

**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)

Opening Testimony and Exhibit of Kevin C. Higgins

on behalf of

Calpine Energy Solutions, LLC

June 23, 2023

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

2

3 **Introduction**

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

5 A. My name is Kevin C. Higgins. My business address is 111 East Broadway, Suite
6 1200, Salt Lake City, Utah, 84111.

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

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

11 **Q. On whose behalf are you testifying in this phase of the proceeding?**

12 A. My testimony is being sponsored by Calpine Energy Solutions, LLC (“Calpine
13 Solutions”). Calpine Solutions is a retail energy supplier that serves commercial
14 and industrial end-use customers in 18 states, the District of Columbia, and Baja
15 California, Mexico. Calpine Solutions serves more than 15,000 retail customer
16 sites nationwide, with an aggregate load in excess of 4,500 MW. Calpine
17 Solutions’ retail customers are located in the service territories of more than 55
18 utilities. In Oregon, Calpine Solutions is an Electricity Service Supplier (“ESS”)
19 serving customers in the service territories of PacifiCorp and Portland General
20 Electric (“PGE”).

21 **Q. Please describe your professional experience and qualifications.**

22 A. My academic background is in economics, and I have completed all coursework
23 and field examinations toward a Ph.D. in Economics at the University of Utah. In

1 addition, I have served on the adjunct faculties of both the University of Utah and
2 Westminster College, where I taught undergraduate and graduate courses in
3 economics. I joined Energy Strategies in 1995, where I assist private and public
4 sector clients in the areas of energy-related economic and policy analysis,
5 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 an economist, then assistant director, for
8 the Utah Energy Office, where I helped develop and implement state energy
9 policy. From 1991 to 1994, I was chief of staff to the chairman of the Salt Lake
10 County Commission, where I was responsible for development and
11 implementation of a broad spectrum of public policy at the local government
12 level.

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

14 A. Yes. I have testified in 35 prior proceedings in Oregon, including thirteen
15 previous PacifiCorp Transition Adjustment Mechanism (“TAM”) proceedings,
16 UE 400 (2023 TAM), UE 390 (2022 TAM), UE 375 (2021 TAM), UE 339 (2019
17 TAM), UE 323 (2018 TAM), UE 307 (2017 TAM), UE 296 (2016 TAM), UE
18 264 (2014 TAM), UE 245 (2013 TAM), UE 227 (2012 TAM), UE 216 (2011
19 TAM), UE 207 (2010 TAM), and UE 199 (2009 TAM). I have also participated
20 in eight PacifiCorp general rate cases, UE 399 (2022), UE 374 (2020); UE 263
21 (2013), UE 246 (2012), UE 210 (2009), UE 179 (2006), UE 170 (2005), and UE
22 147 (2003), as well as the PacifiCorp Five-Year Opt-Out case, UE 267 (2013).

1 In addition, I have testified in seven previous PGE general rate cases, UE
2 394 (2021), UE 335 (2018), UE 283 (2014), UE 262 (2013), UE 215 (2010), UE
3 197 (2008), and UE 180 (2006). In addition, I testified in the PGE New Load
4 Direct Access Case, UE 358 (2019); the PGE Opt-Out case, UE 236 (2012); and
5 the PGE restructuring proceeding, UE 115 (2001).

6 I also testified in the Investigation into PacifiCorp's Non-Standard
7 Avoided Cost Pricing, UM 1802 (2017); the 2017 Inter-Jurisdictional Allocation
8 proceeding, UM 1050 (2016); and Phase II of the Investigation into Qualifying
9 Facility Contracting and Pricing, UM 1610 (2015).

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

11 A. Yes. I have testified in approximately 260 proceedings on the subjects of utility
12 rates and regulatory policy before state utility regulators in Alaska, Arizona,
13 Arkansas, Florida, Georgia, Idaho, Illinois, Indiana, Kansas, Kentucky, Michigan,
14 Minnesota, Missouri, Montana, Nevada, New Mexico, New York, North
15 Carolina, Ohio, Oklahoma, Pennsylvania, South Carolina, Texas, Utah, Virginia,
16 Washington, West Virginia, and Wyoming. I have also prepared affidavits that
17 have been filed with the Federal Energy Regulatory Commission.

