Gary A. Dodge, #0897
Hatch, James & Dodge
10 West Broadway, Suite 400
Salt Lake City, UT 84101
Telephone: 801-363-6363
Facsimile: 801-363-6666
Email: gdodge@hjdlaw.com

Attorneys for Utah Association of Energy Users

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of Rocky Mountain Power Proposed Schedule 94, Energy Balancing Account (EBA) Pilot Program	**Docket No. 11-035-T10**

PREFILED DIRECT TESTIMONY OF KEVIN C. HIGGINS

The Utah Association of Energy Users ("UAE") hereby submits the Prefiled rebuttal Testimony of Kevin C. Higgins in this docket.

DATED this 15th day of March, 2012.

/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 15th day of March, 2012, on the following:

Mark C. Moench
Yvonne R. Hogle
Daniel E. Solander
Rocky Mountain Power
201 South Main Street, Suite 2300
Salt Lake City, Utah 84111
mark.moench@pacificorp.com
yvonne.hogle@pacificorp.com
daniel.solander@pacificorp.com

Michael Ginsberg
Patricia Schmid
Assistant Attorney General
500 Heber M. Wells Building
160 East 300 South
Salt Lake City, UT 84111
mginsberg@utah.gov
pschmid@utah.gov

Paul Proctor
Assistant Attorney General
160 East 300 South, 5th Floor
Salt Lake City, UT 84111
pproctor@utah.gov

F. Robert Reeder
William J. Evans
Vicki M. Baldwin
Parsons Behle & Latimer
One Utah Center, Suite 1800
201 S Main St.
Salt Lake City, UT 84111
BobReeder@pblutah.com
BEvans@pblutah.com
VBaldwin@pblutah.com

Arthur F. Sandack
8 East Broadway, Ste 510
Salt Lake City, Utah 84111
asandack@msn.com

Peter J. Mattheis
Eric J. Lacey
Brickfield, Burchette, Ritts & Stone, P.C.
1025 Thomas Jefferson Street, N.W.
800 West Tower
Washington, D.C. 20007
pjm@bbrslaw.com
elacey@bbrslaw.com

Gerald H. Kinghorn
Jeremy R. Cook
Parsons Kinghorn Harris, P.C.
111 East Broadway, 11th Floor
Salt Lake City, UT 84111
ghk@pkhlawyers.com
jrc@pkhlawyers.com

Steven S. Michel
Western Resource Advocates
227 East Palace Avenue, Suite M
Santa Fe, NM 87501
smichel@westernresources.org

Michael L. Kurtz
Kurt J. Boehm
Boehm, Kurtz & Lowry
36 East Seventh Street, Suite 1510
Cincinnati, Ohio 45202
mkurtz@bkllawfirm.com
kboehm@bkllawfirm.com

Betsy Wolf
Salt Lake Community Action Program
764 South 200 West
Salt Lake City, Utah 84101
bwolf@slcap.org

Holly Rachel Smith, Esq.
Russell W. Ray, PLLC
6212-A Old Franconia Road
Alexandria, VA 22310
holly@raysmithlaw.com

Mr. Ryan L. Kelly
Kelly & Bramwell, PC
11576 South State Street Bldg. 203
Draper, UT 84020
ryan@kellybramwell.com

Sarah Wright
Utah Clean Energy
1014 2nd Avenue
Salt Lake City, UT 84103
sarah@utahcleanenergy.org

/s/ ______________________

BEFORE

THE PUBLIC SERVICE COMMISSION OF UTAH

Rebuttal Testimony of Kevin C. Higgins

on behalf of

UAE

Docket No. 11-035-T10

March 15, 2012

REBUTTAL 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 pre-filed direct testimony in this docket on behalf of UAE?

A. Yes, I am.

Q. What is the purpose of your rebuttal testimony?

A. The chief purpose of my rebuttal testimony is to respond to the Schedule 94 rate spread proposal presented by Office of Consumers Services ("OCS") witness Daniel E. Gimble. I also offer a brief response to direct testimony by parties on the issue of dynamically allocating Utah's jurisdictional share of net power costs for the purpose of implementing the EBA.

