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BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Application of Rocky Mountain Power for Authority to Increase its Retail Electric Utility Service Rates in Utah and for Approval of its Proposed Electric Service Schedules and Electric Service Regulations, Consisting of a General Rate Increase of Approximately \$161.2 Million Per Year, and for Approval of a New Large Load Surcharge	Docket No. 07-035-93
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PREFILED SURREBUTTAL TESTIMONY OF KEVIN C. HIGGINS

[COST OF SERVICE / RATE DESIGN]

The UAE Intervention Group and Wal-Mart Stores, Inc. hereby submit the Prefiled Surrebittal Testimony of Kevin C. Higgins on cost of service/rate design issues.

DATED this 24th day of September, 2008.

/s/ _____

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CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing was served by email this 24th day of September, 2008, on the following:

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BEFORE
THE PUBLIC SERVICE COMMISSION OF UTAH

Surrebuttal Testimony of Kevin C. Higgins

on behalf of

UAE and Wal-Mart

[Cost of Service / Rate Design]

September 24, 2008

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SURREBUTTAL 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. On whose behalf are you testifying in this proceeding?

A. My testimony is being jointly sponsored by the UAE Intervention Group and Wal-Mart Stores, Inc. Wal-Mart Stores, Inc. is a member of the Utah Association of Energy Users that has intervened separately in this proceeding.

Q. Are you the same Kevin C. Higgins who previously filed direct and rebuttal testimony on behalf of UAE and Wal-Mart Stores, Inc. in this phase of this proceeding?

A. Yes, I am. A detailed description of my qualifications is contained in Attachment A, attached to my Test Year direct testimony, Exhibit UAE TP-1.

1 **Overview and Conclusions**

2 **Q. What is the purpose of your surrebuttal testimony in this phase of the**
3 **proceeding?**

4 A. My testimony responds to the following issues discussed in the rebuttal
5 testimony of other parties: (1) rate spread; (2) the rate design proposal advanced
6 by the Division of Public Utilities (“DPU”) for Schedule 9; (3) the response by
7 Rocky Mountain Power (“RMP”) to my direct testimony in which I disagreed
8 with the Company’s treatment of the MSP Revised Protocol rate mitigation cap in
9 presenting its Utah class cost-of-service results; and (4) RMP’s response to my
10 direct testimony discussing planning margin issues.

11 **Q. Please summarize the conclusions in your surrebuttal testimony.**

12 A. (1) I continue to support the general rate spread proposal advanced by
13 RMP in its supplemental direct testimony. If the Commission elects not to adopt
14 that rate spread proposal, then I recommend adoption of the equal percentage
15 proposal(s) advanced separately by the Committee of Consumer Services
16 (“CCS”) and Utah Industrial Energy Consumers (“UIEC”), and by RMP in its
17 rebuttal filing, as the next best alternative.

18 (2) Because the rate design for Schedule 9 proposed by DPU in its rebuttal
19 testimony no longer includes a disproportionate increase in the energy charge
20 relative to the demand charge, I withdraw the philosophical objections to DPU’s
21 proposed rate design for Schedule 9 that I expressed in my rebuttal testimony.
22 However, I do not support adoption of DPU’s proposed rate spread (as discussed

1 in my rebuttal testimony). Therefore, I do not support adoption of the specific
2 rate components proposed by DPU for Schedule 9 (as DPU's proposed rates
3 reflect its proposed spread).

4 (3) In its rebuttal testimony, RMP suggests an alternative approach to
5 treating the MSP rate mitigation cap. RMP makes this suggestion in response to
6 the criticism of the Company's filed approach expressed in my direct testimony.
7 RMP's suggested alternative would correct the most egregious aspects of RMP's
8 filed approach, but would still distort class cost responsibility.

9 The cleanest approach to treating the rate mitigation cap is the one I
10 presented in my direct testimony: apply the MSP rate mitigation cap as a
11 reduction in generation expenses allocated to Utah, and determine the revenue
12 requirement necessary for each function to earn its authorized rate of return. This
13 approach is consistent with the MSP Revised Protocol in that it simply reverses
14 out a portion of the generation expenses that are otherwise added to Utah's share
15 of system costs via the MSP Revised Protocol.

