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BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Application of Rocky Mountain Power for Approval of Its Proposed Energy Cost Adjustment Mechanism	Docket No. 09-035-15
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PREFILED SURREBUTTAL TESTIMONY OF KEVIN C. HIGGINS

PHASE II

The Utah Association of Energy Users (“UAE”) hereby submits the Prefiled Surrebuttal Testimony of Kevin C. Higgins in this docket on Phase II design issues.

DATED this 13th day of October, 2010.

/s/ _____
Gary A. Dodge,
Attorneys for UAE

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing was served by email this 13th day of October, 2010, on the following:

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BEFORE
THE PUBLIC SERVICE COMMISSION OF UTAH

Surrebuttal Testimony of Kevin C. Higgins

on behalf of

UAE

Docket No. 09-035-15

Phase II

October 13, 2010

1 **SURREBUTTAL 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 215 South State
6 Street, Suite 200, 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
9 is a private consulting firm specializing in economic and policy analysis
10 applicable to energy production, transportation, and consumption.

11 **Q. Are you the same Kevin C. Higgins who filed direct and rebuttal testimony**
12 **on behalf of UAE in Phase II of this proceeding?**

13 A. Yes, I am.

14 **Q. What is the purpose of your surrebuttal testimony in this Phase II of the**
15 **proceeding?**

16 A. My surrebuttal testimony responds to RMP witness Gregory N. Duvall on
17 the topics of NPC sharing bands, my proposed load growth adjustment, and the
18 treatment of REC revenues. My surrebuttal testimony also responds to RMP
19 witness Stefan A. Bird on the latter topic. I will not respond to other Company
20 rebuttal testimony filed in response to my direct testimony, because my prior
21 testimony in this docket adequately addresses the same.

23 **Response to Mr. Duvall**

24 **Q. In his rebuttal testimony, Mr. Duvall objects to the sharing bands proposed**
25 **by you and other parties. What is your response?**

26 A. Mr. Duvall contends that sharing of deviations in NPC between customers
27 and RMP is somehow unfair to RMP on the grounds that sharing cost
28 responsibility would potentially deprive the Company of recovery of prudently-
29 incurred costs. Mr. Duvall contends that a sharing mechanism is not just and
30 reasonable, despite the fact that RMP has proposed and agreed to sharing
31 mechanisms in Wyoming and Idaho.

32 I disagree with Mr. Duvall's argument that a sharing mechanism would
33 result in rates that are not just and reasonable. Proper ratemaking is not a matter
34 of simple cost reimbursement, as implied by Mr. Duvall. Rather, rates are
35 established in a general rate case at a level that provides the utility a reasonable
36 opportunity to earn its authorized return and to recover prudently-incurred costs,
37 including NPC, based on test period parameters. However, once rates are set,
38 except for certain extraordinary circumstances that may give rise to deferred
39 accounting treatment, the utility is expected to operate within the framework of
40 those approved rates, and its management is expected to cope with normal
41 business risks and the operation of economic forces. Failure of a utility to achieve
42 the authorized earnings does not constitute a disallowance of prudently-incurred
43 costs. Rather, rates are set to give the utility the opportunity to earn its authorized
44 return and to fully recover prudently-incurred costs, but it is up to the utility to

45 manage its business to achieve (or even exceed) this objective. In this
46 fundamental sense, the setting of just and reasonable rates is decidedly distinct
47 from simple cost reimbursement.

48 The potential adoption of an ECAM in Utah that provides for sharing of
49 risks and between customers and RMP would significantly reduce RMP's
50 exposure to NPC risk relative to the status quo. The adoption of such a
51 mechanism does not imply a disallowance of prudently-incurred costs. Rather,
52 base rates already provide for full recovery of prudent test period costs, and
53 allowance is made through the ECAM for additional recovery (or refund) of a
54 portion of cost deviations from the approved baseline level: recovery that
55 otherwise would have normally been entirely precluded. This result is hardly
56 unfair to RMP.