Q. Please summarize your primary conclusions and recommendations.

A. Mr. Gimble's rate spread proposal is not substantially different from what Rocky Mountain Power ("RMP") had proposed in its initial application for an

EBA in Docket No. 09-035-15, and which the Commission rejected, except that Mr. Gimble proposes a refinement to RMP's initial proposal by deriving a class-specific cost (rather than using an equal cents-per-kWh cost as proposed by RMP). Mr. Gimble's proposal also ignores RMP's initial proposal to differentiate the Schedule 94 charge by voltage. If a version of Mr. Gimble's proposal is adopted by the Commission, it would fundamentally reverse the Commission's Phase II decision to allocate Schedule 94 cost responsibility based on the rate spread approved by the Commission in the most recent general rate case. If, nevertheless, the Commission adopts an approach similar to what Mr. Gimble is advocating, then voltage differentiation should be incorporated into Schedule 94 cost recovery as originally proposed by RMP.

In no case can Mr. Gimble's approach reasonably be applied to the spread of the $20 million per year for three years in deferred net power costs that were included as part of the Settlement Stipulation in Docket No. 10-035-124. The specific formulaic spread of those specific costs was an integral part of the Settlement Stipulation in Docket No. 10-035-124 on which parties relied in agreeing to that complex and comprehensive agreement. It would be unfair to parties who negotiated that agreement in good faith to alter the rate spread of these specific dollars on an after-the-fact basis.

<u>Response to Mr. Gimble Regarding Schedule 94 Rate Spread</u>

Q. What has Mr. Gimble proposed with respect to the Schedule 94 rate spread?

A. Mr. Gimble proposes using what he terms the "Composite NPC Allocator" to spread Schedule 94 costs. Mr. Gimble derives the Composite NPC Allocator by calculating each class's allocated share of net power costs plus wheeling revenues from the cost-of-service study from the prior rate case.

Q. What is your assessment of Mr. Gimble's proposal?

A. Mr. Gimble's proposal is not substantially different from what RMP had proposed in its initial application for an EBA in Docket No. 09-035-15, except that Mr. Gimble refines RMP's proposal by deriving a class-specific cost (rather than an equal cents-per-kWh cost as proposed by RMP) and Mr. Gimble ignores RMP's proposal to differentiate the Schedule 94 charge by voltage.

As I stated in my direct testimony, the Commission has already rejected RMP's proposal in its Phase II Order in favor of an approach guided by the approved rate spread in the general rate case. If the Commission had intended to adopt RMP's approach, or the small modification to that approach as proposed by Mr. Gimble, the Commission could have done so readily in its Phase II Order.

Q. Why do you consider Mr. Gimble's proposal to be a small modification of RMP's initial proposal?

A. Both RMP's initial proposal and Mr. Gimble's current proposal allocate Schedule 94 responsibility to customer classes based on each class's share of net power costs. In the Company's case, for simplicity, each class was presumed to have the same net power cost on a per-unit basis, and its total cost responsibility was a function of its total energy load. Mr. Gimble's proposal makes a small modification to this approach by assigning each class a unique unit net power cost based on a "Composite NPC Allocator," which takes into consideration variations in monthly usage by class, as well as several components of net power cost that are allocated based on the factors other than energy. I consider his proposal to be a small modification of RMP's initial approach because it uses the same basic concept RMP proposed, except that unit net power costs for each class are slightly differentiated.

Q. Why do you state that unit net power costs for each class are "slightly differentiated" under Mr. Gimble's proposal relative to RMP's proposal?

A. I have calculated the unit net power cost for each rate schedule using Mr. Gimble's approach in UAE Exhibit 1R.1 (KCH-1) and compared the results to an equal unit cost approach as RMP had initially proposed (prior to taking account of voltage differentiation). I have summarized these results for the major customer classes in Table KCH-1 below. As shown in the table, the unit costs using the Composite NPC Allocator proposed by Mr. Gimble are each within +/- 1.2% of the retail average for the major classes. When this differentiation is translated into an *adjustor* mechanism such as Schedule 94, i.e., a rate that is calculated as a delta from the baseline, the resulting rate differences between what Mr. Gimble is proposing and what RMP initially proposed (ignoring voltage differentiation) is relatively small. My point here is not whether such a refinement is reasonable or logical; but rather, that Mr. Gimble's proposal is simply a minor variation on RMP's initial proposal that was rejected by the Commission in favor of an approach based on rate spread. If Mr. Gimble's proposal is adopted by the Commission, it would fundamentally reverse the Commission's Phase II decision to allocate Schedule 94 cost responsibility based on the rate spread approved by the Commission in the most recent general rate case.

