482 |
| Oct-14   | -1.483           | -1.273 | -1.647         | -1.341 |
| Nov-14   | -1.604           | -1.473 | -1.795         | -1.628 |
| Dec-14   | -1.831           | -1.579 | -2.099         | -1.790 |
| Average  | -1.103           | -0.909 | -1.279         | -1.019 |
| % of hours   | 56.07%           | 43.93% | 56.07%         | 43.93% |
| Wtd. Avg.  | -1.018           |        | -1.165         |        |

Source: Confidential KCH Workpapers

**Table KCH-4**

**Comparison of Alternative Transition Adjustment Calculations**

| Transition Adjustment Calculation                 | 30/730 Secondary | 48/748 Primary |
|---|------------------|----------------|
| 50/50 Blend of Mid-C and COB Market               | -0.956           | -1.114         |
| GRID Methodology                                  | -0.759           | -0.905         |
| Difference from Mid-C / COB transition adj. calc. | <b>0.197</b>     | <b>0.209</b>   |
| COB/Mid-C Relaxed Market Caps                     | -1.018           | -1.165         |
| Difference from Mid-C / COB transition adj. calc. | <b>-0.062</b>    | <b>-0.051</b>  |

Source: Tables KCH-1 thru KCH-3

- 1 As shown by comparing Tables KCH-1 and KCH-2, PacifiCorp's current
- 2 GRID calculation produces a transition adjustment credit that is about 5 mills per
- 3 kWh less than the transition adjustment credit calculated using Mid-C and COB
- 4 pricing during HLH over the course of the year. For HLH and LLH combined,
- 5 this difference shrinks to about 2 mills per kWh over the course of the year, as



1 shown in Table KCH-4, but is still material. For a 10 MW customer with a 65  
2 percent load factor, this differential is worth over \$100,000 per year.<sup>6</sup> That is, the  
3 sum of the transition adjustment and COB/Mid-C market prices for this direct  
4 access customer would cost over \$100,000 more per than cost-of-service rates.  
5 This differential is even greater if the customer uses relatively more power during  
6 HLH than LLH. (In addition, recall that a direct access customer also pays for  
7 PacifiCorp's fixed generation costs via Schedule 200.) I believe this barrier  
8 created in the transition adjustment calculation is simply too great to be  
9 reasonably overcome for most customers interested in a shopping transaction, and  
10 would help assure the failure of the PacifiCorp program to implement Oregon's  
11 direct access statutes in viable manner. In contrast, the transition adjustment  
12 credit calculated using the GRID methodology, but relaxing the market caps,  
13 produces more reasonable results, as it is well within 1 mill per kWh of the  
14 transition adjustment credit calculated using Mid-C and COB pricing.

15 **Q. Besides producing biased results, are there other reasons to abandon the use**  
16 **of GRID for calculating the transition adjustment?**

17 A. Yes. The GRID-based approach is very sensitive to modeling  
18 assumptions, resulting in needless complexity and controversy. It is not necessary  
19 to use this model to conduct the straightforward exercise of projecting market  
20 prices to perform Ongoing Valuation in compliance with OAR.

21 The recent disagreement over the treatment of market caps is a case in  
22 point. This modeling adjustment is directed to the calculation of net power costs

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<sup>6</sup>Calculation:  $-(1.114-0.905)/100 \times 10 \text{ MW} \times 8760 \times 65\% = \$118,943$ .

1 charged to cost-of-service customers. Yet it spills over to impact materially the  
2 calculation of the transition adjustment. Addressing the disagreement required a  
3 detailed examination of the minutiae behind PacifiCorp's modeling assumptions  
4 in the context of the hypothetical exercise posited to derive the transition  
5 adjustment. This approach is far more cumbersome and contentious than simply  
6 measuring market prices directly to fulfill the requirements of Ongoing Valuation  
7 in the OAR.

8           Importantly, too, the GRID approach suffers from a lack of transparency.  
9 This is evident in the recent history of the transition adjustment, in which  
10 PacifiCorp changed important modeling assumptions without providing notice to  
11 the parties or the Commission in its direct filing. A fair and reasonable process  
12 should not require that intervenors cull the details of workpapers in order to  
13 determine that major modeling assumptions have been changed from prior years.  
14 Unannounced changes are easier to implement stealthily in a complex model such  
15 as GRID than in a more straightforward calculation of market price. Given that  
16 PacifiCorp has already demonstrated a willingness to deploy unannounced  
17 modeling changes, I have little reason to believe that the continued use of GRID  
18 for calculating the transition adjustment would meet a reasonable standard of  
19 transparency on a forward-going basis.

