

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

In the Matter of)
PacifiCorp, dba Pacific Power,) **Docket No. UE 420**
2024 Transition Adjustment)
Mechanism)

Rebuttal Testimony of Kevin C. Higgins

on behalf of

Calpine Energy Solutions, LLC

August 16, 2023

1 **REBUTTAL TESTIMONY OF KEVIN C. HIGGINS**

2 **Introduction**

3 **Q. Please state your name and business address.**

4 A. My name is Kevin C. Higgins. My business address is 111 East Broadway, Suite
5 1200, Salt Lake City, Utah, 84111.

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

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

10 **Q. Are you the same Kevin C. Higgins who pre-filed opening testimony in this**
11 **proceeding on behalf of Calpine Energy Solutions, LLC (“Calpine**
12 **Solutions”)?**

13 A. Yes.

14 **Q. What is the purpose of your rebuttal testimony?**

15 A. My rebuttal testimony responds to the Reply Testimony of PacifiCorp witness Mr.
16 Ramon J. Mitchell, regarding Mr. Mitchell’s proposal to incorporate an additional
17 day-ahead/real-time (DA/RT) price adjustment into the calculation of the
18 Schedule 294, 295, and 296 transition adjustments and the Consumer Opt-Out
19 Charge. In my opening testimony, I objected to the Company’s proposed change.
20 Mr. Mitchell’s reply testimony responds to my criticism. In my rebuttal
21 testimony, I address Mr. Mitchell’s response.

22 **Q. Please summarize your recommendations to the Commission.**

1 A. I continue to recommend that the Commission reject PacifiCorp's proposal to
2 incorporate an additional DA/RT price adjustment into the calculation of the
3 Schedule 294, 295, and 296 transition adjustments and the Consumer Opt-Out
4 Charge. At a conceptual level, the proposal is misplaced, as the DA/RT price
5 adjustment is already fully incorporated into the calculation of the Schedule 294,
6 295, and 296 transition adjustments and the Consumer Opt-Out Charge through
7 net power costs, which already includes the DA/RT price adjustment, and which
8 is a central component in the calculation of the transition adjustment. Thus, the
9 Company's new proposal is logically unnecessary.

10 Moreover, the calculation proposed by PacifiCorp for this purpose is
11 biased in that it does not reflect the full scope of the DA/RT price adjustment on
12 net power cost, but rather only the discounted DA/RT adjustments associated with
13 market sales, while ignoring the premium prices associated with market
14 purchases. If the Commission were persuaded that the market value of freed-up
15 energy needed to be subject to an additional DA/RT price adjustment, then that
16 adjustment should be fully representative of the manner in which the DA/RT price
17 adjustment is used in the determination of net power costs; that is, it should
18 incorporate market purchase premiums, and not be artificially limited solely to the
19 net discounts associated with market sales.

20
21 **Response to Mr. Mitchell**

22 **Q. By way of background, please restate the issue in contention between Calpine**
23 **Solutions and the Company.**

1 A. PacifiCorp witness Mr. Ramon J. Mitchell contends that there has been an
2 oversight in the calculation of the transition adjustment and Consumer Opt-Out
3 Charge dating back several years. Specifically, the DA/RT price adjustment that
4 was approved by the Commission for the calculation of net power costs in the
5 2016 TAM has not been previously incorporated into a particular spreadsheet
6 calculation that is used in the calculation of the transition adjustment. Mr.
7 Mitchell claims to have rectified that “oversight” in the Company’s filing in this
8 case.¹

9 In my opening testimony, I argued that the Company’s “correction” is
10 misplaced, as the DA/RT price adjustment is already fully incorporated into the
11 calculation of the Schedule 294, 295, and 296 transition adjustments and the
12 Consumer Opt-Out Charge, because a central component in the calculation of
13 these charges is net power cost, which already includes the DA/RT price
14 adjustment. Thus, the Company’s new proposal is logically unnecessary.

15 Further, I argued that the calculation proposed by PacifiCorp for this
16 purpose is biased because PacifiCorp selectively limited the DA/RT adjustments
17 solely to the net discounted prices associated with market sales, while ignoring
18 the premium prices associated with market purchases.

19 **Q. What is Mr. Mitchell’s response to your criticism?**

20 A. Mr. Mitchell admits that in performing its “correction,” PacifiCorp selectively
21 limited the DA/RT adjustments solely to the net discounted prices associated with
22 market sales and ignored the premium prices associated with market purchases,

¹ PAC/100, Mitchell/42-45.