Table KCH-1

Unit Net Power Cost For Major Rate Classes
Using OCS Proposed Composite NPC Allocator

Rate Class	Schedule	GRC NPC Unit Cost ($/MWh)	Pct Difference from Retail Avg (%)
Residential	1,2,3	$25.04	1.0%
Sm. Commercial	23	$25.08	1.2%
Lg. Commercial	6,6A,6B	$24.97	0.8%
Gen. Service (> 1MW)	8	$24.61	(0.7%)
Lg. Industrial	9,9A	$24.50	(1.1%)
Avg. (includes classes not shown)		$24.78	

Q. If the Commission reverses its Phase II Order and adopts an approach similar to what Mr. Gimble is proposing, can such an approach reasonably be applied to the spread of the $20 million per year for three years in deferred net power costs that were included as part of the Settlement Stipulation in Docket No. 10-035-124?

A. No. A specific formulaic spread of those specific deferred net power costs was an integral part of the Settlement Stipulation in Docket No. 10-035-124 on which parties relied in agreeing to that complex and comprehensive agreement. It would be unfair to parties who negotiated that agreement in good faith to alter the rate spread of these specific dollars on an after-the-fact basis.

Q. If the Commission were to adopt an approach similar to what Mr. Gimble is proposing, should voltage differentiation be incorporated into Schedule 94 cost recovery as originally proposed by RMP?

A. Yes. If the Commission adopts an approach based on the allocation to classes of net power costs, then voltage differentiation should be incorporated into the Schedule 94 cost recovery. The Composite NPC Allocator proposed by Mr. Gimble allocates class cost responsibility at input (i.e., at the generation resource prior to transmittal to load) rather than at sales, prior to the incurrence of line losses. Customers who take delivery at higher voltages cause fewer line losses to be incurred per kilowatt-hour of usage. That is, for any given amount of usage at the retail meter, higher-voltage-customers require fewer kilowatt-hours to be produced at input than a lower-voltage-customer requires. This means that even if the unit net power cost at <u>input</u> was identical for two classes, if one of the classes took delivery at a higher voltage, its unit net power cost would be lower than the other class when measured at sales, which of course, is what rates should be – and normally are – based upon. If Schedule 94 rates are spread based on the allocation of net power costs, then it is essential that line loss differences across rate schedules be taken into account in the recovery of Schedule 94 revenues from customer classes.

<u>Dynamic Versus Static Allocation of Costs to the Utah Jurisdiction</u>

Q. Do you have any response to the testimony of other parties on the issue of dynamically allocating net power costs to the Utah jurisdiction as part of determining the EBA?

A. Yes. Maurice Brubaker on behalf of UIEC and Mr. Gimble each express support for a dynamic allocation. I generally agree. As part of the EBA workshop process I raised concerns that allocating actual monthly net power costs to Utah using a static allocator could cause perverse results. I pointed out that this concern could be obviated by measuring Utah actual net power costs on a unit-cost basis and then allocating monthly cost responsibilities to the Utah jurisdiction based on Utah load. Indeed, such an approach was incorporated into the Settlement Stipulation in Docket No. 10-035-124 to protect against the unintended consequences that could occur from using a static allocator for determining Utah's actual monthly net power cost. At the time of the Settlement Stipulation, the possibility of using a dynamic allocator was not being discussed by parties. Based on my participation in the EBA workshop process, I have concluded that using a dynamic allocator for determining Utah's actual monthly net power cost could also be a reasonable approach; however, because the SG factor is an annual, not a monthly factor, it could only be applied on an after-the-fact basis.

Q. Does this conclude your rebuttal testimony?

A. Yes, it does.