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 UAE Intervention Group

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Application of Rocky Mountain Power for Alternative Cost Recovery for Major Plant Additions of the Ben Lomond to Terminal Transmission Line and the Dave Johnston Generation Unit 3 Emissions Control Measure	Docket No. 10-035-13

PREFILED DIRECT TESTIMONY OF KEVIN C. HIGGINS

The UAE Intervention Group ("UAE") hereby submits the Prefiled Direct Testimony of Kevin C. Higgins.

DATED this 26th day of April, 2010.

/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 26th day of April, 2010, 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

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

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

/s/ ______________________

BEFORE

THE PUBLIC SERVICE COMMISSION OF UTAH

Direct Testimony of Kevin C. Higgins

on behalf of

UAE

Docket No. 10-035-13

April 26, 2010

DIRECT 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 sponsored by the Utah Association of Energy Users Intervention Group ("UAE").

Q. Please describe your professional experience and qualifications.

A. My academic background is in economics, and I have completed all coursework and field examinations toward a Ph.D. in Economics at the University of Utah. In addition, I have served on the adjunct faculties of both the University of Utah and Westminster College, where I taught undergraduate and graduate courses in economics. I joined Energy Strategies in 1995, where I assist private and public sector clients in the areas of energy-related economic and policy analysis, including evaluation of electric and gas utility rate matters.

Prior to joining Energy Strategies, I held policy positions in state and local government. From 1983 to 1990, I was economist, then assistant director, for the Utah Energy Office, where I helped develop and implement state energy policy. From 1991 to 1994, I was chief of staff to the chairman of the Salt Lake County Commission, where I was responsible for development and implementation of a broad spectrum of public policy at the local government level.

Q. Have you previously testified before this Commission?

A. Yes. Since 1984, I have testified in twenty-four dockets before the Utah Public Service Commission on electricity and natural gas matters.

Q. Have you testified previously before any other state utility regulatory commissions?

A. Yes. I have testified in over one hundred other proceedings on the subjects of utility rates and regulatory policy before state utility regulators in Alaska, Arkansas, Arizona, Colorado, Georgia, Idaho, Illinois, Indiana, Kansas, Kentucky, Michigan, Minnesota, Missouri, Montana, Nevada, New Mexico, New York, Ohio, Oklahoma, Oregon, Pennsylvania, South Carolina, Texas, Virginia, Washington, West Virginia, and Wyoming. I have also filed affidavits in proceedings at the Federal Energy Regulatory Commission.

A more detailed description of my qualifications is contained in Attachment A, attached to my direct testimony.

<u>Overview and Conclusions</u>

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

A. My testimony addresses aspects of the proposal made by Rocky Mountain Power ("RMP") to seek recovery of costs associated with certain Major Plant Additions pursuant to the provisions of URC 54-7-13.4.

My testimony concentrates on two issues: (1) whether it is appropriate to add a premium of 1.0 percent over the incremental cost of the Major Plant Additions, as proposed by RMP; and (2) the appropriate billing determinants for implementing rate changes associated with a Major Plant Addition, including whether margins from load growth should be considered as an offset to the incremental Major Plant Addition revenue requirement.

Q. What cost is RMP seeking to recover?

A. RMP is seeking cost recovery for two Major Plant Additions: the Ben Lomond to Terminal Transmission Line and the Dave Johnston Generation Unit 3 Emissions Control Measure. According to the supplemental direct testimony of Steven R. McDougal, RMP is seeking an increase in Utah revenue requirement of $33.0 million effective July 1, 2010. RMP is seeking to defer recovery of these revenues as a regulatory asset until amortized in rates in a future rate proceeding, most likely following a second application for cost recovery for Major Plant Additions. According to Mr. McDougal's testimony, RMP will likely propose that retail rates be adjusted effective January 1, 2011 in conjunction with the second filing.[1]

Q. Are you aware of any errors regarding the cost recovery RMP is seeking?

A. Yes. In response to data requests from the Office of Consumer Services ("OCS") RMP has admitted to an error in its calculation of the net power cost impacts associated with the Dave Johnston Generation Unit 3 Emissions Control Measure. According to RMP's data responses, its initial calculation of the net power cost impact is overstated by $634,296.[2] RMP has indicated that it intends to make this correction in its rebuttal filing. The adjustment to Utah revenue requirement associated with this correction is approximately $260,532.

Q. What are your primary conclusions and recommendations?

A. (1) RMP is requesting recovery of a 1.0 percent premium over the Major Plant Additions Rolled-in revenue requirement. I recommend that recovery of the requested 1.0 percent premium should be denied.

