

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

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

4 A. Kevin C. Higgins, 39 Market Street, Suite 200, Salt Lake City, Utah,
5 84101.

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
8 is a private consulting firm specializing in the economic and policy analysis
9 applicable to energy production, transportation, and consumption.

10 **Q. On whose behalf are you testifying in this proceeding?**

11 A. My testimony is being sponsored by Utah Association of Energy Users
12 Intervention Group (UAE).

13 **Q. Please describe your qualifications.**

14 A. My academic background is in economics, and I have completed all
15 course work and examinations toward the Ph.D. in Economics at the University of
16 Utah, and have served on the adjunct faculties of both the University of Utah and
17 Westminster College, teaching both undergraduate and graduate courses in
18 economics. I joined Energy Strategies in 1995, where I assist private and public-
19 sector clients in the area of energy-related economic and policy analysis,
20 including the provision of expert testimony.

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

1 Utah Energy Office, and from 1991 to 1994, I was chief of staff to the chairman
2 of the Salt Lake County Commission.

3 Since 1984, I have testified numerous times before the Utah Public
4 Service Commission on electricity and natural gas issues. I have also provided
5 testimony addressing electric utility costs, rate design, and restructuring before
6 state utility regulators in Arizona, Wyoming, Oregon, and New York. In addition,
7 I am actively involved in negotiating the details of Regional Transmission
8 Organization development, including rate design. As part of that effort, I serve as
9 Acting Chairman of the Advisory Committee and ex-officio member of the Board
10 of Directors of Desert STAR, the RTO being developed to serve the southwestern
11 United States.

12 A more detailed description of my qualifications is contained in Exhibit
13 KCH-1, attached to this testimony.

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

15 A. I have been asked to evaluate PacifiCorp's testimony relating to cost-of-
16 service and rate design issues.

17 **Q. What are the issues you address in your testimony?**

18 A. I will comment briefly on PacifiCorp's cost of service and rate design
19 testimony. I will then address a specific Schedule 9 rate design issue -
20 PacifiCorp's proposal for a 50 MW cap on Schedule 9.

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1 **PacifiCorp’s Cost of Service and Rate Design Testimony**

2 **Q. What is your position regarding PacifiCorp’s cost of service and rate design**
3 **testimony in general?**

4 A. I disagree with a number of elements in PacifiCorp’s testimony. However,
5 with the exception of the issue discussed below, I do not intend to challenge, at
6 least in this case, the company’s cost of service analysis or its rate design
7 proposals. I note that UAE continues to have several areas of disagreement with
8 the company’s cost of service and rate design procedures and proposals, but UAE
9 does not intend to raise those issues at this time.

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11 **50 MW Cap for Schedule 9**

12 **Q. What is the proposed 50 MW cap for Schedule 9?**

13 A. This proposal is put forward by PacifiCorp in the direct testimony of
14 Company witness William R. Griffith (p. 6, line 14 – p. 7, line 2). According to
15 the proposal, Schedule 9 would be changed to prohibit its use by customers whose
16 peak load exceeds 50 MW.

17 **Q. Do you agree with this proposal?**

18 A. No, I do not.

19 **Q. Please explain your objections.**

20 A. Schedule 9 is the basic rate schedule for large customers taking service at
21 transmission-level voltage. Currently there are no maximum size restrictions for
22 eligibility.

1 PacifiCorp’s proposal to introduce a size cap appears to be a ploy to
2 increase the Company’s negotiating leverage in its dealings with its largest
3 customers. Traditionally, these customers have been served under special
4 contracts that reflect the customers’ unique circumstances. Recently, many of
5 these large customers have complained that the utility is not negotiating new
6 contracts in good faith. Schedule 9, even though it is typically higher-priced than
7 special contract rates, and therefore, not very attractive to these customers, at least
8 provides some kind of potential fallback or regulatory backstop. Removing this
9 backstop would add unfair leverage to PacifiCorp and subject these customers to
10 undue exposure to PacifiCorp’s monopoly market power. Under PacifiCorp’s
11 proposal, as these customers’ current contracts expire, there would be few
12 available alternatives. Granting such undue bargaining leverage to PacifiCorp
13 would be neither just nor reasonable.

14 **Q. Do you find other aspects of PacifiCorp’s proposal objectionable?**

15 A. Yes. Under PacifiCorp’s proposal, an existing Schedule 9 customer whose
16 peak loads were to grow beyond 50 MW would be kicked off that rate schedule,
17 with no regulatory backstop available to it. I do not think that such a situation is
18 just or reasonable, either.

19 **Q. What justification does PacifiCorp offer for its proposal?**

20 A. In defending its proposal, PacifiCorp cites the potential impact on other
21 Schedule 9 customers if, in the future, customers greater than 50 MW were to
22 participate in that rate schedule.

23 **Q. Does PacifiCorp provide any analysis to support its purported concern?**

1 A. No.

2 **Q. Has PacifiCorp made a reasonable case for capping Schedule 9?**

3 A. No, not at all. First of all, if a larger customer were to seek Schedule 9
4 service, the rates to other customers would remain unchanged unless and until
5 PacifiCorp prepared a new cost-of-service study and filed a new rate case.

6 Second, it is not at all clear that the inclusion in Schedule 9 of one or more
7 of the largest customers would adversely impact those rates. The rates might well
8 be reduced.

9 **Q. How does PacifiCorp propose to deal with customers with loads over 50
10 MW?**

11 A. Mr. Griffith states that PacifiCorp believes it is more appropriate to serve
12 customers over 50 MW on individual rates that recognize the large size of the
13 customer and the customer's characteristics.

14 **Q. Do you agree with that view?**

15 A. Yes. I agree that these large customers should be served based on
16 individually-tailored contracts or arrangements that recognize and reflect the
17 unique characteristics and circumstances of each customer. However, I disagree
18 with the sequencing proposed by PacifiCorp. PacifiCorp proposes to eliminate
19 any Schedule 9 option for these customers right now, leaving them without an
20 existing tariff fallback option. At some point in the future, the utility proposes to
21 develop individual rates, presumably in negotiations with the customers as their
22 respective contracts expire. Under PacifiCorp's approach, these negotiations will

1 have already been colored by the elimination of any tariff option as a backstop.

2 That approach is neither reasonable nor fair.

3 **Q. What is your recommendation to the Commission regarding PacifiCorp's 50**

4 **MW cap proposal?**

5 A. I recommend that it be rejected.

6 **Q. Does this conclude your direct testimony?**

7 A. Yes, it does.