18

19 **Overview and Conclusions**

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

21 A. My testimony addresses the incorporation of the day-ahead/real-time (DA/RT)
22 price adjustment into the calculation of the Schedule 294, 295, and 296 transition
23 adjustments and the Consumer Opt-Out Charge as proposed by PacifiCorp.

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

2 A. The Commission should reject PacifiCorp's proposal in its entirety. At a
3 conceptual level, the proposal is misplaced, as the DA/RT price adjustment is
4 already fully incorporated into the calculation of the Schedule 294, 295, and 296
5 transition adjustments and the Consumer Opt-Out Charge. A central component
6 in the calculation of these charges is net power cost, which already includes the
7 DA/RT price adjustment. Thus, the Company's new proposal is logically
8 unnecessary.

9 Moreover, the calculation proposed by PacifiCorp for this purpose is
10 biased and without merit. Rather than reflect the full scope of the DA/RT price
11 adjustment on net power cost, PacifiCorp selectively limited the DA/RT
12 adjustments solely to the net discounted prices associated with market sales, while
13 ignoring the premium prices associated with market purchases. If the
14 Commission were persuaded that the market value of freed-up energy needed to
15 be subject to the DA/RT price adjustment, then that adjustment should be fully
16 representative of the manner in which the DA/RT price adjustment is used in the
17 determination of net power costs; that is, it should incorporate market purchase
18 premiums, and not be artificially limited solely to the net discounts associated
19 with market sales. What the Company characterizes to be a correction of an
20 "oversight" is really an attempt to include an unwarranted penalty on direct access
21 customers by increasing the transition adjustment and Consumer Opt-Out Charge
22 (or reducing the applicable credit) without any reasonable basis.

23

1 **Proposed Incorporation of the DA/RT Price Adjustment into the Transition**

2 **Adjustment and Consumer Opt-Out Charge**

3 **Q. Please describe the change in the calculation of the transition adjustment and**
4 **Consumer Opt-Out Charge proposed by PacifiCorp.**

5 A. PacifiCorp witness Mr. Ramon J. Mitchell contends that there has been an
6 oversight in the calculation of the transition adjustment and Consumer Opt-Out
7 Charge dating back several years. Specifically, the DA/RT price adjustment that
8 was approved by the Commission for the calculation of net power costs in the
9 2016 TAM has not been previously incorporated into the market price component
10 that is used in the calculation of the transition adjustment and Consumer Opt-Out
11 Charge. Mr. Mitchell claims to have rectified that “oversight” in the Company’s
12 filing in this case.¹

13 **Q. What is the role of the market price component that is used in the calculation**
14 **of the transition adjustment?**

15 A. In UE-199, the Commission approved a stipulation providing that in the
16 calculation of the transition adjustment, monthly thermal generation that is backed
17 down for assumed direct access load will be priced at the simple monthly average
18 of the California-Oregon Border (“COB”) price, the Mid-Columbia (“Mid-C”) price,
19 and the avoided cost of thermal generation as determined by GRID. This
20 calculation remains in place today. This blend of three cost components
21 constitutes the estimated market value of the electricity that is freed up when a

¹ PAC/100, Mitchell/42-45.

1 customer chooses direct access service. The COB and Mid-C market prices used
2 in this calculation are the objects of Mr. Mitchell's proposed modification.

3 **Q. What is the role of the "market value of freed-up electricity" in the**
4 **calculation of the transition adjustment?**

5 A. PacifiCorp's transition adjustment charges (or credits) direct access customers the
6 difference between PacifiCorp's net power cost (as reflected in Schedule 201) and
7 the estimated market value of the electricity that is freed up when a customer
8 chooses direct access service.² This is calculated by subtracting the former from
9 the latter, after adjusting the latter for line losses to reflect its value at the point of
10 retail delivery. If the result is a positive number, the difference is applied as a
11 credit to the direct access customer. If the result is a negative number, the
12 difference is applied as a charge to the direct access customer.