20 **Q. Is there a precedent in Oregon for projecting market prices directly in the**  
21 **calculation of the transition adjustment rather than running the analysis**  
22 **through a complex net power cost model?**

1 A. Yes. That is exactly the approach used by PGE in determining its  
2 transition adjustment. I regularly review PGE's transition adjustment calculation  
3 for Noble Solutions and have found no problems with it over the years. PGE's  
4 approach is straightforward and produces a reasonable, unbiased transition  
5 adjustment that is consistent with the intent of the Ongoing Valuation approach.  
6 Not surprisingly, PGE's direct access program has had some modicum of success,  
7 particularly in combination with its five-year opt-out program. There is no good  
8 reason why the PacifiCorp transition adjustment cannot be calculated in a similar  
9 manner. The GRID approach has been tried for eight years. It has failed to  
10 produce reasonable results on a sustainable basis.

11 **Q. What alternative to the use of the GRID model for calculating the transition**  
12 **adjustment do you recommend?**

13 A. I recommend that projected market prices be calculated directly based on  
14 the utility's forward price curve used for projecting its net power costs, just as  
15 PGE does it. This value should then be adjusted for line losses measured at retail  
16 delivery, as in the current calculation. For purposes of this case, I have performed  
17 this calculation using PacifiCorp's forward prices for Mid-C and COB using a  
18 50/50 blend. I recommend that this approach be used in this case rather than the  
19 GRID-based approach.

20 **Q. Why did you use a 50/50 blend of COB and Mid-C prices to project market**  
21 **prices?**

22 A. COB and Mid-C are both major trading hubs in the Northwest in which  
23 PacifiCorp is very active. In its net power cost projection for 2014, PacifiCorp

1 makes more balancing sales at COB than at Mid-C, whereas the reverse is true for  
2 balancing purchases. In the current GRID calculation, a 50/50 COB and Mid-C  
3 blend is used for the market weighting portion of thermal generation that is  
4 backed down. For purposes of this case, I believe a similar blending produces a  
5 reasonable representation of market prices.

6           Going forward, the Commission may wish to open an investigatory docket  
7 for the purpose of inviting input from parties regarding the best mix of hub  
8 pricing for this purpose.

9 **Q. Please summarize your recommended changes for calculating the Schedule**  
10 **294 and 295 transition adjustments.**

11 A.           I recommend that the Commission require PacifiCorp to calculate the  
12 Schedule 294 and 295 transition adjustments using the value of energy freed up  
13 by direct access as measured directly from the Company's projection of market  
14 prices at the COB and Mid-C trading hubs rather than through the GRID-based  
15 analysis the Company currently performs. For purposes of this case, I have  
16 performed this calculation using PacifiCorp's forward prices for Mid-C and COB  
17 using a 50/50 blend. I recommend that this approach be used in this case rather  
18 than the GRID-based approach. Going forward, the Commission may wish to  
19 open an investigatory docket for the purpose of inviting input from parties  
20 regarding the best mix of hub pricing for this purpose.

21           For direct access to be offered under reasonable terms in the PacifiCorp  
22 service territory, and to become viable there, this change should be adopted in  
23 tandem with the recognition of a reasonable credit for BPA Point-to-Point

1 (“PTP”) transmission (discussed below) and the development of a workable five-  
2 year opt-out program, currently being investigated in UE-267.

3

4 **BPA Transmission Credit**

5 **Q. In your opinion, what is the basis for recognizing a BPA PTP transmission**  
6 **credit?**

7 A. Recognition of a BPA PTP transmission credit is necessary to address a  
8 structural impediment to the pricing of direct access service associated with the  
9 need for an ESS to obtain wheeling from BPA to reach the PacifiCorp service  
10 territory from the Mid-C trading hub. This impediment is reasonably mitigated if  
11 the calculation of the Schedule 294 and 295 transition adjustments are adjusted to  
12 recognize that the direct access load “frees up” BPA transmission capacity that  
13 can then be resold to an ESS to reach PacifiCorp’s load.

14 As I discussed above, the transition adjustment is calculated by assuming  
15 25 MW of incremental direct access load. In the mechanics of this calculation it  
16 is reasonable to recognize that the ESSs serving this load will require 25 MW of  
17 BPA transmission, and that PacifiCorp, which in the transition adjustment  
18 analysis is assumed to experience a load reduction of 25 MW, will have the  
19 opportunity to sell to the ESSs the 25 MW of BPA transmission needed to meet  
20 this demand. Irrespective of whether PacifiCorp ultimately chooses to liquidate  
21 the BPA transmission capacity, the Company has the opportunity to resell this  
22 asset in proportion to the amount of load that elects retail choice.

