Calpine Solutions Exhibit 200
Witness: Kevin C. Higgins

BEFORE THE PUBLIC UTILITY COMMISSION OF THE STATE OF OREGON

UE 335

In the Matter of	)
	)
PORTLAND GENERAL ELECTRIC	)
COMPANY,	)
	)
Request for a General Rate Revision.	)
	)

Response Testimony of Kevin C. Higgins

on behalf of

Calpine Energy Solutions, LLC

September 17, 2018

RESPONSE TESTIMONY OF KEVIN C. HIGGINS

Introduction

Q. Please state your name and business address.

A. My name is Kevin C. Higgins. My business address is 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. Are you the same Kevin C. Higgins who filed Opening Testimony on behalf of Calpine Energy Solutions, LLC ("Calpine Solutions") in this proceeding?

A. Yes, I am.

Q. What is the purpose of your Response Testimony?

A. My Response Testimony addresses the objections to the August 20, 2018 Partial Stipulation Regarding Direct Access Issues ("DA Stipulation") of Oregon Citizens' Utility Board ("CUB")[1] and the Testimony of CUB witness Bob Jenks, filed September 4, 2018. In addition, my Response Testimony addresses the objections to the DA Stipulation of the Alliance of Western Energy Consumers ("AWEC") and the Direct Access Testimony of AWEC witness Bradley G. Mullins, filed September 4, 2018.

Q. Please summarize the conclusions of your Response Testimony.

[1] CUB filed an errata to its objections on September 5, 2018.

A. I recommend that the Commission reject any modifications to the DA Stipulation and approve the DA Stipulation in its entirety. In my opinion, the DA Stipulation is in the public interest, and will contribute to rates that are fair, just and reasonable.

I recommend that the Commission reject CUB's proposal to modify Paragraph 2 of the DA Stipulation by adopting the ten-year transition adjustment that PGE proposed in its direct filing. I also recommend that the Commission deny CUB's alternative proposal to reject the DA Stipulation.[2] A five-year transition adjustment gives PGE sufficient time to plan for the exit of the opt-out customer. If the transition adjustment calculation is extended to ten years as proposed CUB, then – as I argued in my Opening Testimony – the fixed generation costs avoided by opt-out customers should be credited against the fixed generation charge levied on opt-out customers in years six through ten after the customer enters the opt-out program.

I also recommend that the Commission deny AWEC's proposal to modify Paragraph 4 of the DA Stipulation to either eliminate the cap on the long-term opt-out program, or alternatively, increase the cap by 250 aMW to allow all eligible customers to participate.[3] In my Opening Testimony, I too proposed a mechanism for increasing the cap. However, Calpine Solutions has conceded that argument at this time in light of the good faith compromise reached as part of the

[2] Objections of the Oregon Citizens' Utility Board to the Partial Stipulation Regarding Direct Access Issues, at 4.
[3] Objections of the Alliance of Western Energy Consumers to the Partial Stipulation Regarding Direct Access Issues, at 3.

overall settlement package. In that context, the continuation of the current participation cap, as provided by the DA Stipulation, is reasonable.

Response to CUB's Objections

Q. How does the DA Stipulation resolve the issue of transition adjustments?

A. The DA Stipulation provides that the current calculation method and number of years for the transition adjustments will be maintained.[4]

Q. What objection is expressed by CUB regarding the transition adjustments provision of the DA Stipulation?

A. CUB proposes to modify Paragraph 2 of the DA Stipulation, in which the Stipulating Parties[5] agree that the current transition adjustment calculations will be unchanged. Rather than maintaining the current five-year long-term transition adjustment, CUB proposes to adopt the ten-year transition adjustment that PGE proposed in its direct filing. In the alternative, CUB proposes that the Commission reject the DA Stipulation.

Q. What reasons does Mr. Jenks provide for adopting a ten-year transition adjustment?

A. Mr. Jenks argues that there is no longer load growth in non-direct access load, so residential and small commercial customers will not grow into the resources that are being "abandoned" by new direct access load. He contends that

[4] DA Stipulation at Paragraph 2. Paragraph 2 provides that the transition adjustments will include the allocation of any Commission-approved deferred adjustments related to taxes from Docket UM 1920 for those years in which the deferral is amortized in rates.

[5] The "Stipulating Parties" are PGE, Staff of the Public Utility Commission of Oregon, Fred Meyer Stores and Quality Food Centers, Divisions of The Kroger Co., Albertsons Companies, Inc., and Calpine Solutions.

moving from a five-year transition charge to a ten-year transition charge will help protect against cost shifting between direct access customers and residential customers.[6]

Q. Do you find Mr. Jenks' argument persuasive?

A. No. According to PGE's 2016 IRP:

> […] PGE will have a significant and growing gap between the power capacity needed to meet our customers' needs reliably and the resources available to do so. Much of the deficit is due to the need to generate power when renewable resources are unavailable, continued load growth, expiring long-term power purchase agreements, and ceasing coal-fired operations at Boardman.[7]

According to PGE's March 2018 IRP Update, PGE projects annual growth rates over the 2022-2050 period of 1.1% for energy, 0.8% for winter peak, and 1.1% for summer peak.[8] Since the original 2016 IRP filing, PGE has procured additional capacity, but still anticipated a significant deficit as of its March 2018 IRP Update. In its IRP Update, PGE reported a capacity need of 225.7 MW in 2024, growing to 824.7 MW in 2028 [9] (corresponding to years six and ten for a new opt-out customer entering the program in 2019).