13 **Q. Is Mr. Mitchell correct in asserting that the calculations of the transition**
14 **adjustment in recent years have failed to take into account the DA/RT price**
15 **adjustment?**

16 A. No. As I described above, an integral component in the calculation of the
17 transition adjustment (as well as the Consumer Opt-Out Charge) is net power
18 cost, as reflected in Schedule 201. Thus, to the extent that net power cost is
19 modified by the DA/RT price adjustment, the DA/RT price adjustment is already
20 fully reflected in the transition adjustment. Indeed, to the extent that the DA/RT

² 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 increases net power cost, it also acts to increase the transition adjustment charge
2 to direct access customers (or reduce the credit) dollar for dollar on a per-MWh
3 basis. Therefore, it is unnecessary – indeed it is redundant – to introduce the
4 modification to the transition adjustment calculation proposed by Mr. Mitchell.

5 **Q. Have you had an opportunity to review how PacifiCorp applied the DA/RT**
6 **price adjustment to the calculation of the sample transition adjustment in**
7 **this case?**

8 A. Yes. PacifiCorp explained in discovery how to sort through the calculations in its
9 confidential workpapers to ascertain how the DA/RT price adjustment to the
10 transition adjustment was applied.³

11 **Q. Do you have any observations on how PacifiCorp applied the DA/RT price**
12 **adjustment to the calculation of the sample transition adjustment in this**
13 **case?**

14 A. Yes. Putting aside the fact that the modification proposed by the Company in the
15 case is logically unnecessary, the actual calculations performed by the Company
16 are biased and unreasonable. Therefore, if the Commission were persuaded that
17 the market value of freed-up energy needed to be subject to the DA/RT price
18 adjustment, the calculation as proposed by PacifiCorp is wholly inappropriate and
19 should be rejected.

20 **Q. Please explain.**

21 A. Generally, the DA/RT price adjustment applies a premium to Company's day-
22 ahead and real-time market purchases relative to an indicated market price and it

³ PacifiCorp Response to Calpine Solutions 1.2, which is provided in Exhibit Calpine Solutions/101.

1 applies a discount to the Company's market sales relative to the indicated price.⁴

2 On the whole, this combination serves to increase net power costs to customers.

3 With that in mind, one would expect that the application of the DA/RT price
4 adjustment to the transition adjustment and Consumer Opt-Out Charge would be
5 performed in a way that is representative of how the DA/RT price adjustment is
6 used in the determination of net power costs. But that is not the case. Instead,
7 the Company applied only the DA/RT *sales adjustments* to the market price used
8 in determining the market value of freed-up energy, and excluded the purchase
9 adjustments, thus reflecting a net discount to the market price. In doing so,
10 PacifiCorp did *not* mirror the DA/RT price adjustment used in determining net
11 power cost as one might expect based on Mr. Mitchell's testimony, but rather
12 cherry-picked only those DA/RT price adjustments that were certain to increase
13 the transition adjustment charge and Consumer Opt-Out Charge (or decrease the
14 credit).

15 **Q. Does PacifiCorp explain why the Company applied only the net discounted**
16 **sales adjustment and did not include the premium purchase adjustment in its**
17 **modification?**

18 A. No. In fact, the Company did not even state in testimony that it was applying
19 only the sales adjustment to the market value of freed-up energy. That fact could
20 only be ascertained by poring through the formulas in the Company's workpapers.

⁴ Technically, the sales price can occur at a small premium, although it is typically at a discount. Similarly, the purchase price can occur at a discount, although it is typically at a premium. In any case, the DA/RT adjustment is structured such that the sales price is never greater than the purchase price for a comparable market and time period.

1 **Q. Is there any reasonable basis for applying only the net discounted sales**
2 **adjustment and not the premium purchase adjustment to the market price**
3 **used in determining the market value of freed-up energy?**

4 A. No. Putting aside the fact that the adjustment proposed by PacifiCorp is
5 unnecessary in the first instance, the one-sided adjustment designed by the
6 Company does not have a reasonable basis: direct access service not only creates
7 an opportunity for increased market sales by the Company, it also allows for
8 fewer market purchases. Thus, any application of the DA/RT price adjustment
9 should reflect not only the sales discount, but the purchase premium – just as both
10 are reflected in net power costs.