1 A BPA transmission credit based on this concept has been included in the  
2 calculation of transition adjustments for the PGE service territory for a number of  
3 years.

4 **Q. Has a BPA credit been included in previous TAMs?**

5 A. Yes. The Stipulation in UE-216, approved in Order No. 10-363, provided  
6 for a BPA transmission credit for Schedule 747 and 748 (direct access) customers  
7 of \$(0.50)/MWH to reflect the potential value associated with reselling BPA Point  
8 to Point (“PTP”) wheeling rights from Mid-C to the Company’s Oregon Service  
9 territory that are freed up as a result of customers choosing direct access.

10 The Stipulation in UE-227, approved in Order No. 11-435, increased the  
11 BPA transmission credit to \$(0.75)/MWH, pursuant to Section 14 of the  
12 Stipulation, which states:

13 14. Bonneville Power Administration (BPA) Transmission Credit for  
14 Direct Access. PacifiCorp agrees to increase the Schedule 294 transition  
15 adjustment by \$(0.75)/MWh for the 2012 TAM for Schedule 747 and 748  
16 customers to reflect the potential value associated with reselling BPA  
17 Point-to-Point wheeling rights from Mid-C to the Company's Oregon  
18 service territory that are freed-up as a result of customers choosing direct  
19 access. Nothing in this agreement obligates PacifiCorp to sell any  
20 transmission rights to an electricity service supplier.

21 **Q. Was a BPA credit included in the most recent TAM, UE-245?**

22 A. No. In UE-245, PacifiCorp did not propose to continue the BPA credit,  
23 nor did the Commission require the Company to do so. In its Order, the  
24 Commission stated that “compelling evidence was not presented that Pacific  
25 Power is able to resell BPA transmission rights due to direct access.”<sup>7</sup>

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<sup>7</sup> OPUC Order No. 12-409 at 17.

1 **Q. Is PacifiCorp permitted to resell a portion of its BPA transmission due to**  
2 **direct access?**

3 A. Yes, the Company is permitted to resell PTP service. According to  
4 PacifiCorp's Response to Noble Solutions Data Request 3, which I have attached  
5 as Noble Solutions Exhibit 103, PacifiCorp owns 606 MW of long-term PTP BPA  
6 transmission from Mid-Columbia. PacifiCorp's Response to Noble Solutions  
7 Data Request 5, which I have attached as Noble Solutions Exhibit 104, clearly  
8 states, in relevant part:

9 PacifiCorp Point-to-Point (PTP) rights with the Bonneville Power Administration  
10 (BPA) under BPA's Open Access Transmission Tariff (OATT) include re-sale  
11 provisions; therefore re-sale of PacifiCorp PTP service from Mid-Columbia  
12 would not be precluded.

13 There is no dispute that PacifiCorp is permitted to resell its PTP service.

14 In UE-245, PacifiCorp witness Gregory Duvall opposed extending the  
15 BPA transmission credit and argued that PTP rights "can be sold only if it can be  
16 freed up, which is not likely. Because customers that elect direct access retain the  
17 right to return to cost of service rate schedules, the Company must continue to  
18 plan for these customers and therefore must retain transmission rights to carry out  
19 this obligation."<sup>8</sup> Mr. Duvall's argument sidesteps the obvious option of re-  
20 selling the transmission rights only for the time period for which direct access  
21 customers have departed. Indeed, it is plausible for the transmission rights to be  
22 resold to the very ESSs that are serving that departed load. Mr. Duvall's  
23 argument is misplaced and should be dismissed.

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<sup>8</sup> UE-245 reply testimony of Gregory N. Duvall, PAC/300, Duvall/35.

1           Whether PacifiCorp would *choose* to sell the transmission rights is another  
2           matter. Indeed, PacifiCorp might wish to hold on to this transmission for its own  
3           business purposes. PacifiCorp may also use the freed-up PTP transmission to  
4           defer the need to purchase new BPA PTP transmission rights. For example, the  
5           Stipulation in UE-227 clearly provided that nothing in the agreement obligated  
6           PacifiCorp to sell any transmission rights to an electricity service supplier. If, for  
7           some reason, PacifiCorp would prefer to hold on to BPA PTP transmission rather  
8           than resell it when direct access makes it available, this election by the Company  
9           should not be used as a pretext for denying direct access customers a reasonable  
10          credit for its resale value.

