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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	Docket No. 10-035-124
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REBUTTAL TESTIMONY OF KEVIN C. HIGGINS

[REVENUE REQUIREMENT]

The UAE Intervention Group (UAE) hereby submits the Prefiled Rebuttal Testimony of Kevin C. Higgins on revenue requirement issues.

DATED this 30th day of June, 2011.

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

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing was served by email this 30th day of June, 2011, on the following:

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BEFORE
THE PUBLIC SERVICE COMMISSION OF UTAH

Rebuttal Testimony of Kevin C. Higgins

on behalf of

UAE

Docket No. 10-035-124

[Revenue Requirement]

June 30, 2011

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

2

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

4 A. My name is Kevin C. Higgins. My business address is 215 South State
5 Street, Suite 200, Salt Lake City, Utah, 84111.

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 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 the Utah Association of Energy Users
12 Intervention Group (“UAE”).

13 **Q. Are you the same Kevin C. Higgins who pre-filed direct testimony on the**
14 **topic of revenue requirements on behalf of UAE?**

15 A. Yes, I am.

16 **Q. What is the purpose of your rebuttal testimony?**

17 A. My rebuttal testimony responds to a specific issue addressed in the direct
18 testimony of Division of Public Utilities witness Artie Powell concerning the
19 relationship between the Rolled-in inter-jurisdictional cost allocation
20 methodology and the ratemaking treatment of the Klamath removal surcharge
21 paid by California and Oregon customers.

22 **Q. Please summarize the primary conclusion of your rebuttal testimony.**

23 A. Recognition of the Klamath surcharge revenue paid by California and
24 Oregon customers as an offset to Utah's revenue requirement, as apparently
25 intended by Dr. Powell, requires a further adjustment in the Division's revenue
26 adjustments of approximately \$7.4 million.

27 **Q. What has Dr. Powell recommended with respect to the adoption of the**
28 **Rolled-in cost allocation method?**

29 A. Dr. Powell is recommending that inter-jurisdictional costs be allocated to
30 Utah using the Rolled-in allocation method without a premium.

31 **Q. Do you agree with this recommendation?**

32 A. Yes. I make the same recommendation in my direct testimony. Both Dr.
33 Powell and I conclude that the revenue requirement impact of this adjustment
34 reduces the Utah revenue requirement by approximately \$15 million.

35 **Q. What has Dr. Powell recommended with respect to the treatment of the**
36 **Klamath removal surcharge paid by California and Oregon customers?**

37 A. Dr. Powell was asked the question: "Can you explain why you have not
38 identified an adjustment amount for the Klamath removal surcharge?" In
39 response, he stated:

40 Under the Company's Klamath adjustment, the surcharge is already situs assigned
41 to Oregon and California. Since the Division's adjustments are adjustments to the
42 Company's filed request, which is off of the Revised Protocol revenue
43 requirement, there is no need for an additional adjustment. If the adjustments
44 were off of a Rolled-In revenue requirement, where the surcharge is fully
45 allocated, then an adjustment would be necessary.
46

47 **Q. Do you wish to comment on this response?**

48 A. Yes. I interpret the policy thrust of Dr. Powell's response to mean that
49 Utah customers should not be charged for the cost of Klamath dam removal. In
50 other words, the fact that Oregon and California customers are committed to pay
51 the full RMP portion of these costs as part of carrying out the environmental
52 policy decisions of their respective state governments should be recognized in the
53 Utah revenue requirement. I agree with this position and advocated as such in
54 my direct testimony. However, Dr. Powell is incorrect when he assumed that,
55 since the Division's adjustments are made to the Company's filed request (which
56 is off of the Revised Protocol revenue requirement), there is no need for an
57 additional adjustment to account for the Klamath surcharge revenues paid by
58 California and Oregon customers. In fact, the \$15 million adjustment that Dr.
59 Powell makes in switching to Rolled-in *brings with it* the Klamath removal costs
60 without offsetting surcharge revenue. Once this adjustment (for Rolled-in) is
61 made, irrespective of when it occurs in the sequence of Division adjustments,
62 Klamath removal costs get assigned to Utah but the surcharge revenue from
63 California and Oregon does not – unless a further adjustment is made to recognize
64 the surcharge revenue. Put another way, Dr. Powell's \$15 million adjustment for
65 switching to Rolled-in would have been about \$7.4 million larger but for the
66 assignment to Utah of Klamath removal costs under Rolled-in (without offsetting
67 surcharge revenues).

68 The upshot is that recognition of the Klamath surcharge revenue as an
69 offset to Utah's revenue requirement does require a further adjustment in the

70 Division's revenue adjustments. I presented this very adjustment in my direct
71 testimony as the Klamath Surcharge Situs Adjustment. This adjustment reduces
72 Utah revenue requirement by approximately \$7.4 million.

73 **Q. Does this conclude your rebuttal testimony?**

74 A. Yes, it does.