11 **Q. Please summarize your recommendations to the Commission regarding**
12 **PacifiCorp’s proposal to apply the DA/RT price adjustment to the**
13 **calculation of the Schedule 294, 295, and 296 transition adjustments and the**
14 **Consumer Opt-Out Charge.**

15 A. The Commission should reject PacifiCorp’s proposal in its entirety. At a
16 conceptual level, the proposal is misplaced, as the DA/RT price adjustment is
17 already fully incorporated into the calculation of the Schedule 294, 295, and 296
18 transition adjustments and the Consumer Opt-Out Charge. A central component
19 in the calculation of these charges is net power cost, which already includes the
20 DA/RT price adjustment and acts to increase the transition adjustment charge (or
21 reduce the credit) to direct access customers. Thus, the Company’s new proposal
22 is logically unnecessary.

1 Moreover, the calculation proposed by PacifiCorp for this purpose is
2 biased and without merit. Rather than reflect the full scope of the DA/RT price
3 adjustment on net power cost, PacifiCorp selectively limited the DA/RT
4 adjustments solely to the net discounted prices associated with market sales, while
5 ignoring the premium prices associated with market purchases. Thus, what the
6 Company characterizes as a correction of an “oversight” is really an attempt to
7 impose an unwarranted penalty on direct access customers. If the Commission
8 were persuaded that the market value of freed-up energy needed to be subject to
9 the DA/RT price adjustment, then that adjustment should be fully representative
10 of the manner in which the DA/RT price adjustment is used in the determination
11 of net power costs; that is, it should incorporate market purchase premiums, and
12 not be artificially limited solely to the net discount associated with market sales.

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

14 A. Yes, it does.

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EXHIBIT

Calpine Solutions 101

PacifiCorp Response to Data Requests Referenced

in Testimony

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Calpine Data Request 1.2

Calpine Data Request 1.2

Please refer to the Direct Testimony of Ramon J. Mitchell, pp. 44-45.

- (a) Please identify where in the Company's workpapers the DA/RT adjustment is applied to the Transition Adjustment and Consumer Opt-Out calculations.
- (b) Please identify the amounts of each of the DA/RT adjustments that are applied to the Transition Adjustment and Consumer Opt-Out calculations for each applicable month.

Response to Calpine Data Request 1.2

- (a) Please refer to the confidential work papers supporting the Company's response to TAM Support Set 3 (15 calendar day), specifically, the net power costs (NPC) report files containing the characters "_Sch ".

Please also refer to the confidential work papers supporting the Company's response to TAM Support Set 4 (30 calendar day), specifically, the net power costs (NPC) report files titled "COOC_YYYY_CONF" where YYYY refers to different calendar years.

The day-ahead / real-time (DA/RT) price component adders are applied to the transition adjustments and consumer opt-out charges, on tab "Forward Price Curve".

Please refer to the Company's response to AWEC Data Request 002 that contains a linked version of the NPC report and contains formulas on the "Forward Price Curve" worksheet that is used in the calculation of transition adjustments and consumer opt-out charges.

The "Forward Price Curve" worksheet in the NPC reports contains DA/RT adjusted market prices as noted in the direct testimony of Company witness, Ramon J. Mitchell, page 44-45. Additionally, please refer to the confidential work papers supporting the Company's response to TAM Support Set 2 (5 business day), specifically confidential file "Aurora GN Market Prices CONF" which contains the current 2024 transition adjustment mechanism's (TAM) DA/RT price component adders to which the "Forward Price Curve" worksheet is linked as demonstrated in the Company's response to AWEC Data Request 002.

- (b) Please refer to the Company's response to subpart (a) above and specifically, please refer to the confidential work papers supporting the Company's response to TAM Support Set 2 (5 business day), specifically confidential file

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“Aurora GN Market Prices CONF”, tab “Adders,” columns including the word “Sell”, which identify the DA/RT price component adders that are applied to 2024 TAM, inclusive of the transition adjustments and consumer opt-out charges, based on trading hub, “HLH/LLH”, and month.

Despite PacifiCorp's diligent efforts, certain information protected from disclosure by the attorney-client privilege or other applicable privileges or law may have been included in its responses to these data requests. PacifiCorp did not intend to waive any applicable privileges or rights by the inadvertent disclosure of protected information, and PacifiCorp reserves its right to request the return or destruction of any privileged or protected materials that may have been inadvertently disclosed. Please inform PacifiCorp immediately if you become aware of any inadvertently disclosed information.