11   **Q.     How should a BPA transmission credit be valued?**

12   A.           PacifiCorp's PTP service on BPA is currently billed at the PTP-12 long-  
13          term firm rate of \$1.298/kW-month. At a 100 percent load factor, this rate is  
14          equivalent to \$1.778/MWH. I note that Oregon's retail load factor is no greater  
15          than 64 percent on an annual basis. Applying this load factor to this rate produces  
16          an average rate of \$2.778/MWH.

17   **Q.     What is your recommendation to the Commission on this issue?**

18   A.           I recommend that the Schedule 294 and 295 transition adjustment  
19          calculations be modified to include a credit for the resale of BPA transmission of  
20          \$(1.422)/MWH. Even at \$(1.422)/MWH, the valuation is conservative because it  
21          is calculated using 80 percent of the PTP rate at a 100 percent load factor, the  
22          latter representing the minimum per-MWH valuation for a product that is  
23          originally priced on a per kW-month basis. This credit is also only about half of



1 the BPA PTP rate when measured on an average load factor basis. Moreover, the  
2 PTP rate corresponds to a product that PacifiCorp is free to resell when customers  
3 move to direct access. This change would mitigate the structural impediment to  
4 the pricing of direct access service by treating the BPA wheeling costs on a  
5 comparable basis for direct access and cost-of-service customers.

6 **Q. Had the issue of a BPA transmission credit been addressed by the**  
7 **Commission prior to UE-216 in the context of the PacifiCorp TAM?**

8 A. Yes. In Order No. 04-516, issued in UM-1081, proposals by parties to  
9 recognize a BPA transmission credit were not adopted by the Commission. At  
10 that time (2004), PacifiCorp was contractually precluded from reselling its BPA  
11 wheeling rights, and the Commission determined that not recognizing a BPA  
12 transmission credit was consistent with the Company's anticipated operational  
13 responses to direct access.<sup>9</sup>

14 At the same time, however, the Commission left the door open to later  
15 revisions, stating that:

16 We agree with parties that further revisions may be necessary to implement an  
17 accurate and equitable transition adjustment in the long run. We are hopeful,  
18 however, that interim transition adjustment revisions will stimulate participation  
19 in direct access in PacifiCorp's service territory in the short term and thereby  
20 inform the design of further improvements.<sup>10</sup>

21 **Q. Has participation in direct access in PacifiCorp's service territory been**  
22 **stimulated as hoped for in the Order?**

23 A. Not to a significant extent. Participation has improved compared to the  
24 complete absence of direct access activity that existed in 2004, but it is still very

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<sup>9</sup> OPUC Order No. 04-516 at 9-12.

<sup>10</sup> Id. at 1.

1 small relative to the participation levels in the PGE service territory. For  
2 example, according to the Oregon Electric Industry Restructuring Status Report  
3 (prepared by the Commission's Electric Rates and Planning section) dated July  
4 2012, only 1.4% of eligible customer load in the PacifiCorp service territory was  
5 participating in direct access service compared to 10.7% participation in the  
6 Portland General service territory. (See Noble Solutions Exhibit 105.) While I do  
7 not contend that the small size of the BPA transmission credit is solely  
8 responsible for the extremely low level of direct access activity in the PacifiCorp  
9 service territory, the low participation level indicates that maintaining the barriers  
10 to participation by ignoring the need for a BPA transmission credit is  
11 unreasonable.

12 **Q. Why is it appropriate to revisit the issue of a BPA transmission credit at this**  
13 **time?**

14 A. The facts are different today than in 2004 with respect to PacifiCorp's  
15 ability to resell BPA wheeling rights. In 2004, PacifiCorp was contractually  
16 precluded from reselling its BPA wheeling rights; as I discussed above, that is no  
17 longer the case. PacifiCorp's ability to resell its BPA wheeling rights now makes  
18 it is reasonable to assume that an ESS can reach its PacifiCorp customer load  
19 from Mid-C by purchasing transmission capacity from PacifiCorp that is freed up  
20 by direct access. Recognizing the value of this freed-up transmission as a credit  
21 in the Schedule 294 and 295 transition adjustment calculation is a reasonable  
22 means to address the continued impediments to direct access service in the  
23 PacifiCorp service territory.