57 **Q. Mr. Duvall also contends that a sharing mechanism is inconsistent with the**
58 **Utah statute authorizing an energy balancing account. What is your**
59 **response on this point?**

60 A. As I am not an attorney, I will not attempt to debate the meaning of the
61 law with Mr. Duvall, who, as far as I know, is not an attorney either. URC 54-7-
62 13.5(2)(b)(i) states that an energy balancing account shall become effective upon
63 a Commission finding that the energy balancing account is in the public interest.
64 As a matter of ratemaking policy, adoption of an ECAM for RMP in Utah that did
65 not include a sharing mechanism would not be in the public interest. This case is
66 strongly supported in my direct testimony, as well as the direct testimony of other

67 witnesses in this proceeding, including Mr. Peterson for the Division, Mr. Gimble
68 for the Office of Consumer Services, and Ms. Kelly for WRA. I strongly
69 recommend that the Commission reject any ECAM that does not incorporate a
70 sharing mechanism as not being in the public interest.

71 **Q. On lines 152-212 of his rebuttal testimony, Mr. Duvall opposes adoption of**
72 **the load growth adjustment that you proposed. What is your response?**

73 A. Mr. Duvall provides four reasons for his opposition. In short, Mr. Duvall
74 maintains that the load growth adjustment is not connected to NPC, does not
75 reflect increases in non-NPC associated with the load growth, penalizes utilities
76 with significant capital investment programs, and violates the matching principle.

77 In response, I note that in registering his objections to the load growth
78 adjustment, Mr. Duvall completely overlooks the fact that RMP is allowed to file
79 Major Plant Additions (“MPA”) cases in Utah. The MPA filings, which RMP has
80 pursued vigorously, allow the Company to recover many of the very costs that
81 Mr. Duvall claims are left out of my proposed load growth adjustment.

82 Moreover, the Company’s MPA filings to date have not proposed any recognition
83 of incremental revenues from load growth.

84 Taking a step back, it is apparent that RMP has been awarded and
85 continues to seek single-issue ratemaking treatment for major plant additions
86 without any recognition of incremental revenues from load growth and now seeks
87 to follow up with single issue ratemaking treatment for NPC, also without any
88 recognition of incremental revenues from load growth. Taken in tandem, it is this

89 combination that produces a one-sided result – to the detriment of customers. If
90 this combination of single-issue ratemaking treatments is to be implemented in
91 Utah, then some recognition of incremental revenues from load growth is
92 warranted: either in the MPA (as I argued in Docket No. 10-035-13) or in the
93 ECAM. Given that RMP has already accepted a load growth adjustment in its
94 Idaho ECAM, and in light of the rate relief permitted to RMP through the MPA
95 option, adoption of the load growth adjustment proposed in my Phase II ECAM
96 testimony is reasonable.

97 **Q. In his rebuttal testimony, Mr. Duvall recommends a minor correction to**
98 **your load growth adjustment factor. Do you accept this correction?**

99 A. Yes. My calculation was based on the Company's filed case in Docket
100 No. 10-035-13. Mr. Duvall adjusts my calculation for the allowed return
101 approved by the Commission in Docket No. 09-035-23 and RMP's updates based
102 on the actual cost of major plant additions per the settlement in the MPA
103 proceeding. This reduces the load growth adjustment factor from \$28.43/MWH
104 to \$27.86/MWH.

105 **Q. On lines 356-366 of his rebuttal testimony, Mr. Duvall discusses the three**
106 **alternatives you presented in your direct testimony regarding the**
107 **implementation of the Rolled-in methodology in connection with the timing**
108 **of any ECAM. Do you have any response to Mr. Duvall's discussion?**

109 A. Yes. On lines 396-398, Mr. Duvall concludes that the only practical
110 alternative to implement a Commission decision to implement the Rolled-in

111 methodology in conjunction with an ECAM is to adopt the third alternative I
112 identified, which is to recognize deferred NPC dating to February 2010, as
113 proposed by RMP, but to delay application of the Rolled-in Allocation
114 Methodology to base rates until the next general rate case. I wish to emphasize
115 here that I consider this alternative to be sub-optimal, in that it expressly allows
116 for a period in which Utah customers are fully exposed to hydro risk without
117 receiving a proportionate hydro benefit.