1 validating the claim I made in my opening testimony. But Mr. Mitchell defends
2 his choice by asserting that the item being evaluated, changes in the output of the
3 Company's generation fleet attributable to direct access, can only be valued using
4 the DA/RT *sales* price adjustment.²

5 **Q. What is your response to Mr. Mitchell's explanation?**

6 A. I continue to disagree with Mr. Mitchell. For further understanding, it is useful to
7 go back to the initial adoption of the calculation that Mr. Mitchell is proposing to
8 modify. The calculation being modified was adopted in UE-199 (2009 TAM)
9 and it was the product of a stipulation ("UE-199 Stipulation") approved by the
10 Commission in Order 08-543.

11 Specifically, Paragraph 15 of the UE 199 Stipulation provides that:

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

21
22 The Company's proposed modification in this case impacts item (2), above, from
23 the UE-199 Stipulation.

24 **Q. Were you personally involved in negotiating the UE-199 Stipulation?**

25 A. Yes, I participated in the settlement negotiations on behalf of Sempra Energy
26 Solutions, a predecessor to Calpine Energy Solutions. Paragraph 15 of the UE-
27 199 Stipulation was a compromise that addressed an issue I raised in my

² PAC/400, Mitchell/121-122.

1 testimony in UE-199. According to the Company’s tariff, the transition
2 adjustment is the difference between the estimated **market** value of the electricity
3 that is freed up when a customer chooses to leave Cost-Based Supply Service for
4 Direct Access versus the Company’s regulated price.³ In UE-199, I argued that
5 the avoided cost of thermal energy that was backed down as a result of direct
6 access did not fully capture the market value of freed-up energy as stated in the
7 Company’s tariff. To resolve this concern, the parties agreed to value the thermal
8 generation backed down for assumed direct access load using a weighting of two-
9 thirds market pricing and one-third the avoided cost of generation in GRID. This
10 compromise has remained in place since the 2009 TAM.

11 **Q. Do the market prices used in item (2) of paragraph 15 of the UE-199**
12 **Stipulation differentiate between a sales price discount and a purchase price**
13 **premium, as occurs with the DA/RT adjustment?**

14 A. No. The UE-199 Stipulation simply refers to the California-Oregon Border
15 (“COB”) market price and the Mid-Columbia market price, with no attempt to
16 apply a sales discount or purchase premium to that price. What the parties
17 negotiated and the Commission approved was simply the “market price.” It is
18 important to bear in mind that this solution – the use of a “unitary” market price,
19 neither discounted nor escalated – was a compromise that relies on a “simple
20 monthly average.” PacifiCorp now wishes to assign specific attributes to this
21 price that are outside the scope of the original agreement. Moreover, in the

³See, for example, Schedule 294 in PacifiCorp’s tariff. Emphasis added.

1 context of UE-199, the concept of the “market price” has a dual role: it represents
2 the value to the Company of energy that is freed-up by direct access *and* it is
3 indicative of what direct access customers are reasonably expected to pay to
4 procure their power supply. Both considerations were important in reaching
5 agreement in that case.

6 PacifiCorp now seeks to reinterpret the UE-199 Stipulation by applying
7 one aspect of the DA/RT adjustment – the sales price discount – to the market
8 price calculation (as applied to modeled changes in thermal generation) in the
9 transition adjustment. The Company’s unilateral reinterpretation of a well-
10 established compromise is neither reasonable nor necessary.

11 **Q. Is the Company’s modification necessary for reflecting the impact of the**
12 **DA/RT adjustment in the transition adjustment?**

13 A. No. As I explained in my opening testimony, the transition adjustment is
14 calculated by taking the difference between PacifiCorp’s net power cost (as
15 reflected in Schedule 201) and the estimated market value of the electricity that is
16 freed up when a customer chooses direct access service.⁴ Since the DA/RT
17 adjustment is already embodied in net power cost, it is therefore already fully
18 captured in the transition adjustment, increasing the charge (or decreasing the
19 credit) to the same extent that the DA/RT adjustment increases net power cost.

⁴ 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* 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 The modification proposed by PacifiCorp is unnecessary to properly capture the
2 effects of the DA/RT on the transition adjustment.

3 **Q. Do you agree with Mr. Mitchell that the DA/RT discounts and premiums are**
4 **currently included in the transition adjustment calculation as applied to**
5 **avoided market purchases and increased market sales attributable to direct**
6 **access?**

7 A. Yes, and I have no objection to that aspect of the current calculation. My
8 objection is limited to the Company's reinterpretation of the compromise that
9 applies a simple average of market prices to two-thirds of the change in thermal
10 generation, as modeled in the transition adjustment calculation. This element of
11 the calculation is based on a simple average of market prices that should reflect
12 neither a discount nor a premium.

13 **Q. Does this conclude your rebuttal testimony?**

14 A. Yes, it does.