1

2 **Other Changes to Tariff Language**

3 **Q. Do you have any other recommended changes to the PacifiCorp tariff?**

4 A. Yes. The rates in Schedules 294 and 295 are differentiated by HLH and  
5 LLH; however, these hours are not actually defined in the rate schedules. This  
6 oversight should be corrected.

7

8 **Franchise Fees**

9 **Q. What recommendations do you have regarding franchise fees?**

10 A. In its Order issued in UM-1587, the Commission required PacifiCorp (and  
11 PGE) to address the disincentive to direct access created by current franchise fee  
12 recovery by unbundling all franchise fees collected by each utility and recovering  
13 those costs through a variable charge that is avoided by a direct access customer.  
14 PacifiCorp was directed to work with interested parties to calculate the  
15 appropriate franchise fee rate element in its next general rate case.

16 PacifiCorp has made a proposal in this regard in its general rate case filing  
17 in UE-263. However, the Company's filing in this case fails to recognize a  
18 franchise fee credit or charge applicable to Schedule 294 or 295. This oversight  
19 should be corrected. One means to implement such a credit or charge is to apply  
20 it in the transition adjustment calculation itself. If such an approach is adopted, it  
21 would be relevant to this proceeding, and as such, I am providing notice of this  
22 issue in this docket. I will address this issue more comprehensively in my  
23 forthcoming testimony in UE-263.

1    **Q.**     **Does this conclude your reply testimony?**

2    A.           Yes, it does.

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

|   |   |                          |
|---|---|--------------------------|
| <b>In the Matter of PacifiCorp, dba</b> | ) |                          |
| <b>Pacific Power</b>                    | ) | <b>Docket No. UE 264</b> |
| <b>2014 Transition Adjustment</b>       | ) |                          |
| <b>Mechanism</b>                        | ) |                          |

**Noble Americas Energy Solutions LLC**

**Redacted Exhibit 101**

**Value of Energy Freed-Up From Direct Access:**

**GRID vs Market Pricing**

**June 4, 2013**

**Noble Solutions Exhibit 101**

**contains confidential material and has been redacted**

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

|   |   |                          |
|---|---|--------------------------|
| <b>In the Matter of PacifiCorp, dba</b> | ) |                          |
| <b>Pacific Power</b>                    | ) | <b>Docket No. UE 264</b> |
| <b>2014 Transition Adjustment</b>       | ) |                          |
| <b>Mechanism</b>                        | ) |                          |

**Noble Americas Energy Solutions LLC**

**Redacted Exhibit 102**

**Derivation of Sample Schedule 294 Transition Adjustment  
Using Market Pricing**

**June 4, 2013**

**Noble Solutions Exhibit 102**

**contains confidential material and has been redacted**



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

|   |   |                          |
|---|---|--------------------------|
| <b>In the Matter of PacifiCorp, dba</b> | ) |                          |
| <b>Pacific Power</b>                    | ) | <b>Docket No. UE 264</b> |
| <b>2014 Transition Adjustment</b>       | ) |                          |
| <b>Mechanism</b>                        | ) |                          |

**Noble Americas Energy Solutions LLC**

**Exhibit 103**

**PacifiCorp's Response to Noble Americas Energy**

**Solutions LLC's Data Request 3**

**June 4, 2013**

### NAES Data Request 3

When PacifiCorp purchases power from Mid Columbia to serve its retail load please:

- (a) identify the amount of capacity wheeled by BPA from Mid-Columbia on PacifiCorp's behalf;
- (b) fully explain the wheeling arrangement(s);
- (c) identify the rate(s) charged for wheeling; and
- (d) provide a copy of the wheeling contract(s), if applicable.

### Response to NAES Data Request 3

- (a) PacifiCorp has the following long-term firm wheeling arrangements with Bonneville Power Administration (BPA) from Mid-Columbia:

| Reserved Capacity | Point of Delivery | Service    | Reservation |
|-------------------|-------------------|------------|-------------|
| 1 MW              | Rock Creek        | Yearly PTP | 76970392    |
| 10 MW             | PACW (Troutdale)  | Yearly PTP | 75387944    |
| 75 MW             | PACW (Foster)     | Yearly PTP | 75387943    |
| 6 MW              | Chehalis          | Yearly PTP | 74754673    |
| 85 MW             | PACW (Outlook)    | Yearly PTP | 73518383    |
| 144 MW            | PACW (Midway)     | Yearly PTP | 73518379    |
| 100 MW            | PACW (Reston)     | Yearly PTP | 73359327    |
| 85 MW             | PACW (Yamsay)     | Yearly PTP | 73359325    |
| 100 MW            | PACW (Troutdale)  | Yearly PTP | 73359321    |
| 17 MW             | Albany            | Yearly NT  | 73433929    |
| 54 MW             | Yakima            | Yearly NT  | 73433679    |
| 87 MW             | Santiam           | Yearly NT  | 73433646    |
| 87 MW             | Pendleton         | Yearly NT  | 73433614    |
| 8 MW              | Demoss            | Yearly NT  | 73433530    |
| 104 MW            | Salem             | Yearly NT  | 73433488    |
| 138 MW            | Coos              | Yearly NT  | 73433462    |
| 2 MW              | Bandon            | Yearly NT  | 73433278    |