Thus, PGE has significant resource needs in years six through ten of its forthcoming opt-out period that can be partially displaced or deferred by new opt-out load. As explained in my Opening Testimony, using the cost assumptions in the Company's IRP, I estimate that opt-out load will be able to avoid incremental fixed generation costs of approximately $41.77/MWh in 2024, declining to

[6] Testimony of Bob Jenks (CUB/400).
[7] PGE 2016 Integrated Resource Plan (November 2016) pp. 26-27.
[8] LC 66 - PGE's 2016 IRP Update- March 2018, p. 15.
[9] Based on PGE's 2016 IRP Update- March 2018, Figure 3 on page 18. Numerical values provided in PGE's response to Calpine Solutions Data Request No. 020(a.), included in Exhibit Calpine Solutions/102.

$38.42/MWh in 2028 due to depreciation (assuming the avoided resource would have been added in 2024).[10] The upshot is that if a ten-year transition adjustment were to be adopted, then it would need to be accompanied by a substantial capacity credit for departing customers.

Q. Mr. Jenks argues that a ten-year transition adjustment is necessary to protect residential customers from unwarranted cost shifting associated with large customers leaving PGE's system for direct access. Do you agree?

A. No. Mr. Jenks offers no credible evidence that remaining customers are negatively impacted from undue cost shifting when opt-out customers pay transition adjustments for five years instead of ten. With five years' notice, there is no reason for PGE to plan to add any new resources to serve the departing load. Indeed, the departure of opt-out load allows PGE to *avoid* adding the incremental generation resources that would otherwise be needed to serve the Company's system load. Those new incremental generation resources would otherwise increase the generation costs charged to all PGE customers. This avoided fixed generation cost is thus a *benefit* to PGE's system and the customers who are not participating in direct access.

Moreover, Mr. Jenks' claim of potential harm to residential and small commercial customers ignores the restrictions of the 300 aMW cap included in the DA Stipulation. With 236 aMW already enrolled in the program, only 64 aMW of enrollment opportunity remain, significantly mitigating any concern about rate impacts.

[10] Opening Testimony of Kevin C. Higgins (Calpine Solutions/100) pp. 18-19; Exhibit Calpine Solutions/103.

Q. What do you recommend regarding the appropriate transition adjustment period for long-term opt-out customers?

A. I recommend that the current transition adjustment period of five years be maintained. Adopting a ten-year transition adjustment would unduly thwart new direct access service in PGE's service territory, rather than help implement it in a reasonable manner. The current five-year transition adjustment gives PGE sufficient time to plan for the exit of the opt-out customer, and avoid incremental generation resources that would otherwise be needed to serve the system's load. This avoided fixed generation cost is a benefit to the system that I estimate to be worth between $38.42/MWh and $41.77/MWh. If, notwithstanding my primary recommendation, the transition adjustment calculation is extended to ten years as proposed by CUB, then the fixed generation costs avoided by opt-out customers should be credited against the fixed generation charge levied on opt-out customers in years six through ten after the customer enters the opt-out program as I described in my Opening Testimony.

<u>**Response to AWEC's Objections**</u>

Q. What does the DA Stipulation provide regarding the program participation limit?

A. In Paragraph 4, the Stipulating Parties agree that there will be no modification to either the 300 MWa participation cap or the minimum eligibility requirements for PGE's long-term direct access program for existing customers (Schedules 485, 489, 490, 491, 492, and 495). The Stipulating Parties also acknowledge that the Commission may modify the cap through adoption of a combined cap with the new large load direct access program in Docket AR 614.

Q. What objection is expressed by AWEC regarding the participation cap?

A. AWEC proposes that the Commission modify Paragraph 4 of the DA Stipulation either to eliminate the cap on the long-term opt-out program or, alternatively, increase the cap by 250 aMW to allow all eligible customers to participate. Mr. Mullins argues that the participation cap is unnecessary to prevent excessive load from leaving, since only 236 MWa of load is enrolled in the program, yet the cap effectively makes a single customer ineligible.[11] Mr. Mullins further argues that removing the cap will not result in any unwarranted cost-shifting, because the program has been designed to avoid unnecessary cost-shifting through transition adjustments.[12]

Q. How do you respond to AWEC's objections regarding the participation cap?

A. Although, in my Opening Testimony, I proposed broader eligibility and a relaxation of the participation cap for the five-year opt-out program, I accept the continuation of the current participation limits as reasonable within the context of the overall settlement package. I recommend the Commission approve the DA Stipulation in its entirety, because it is in the public interest and will contribute to rates that are fair, just and reasonable.

Q. Does this conclude your Response Testimony?

A. Yes, it does.

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[11] Direct Access Testimony of AWEC witness Bradley G. Mullins (AWEC/400), pp. 2-3.
[12] *Id.*, p. 4.