118 In discussing the second alternative I identified, which is to postpone any
119 accruals to the ECAM balancing account until the start of the rate-effective period
120 of the next general rate case (with base rates in that case established using the
121 Rolled-in method), Mr. Duvall expresses the concern that such an approach would
122 accrue large balances and carrying charges. However, that is not necessarily the
123 case. Under the second alternative, there would simply be no recognized ECAM
124 accrual until the start of the rate-effective period of the next general rate case.
125 Under this scenario, there is no ECAM build up or carrying charge on “current”
126 balances, as there would not be any current balances.

127 Finally, Mr. Duvall suggests that the first alternative I identified could
128 potentially result in retroactive ratemaking. This alternative is to make an
129 adjustment to the ECAM balancing account to credit to customers the 1.0 percent
130 premium (over Rolled-in) embedded in Utah base rates. While I can appreciate
131 Mr. Duvall’s potential line of argument on this point, it appears to me that such an
132 adjustment can be attached to, and conditional upon, the adoption of an ECAM,

133 which would likely convey substantial net benefits to RMP, even with recognition
134 of the 1.0 percent premium as a credit to customers. It is also conceivable that the
135 credit for the 1.0 percent premium could be structured in such a way that it would
136 act only to offset positive ECAM balances (i.e., offset revenues owed by
137 customers) rather than produce a net credit to customers in and of itself. Such an
138 approach could potentially ameliorate the concerns raised by Mr. Duvall.

139 **Q. In his rebuttal testimony, Mr. Duvall states that it is not entirely clear which**
140 **of the three alternatives you identified you are recommending. Can you**
141 **clarify this?**

142 A. Yes. I consider the third alternative to be sub-optimal, as explained in my
143 direct testimony. Therefore, I am recommending either the first or second
144 alternatives, depending on the Commission's determination of the appropriate
145 starting date of any ECAM implementation.

146

147 **Response to Mr. Duvall and Mr. Bird**

148 **Q. In their rebuttal testimonies, both Mr. Duvall and Mr. Bird assert that REC**
149 **revenues should be included in the ECAM. Do you have any comments on**
150 **this subject?**

151 A. Yes. While Mr. Duvall and Mr. Bird argue that it is logical to include
152 REC revenues in the ECAM, I note that such inclusion was not part of RMP's
153 original ECAM filing and that recovery of REC revenues through the ECAM was
154 not proposed by RMP until after UAE sought recognition of incremental REC

155 revenues through its application for a deferred accounting order in Docket No. 10-
156 035-14.

157 In my rebuttal testimony, I recommended that the Commission defer
158 making any determination regarding the inclusion REC revenues in an ECAM at
159 this time. Instead, I recommended that the Commission first consider on its merit
160 the proper ratemaking treatment of the incremental REC revenues identified in
161 UAE's deferred accounting order application. I continue to advance this
162 recommendation and believe that the new MPA rate case ("MPA II") is the
163 appropriate venue for this determination. In my opinion, the incremental REC
164 revenues that have been deferred starting February 22, 2010 should be recognized
165 as a credit to customers to be applied against any new revenue requirement
166 determined in the MPA II proceeding.

167 If the Commission determines that it is appropriate to include REC
168 revenues in an ECAM, then I recommend that such inclusion be initiated
169 following the next general rate case, after the actions described in my rebuttal
170 testimony have run its course.

171 **Q. Does this conclude your surrebuttal testimony?**

172 **A.** Yes, it does.