16 (4) RMP witness C. Craig Paice has misstated my testimony by asserting
17 that I am proposing in this docket to allocate a portion of planning margin costs to
18 those rate schedules that are temperature sensitive. He then argues to reject this
19 proposal.

20 While I believe a planning margin adjustment is appropriate, I have not
21 proposed its adoption in this case. Thus, there is nothing to reject.

22

1 **Rate Spread**

2 **Q. In your direct and rebuttal testimony you supported the basic rate spread**
3 **proposal put forward by RMP in the supplemental direct testimony of**
4 **William Griffith. In the Company's rebuttal testimony, RMP altered its rate**
5 **spread proposal to an equal percentage rate increase for each rate schedule.**
6 **What is your response to the Company's changed proposal?**

7 A. RMP's new proposal is consistent with the equal percentage increase
8 approach that was put forward independently by the CCS and UIEC in their direct
9 filings. In my rebuttal testimony, I stated that while I continued to support RMP's
10 spread proposal (in its supplemental direct filing), I also believed that the equal
11 percentage approach advanced by CCS and UIEC was reasonable. I further stated
12 that if the Commission elects not to adopt RMP's (initial) rate spread proposal,
13 then I would recommend the adoption of the CCS/UIEC proposal as the next best
14 alternative. This continues to be my recommendation.

15
16 **Schedule 9 Rate Design**

17 **Q. In your rebuttal testimony you opposed DPU's recommendation that**
18 **Schedule 9 customers receive a higher percentage increase in the energy**
19 **charge relative to the demand charge. In its rebuttal testimony, DPU has**
20 **revised some of the specific rates in its proposed design. Do these changes in**
21 **details cause you to alter your opposition to DPU's rate design proposal for**
22 **Schedule 9?**

1 A. Partially. The rate design for Schedule 9 proposed by DPU in the rebuttal
2 testimony of Abdinasir M. Abdulle does not include a disproportionate increase in
3 the energy charge relative to the demand charge, as was the case with DPU's
4 proposal in its direct testimony. Consequently, I withdraw the philosophical
5 objections to DPU's proposed rate design for Schedule 9 that I expressed in my
6 rebuttal testimony. However, I do not support adoption of DPU's proposed rate
7 spread (as discussed in my rebuttal testimony). Therefore, I do not support
8 adoption of the specific rate components proposed by DPU for Schedule 9, as
9 DPU's proposed rates reflect its proposed spread.

10
11 **Class Cost of Service**

12 **Q. In your direct testimony you disagreed with RMP's treatment of the MSP**
13 **Revised Protocol rate mitigation cap in presenting its Utah class cost-of-**
14 **service results. How has RMP responded to your criticism?**

15 A. RMP's response is presented in the rebuttal testimony of C. Craig Paice.
16 Mr. Paice states that he agrees there may be alternative approaches to this issue,
17 but does not believe the Company's approach has produced a conceptual error.
18 Mr. Paice goes on to suggest that RMP could accept an approach in which the
19 return to generation is lowered, rather than reducing the expenses to generation as
20 I have proposed.

21 **Q. What is your response to Mr. Paice's comments?**

1 A. While I am encouraged that RMP is showing some recognition of my
2 concerns on this issue, it appears to me that the Company is not adequately
3 focused on the issue at hand, which is to equitably allocate costs among Utah
4 customers. Instead, RMP appears unduly concerned with “controlling the
5 message” with respect to its rate of return in Utah under the MSP. This appears to
6 account for RMP’s insistence that the MSP rate mitigation cap be represented as a
7 reduction in the Company’s rate of return. The problem with this approach in a
8 class cost-of-service context is that it distorts the allocation of responsibility for
9 recovering the authorized Utah revenue requirement.

10 RMP’s insistence on depicting the impact of the MSP rate mitigation cap
11 as a reduction in the Company’s rate of return produces the illogical results I
12 criticized in my direct testimony, i.e., it produces the illogical reductions in non-
13 generation costs allocated to Utah under the rate mitigation cap relative to Rolled-
14 in (and the compensating extra increase in generation costs allocated to Utah).