- (b) Wheeling arrangements are BPA Open Access Transmission Tariff (OATT) services, either Point-to-Point (PTP) service or Network Integration Transmission (NT) service.
- (c) Rates charged are based upon the effective version of BPA tariff for PTP and NT service. Current BPA tariff rates for PTP and NT service effective October 1, 2011, are available at <http://transmission.bpa.gov/business/Rates/>
- (d) Please refer to Attachment NAES 3.

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

|   |   |                          |
|---|---|--------------------------|
| <b>In the Matter of PacifiCorp, dba</b> | ) |                          |
| <b>Pacific Power</b>                    | ) | <b>Docket No. UE 264</b> |
| <b>2014 Transition Adjustment</b>       | ) |                          |
| <b>Mechanism</b>                        | ) |                          |

**Noble Americas Energy Solutions LLC**

**Exhibit 104**

**PacifiCorp's Response to Noble Americas Energy**

**Solutions LLC's Data Request 5**

**June 4, 2013**

**NAES Data Request 5**

Please confirm that the re-sale of PacifiCorp wheeling rights on the BPA system from Mid-Columbia and COB is not contractually precluded. If incorrect, please provide a detailed explanation of any prohibitions on such re-sales.

**Response to NAES Data Request 5**

The statement is incorrect. PacifiCorp Point-to-Point (PTP) rights with the Bonneville Power Administration (BPA) under BPA's Open Access Transmission Tariff (OATT) include re-sale provisions; therefore, re-sale of PacifiCorp PTP service from Mid-Columbia would not be precluded. BPA OATT Network Integration Transmission (NT) service prohibits direct or indirect provision of transmission service by the Network Customer to third parties; therefore, re-sale of PacifiCorp NT service from Mid-Columbia would be precluded. PacifiCorp's AC Intertie Transmission Agreement for COB, DE-MS79-94BP94285, does not include any re-sale provisions since that is an OATT concept introduced after this agreement was executed; therefore, whether or not re-sales are contractually precluded has not been established.

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

|   |   |                          |
|---|---|--------------------------|
| <b>In the Matter of PacifiCorp, dba</b> | ) |                          |
| <b>Pacific Power</b>                    | ) | <b>Docket No. UE 264</b> |
| <b>2014 Transition Adjustment</b>       | ) |                          |
| <b>Mechanism</b>                        | ) |                          |

**Noble Americas Energy Solutions LLC**

**Exhibit 105**

**July 2012 Oregon Industry Restructuring Status Report**

**June 4, 2013**

## Status Report

### Oregon Electric Industry Restructuring (July, 2012)

| <b>Portfolio Options*</b> | PGE     | PP&L      |
|---------------------------|---------|-----------|
| Fixed Renewable           | 12,071  | 10,224    |
| Renewable Usage           | 70,892  | 24,945    |
| Habitat                   |         | 4,374     |
| Habitat Rider***          | 8,659   |           |
| Time-of-use               | 2,579   | 1,640     |
| Eligible Customers        | 810,608 | 555,747** |

\* Available to residential and small nonresidential customers. Customers may, in certain circumstances, choose more than one option.

\*\* As of January 1, 2012.

\*\*\* Habitat Rider is available to existing renewable customers only, and should not be included in calculation of total renewable enrollment numbers.

### Direct Access and Standard Offer Service

Certified Electricity Service Suppliers: 3

Registered Electricity Service Aggregators: 9

Nonresidential Customer Choices (based on load):

|      | Cost of<br>Service | Market<br>Options | Direct Access |
|------|--------------------|-------------------|---------------|
| PGE  | 87.8%              | 1.5%              | 10.7%         |
| PP&L | 98.4%              | 0.2%              | 1.4%          |

This report reflects prior month results.

**Produced by the Oregon Public Utility Commission  
Electric Rates and Planning  
(503) 378-6917**