15 **Q. What about Mr. Paice’s suggestion that the target return on generation could**
16 **be lowered while retaining the authorized returns for the other functions?**

17 A. While this would avoid the obvious logical flaw of reducing the allocation
18 of non-generation-related costs to Utah under the rate mitigation cap, it would
19 prove to be unhelpful in allocating class costs. Class cost responsibility is
20 determined by calculating class rates of return. If, by virtue of the MSP rate cap,
21 the rate of return on generation is deemed to be lower than for other functions,
22 this lower return would be blended in with the calculation of each class’s overall

1 return, distorting the relative returns among classes. To see this point, assume (for
2 simplicity) that a particular customer class utilizes only the generation function,
3 and assume further that this class is fully recovering its share of Utah generation
4 costs (i.e., it is earning the system average return for generation). Yet when this
5 class's return on rate base is compared with other classes it likely would be
6 deemed to be "under-recovering" – even though it is fully recovering its costs –
7 because the return on generation is set lower than the returns on the non-
8 generation functions. This is the problem with the alternative suggested by Mr.
9 Paice: it would not produce reasonable results for cost-of-service purposes. For
10 this reason, it is preferable to use the approach described in my direct testimony,
11 which treats the MSP rate mitigation cap as a reduction in the generation expenses
12 allocated to Utah.

13 **Q. Please summarize your conclusions and recommendation to the Commission**
14 **on this issue.**

15 A. My critique of RMP's treatment of the MSP rate cap is distinct from other
16 criticisms of the Company's class cost-of-service study in that I am not
17 challenging an existing methodology that has previously been approved by the
18 Commission. The Company's treatment of the MSP rate cap for class cost-of-
19 service purposes has never been ruled on by the Commission. As I demonstrated
20 in my direct testimony, the Company's approach is fatally flawed and should be
21 rejected.

1 RMP's suggestion for an alternative approach in its rebuttal testimony
2 would correct the most egregious aspects of its filed approach, but would still
3 distort class cost responsibility.

4 The cleanest approach to this problem is the one I presented in my direct
5 testimony: apply the MSP rate mitigation cap as a reduction in generation
6 expenses allocated to Utah, and determine the revenue requirement necessary for
7 each function to earn its authorized rate of return. This approach simply reverses
8 out a portion of the generation expenses that are added to Utah via the MSP
9 Revised Protocol. (It is worth emphasizing here that the MSP Revised Protocol
10 operates primarily by increasing the generation **expense** that is allocated to Utah –
11 my approach simply reverses expenses that the MSP Revised Protocol adjusts in.)

12 RMP opposes my approach. I conclude that this opposition stems from
13 Company resistance to depicting Utah as producing its authorized rate of return
14 under the MSP rate cap. The Company's resistance on this point is fundamentally
15 unrelated to the merits of class cost allocation and should not be allowed to
16 govern the proper treatment of class cost of service. Arriving at an equitable
17 allocation of costs among classes should not be subordinated by RMP's desire to
18 control the message about its rate of return under the MSP rate cap.

19 **Q. What is your response to suggestions to study this issue in a collaborative**
20 **following the Commission's decision in this case?**

21 A. This issue has already been studied. I discussed it at length in Docket No.
22 04-035-42 and in the task force that was created pursuant to the stipulation and

1 order in that case. The result of that effort is that the Company filed exactly the
2 same approach in this docket as in the prior docket – with the same illogical
3 results. I recommend that the Commission order RMP to treat the MSP rate
4 mitigation cap in the manner I am recommending in its next general rate
5 proceeding based on the evidence presented in this case.

6 **Q. Let's turn now to Mr. Paice's response to your discussion of the treatment of**
7 **the planning margin in class cost of service. Do you wish to comment on Mr.**
8 **Paice's rebuttal?**

9 A. Yes. Mr. Paice has misstated my testimony by asserting that I am
10 proposing in this docket to allocate a portion of planning margin costs to those
11 rate schedules that are temperature sensitive. He then argues to reject this
12 proposal.

13 In my direct testimony I clearly stated that I am not requesting that the
14 Commission formally adopt such a modification to the cost-of-service
15 methodology in this docket. Instead, I recommended that the Commission
16 recognize the adverse impact to Schedule 9 that occurs from allocating costs
17 based on normal weather (the current approach) as a qualitative factor in support
18 of adopting RMP's proposed rate spread.

19 While I believe a planning margin adjustment is appropriate, I have not
20 proposed its adoption in this case. Thus, there is nothing to reject.

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

22 A. Yes, it does.