(2) RMP is seeking to defer recovery of any approved Major Plant Additions revenues until a later date. If RMP were to seek recovery of approved Major Plant Additions costs immediately following a Commission decision in this proceeding, rather than deferring costs for later recovery, it would be necessary to identify appropriate billing determinants for rate design. It is generally preferable to align the billing determinants used for rate design with the test period used to measure the costs being recovered. However, if costs are deferred, it is preferable

[1] Direct testimony of Steven R. McDougal, p. 11.
[2] RMP Responses to OCS 2.8, 3.1, and 7.1.

to use the billing determinants consistent with new going-forward rates established pursuant to a subsequent rate proceeding. Absent a new class cost of service study, there appears to be two reasonable options available to the Commission to establish rates for recovering costs associated with a Major Plant Addition: (a) deferral of approved costs until the next general rate case proceeding; or (b) recovery from classes on a pro-rata basis, using updated *system* billing determinants to protect customers as a whole from over-recovery.

(3) Load growth in a new test period provides new margins (i.e., sales revenue minus variable costs) that add to utility earnings. When Major Plant Addition costs are recognized for recovery using a new test period, generally it would be appropriate to also recognize incremental margins from load growth as an offset to the total costs recovered to identify the true "net" impacts to the utility. I recommend that the Commission recognize incremental margins from jurisdictional load growth as an offset to the Major Plant Addition revenue requirement approved in this case.

Absence of comment on my part regarding a particular aspect of RMP's proposal does not signify support (or opposition) toward the Company's filing with respect to the non-discussed issue.

<u>One Percent Premium over Rolled-in Revenue Requirement</u>

Q. In deriving a Utah revenue requirement associated with Major Plant Additions, RMP has added a 1.0 percent premium to the standalone incremental cost. Do you agree with the inclusion of this premium?

A. No. RMP justifies the premium on the grounds that the rate changes in Docket No. 08-035-38 and Docket No. 09-035-23 were calculated using a capped revenue requirement based on the Rolled-in allocation multiplied by 101 percent.[3] RMP is thus proposing to extend the 1.0 percent premium over Rolled-in used for setting *total* revenue requirement to the *incremental* revenue requirement at issue in this proceeding.

The issue at hand is more one of philosophy than empirics. The statute permits RMP to recover from its Utah ratepayers the “state's share of the net revenue requirement impacts of the major plant addition.” For any Major Plant Addition, the *incremental* “net revenue requirement impact” using either Rolled-in or Revised Protocol is unlikely to differ very much. The philosophical question is this: in determining the “net revenue requirement impact” associated with a Major Plant Addition, will the Commission consider the net incremental cost to RMP of the Major Plant Addition on a standalone basis, or is the proceeding rather being “transported back” to the previous rate case to implement a change in that case’s total revenue requirement as though the costs of the Major Plant Addition had been included?

[3] Direct testimony of Steven R. McDougal, p. 4.

RMP's proposal to charge a 1.0 percent premium over Rolled-in suggests the latter. I believe, however, that the former framework is more consistent with the statutory language ("the state's share of the net revenue requirement impact"), and more fair and appropriate in any circumstance. Indeed, RMP implicitly recognizes the impracticality of the latter approach in that it proposes a different test period in this proceeding. I recommend that the Commission require that the "net revenue requirement impact" of a Major Plant Addition be determined on a standalone basis; the 1.0 percent premium over Rolled-in revenue requirement being recommended by RMP should thus be excluded.

Q. What is the impact on Utah revenue requirement of adopting your recommendation?

A. The disallowance of the 1.0 percent premium being requested by RMP reduces the Utah revenue requirement by 1.0 percent of RMP's requested revenue increase of $33,018,593 identified in Exhibit RMP__(SRM-1S), page 1, or $330,186.

<u>Billing Determinants for Major Plant Additions Rate Changes</u>

Q. Is it necessary to determine the appropriate billing determinants to be used in implementing rate changes associated with a Major Plant Additions case?

A. Yes. Whenever a rate is established, it is necessary calculate that rate using a set of billing determinants, e.g., kWh, kW, number of customers, etc.; and billing determinants are defined with respect to a test period. A Major Plant

Addition case should utilize a different test period than that which was used in setting current rates. Indeed, that is the Company's proposal in the current proceeding. Current rates were established using the test period July 1, 2009 through June 30, 2010. In this proceeding, RMP is proposing a test period of July 1, 2010 through June 30, 2011 to measure the revenue requirement impact of its Major Plant Additions.

The question that arises for recovery of the major plant addition is this: if RMP were to seek recovery of approved Major Plant Additions costs immediately following a Commission decision in this proceeding, rather than deferring costs for later recovery, what billing determinants are most appropriate for designing rates to recover the incremental revenue requirement impacts, the billing determinants that were used to set current rates, or the billing determinants associated with the test period used in determining the incremental revenue requirements of the Major Plant Additions?

Q. In your view, which approach is more appropriate?

A. I believe it is generally preferable to align the billing determinants used for rate design with the test period used to measure the costs being recovered. However, if costs are deferred, it is preferable to use the billing determinants consistent with new going-forward rates established pursuant to a subsequent rate proceeding.

Q. Please explain.

A. If jurisdictional load is growing, as is typically the case in Utah, failure to align the test period of an approved revenue increase and the billing determinants used in setting rates to collect the revenue increase will lead to over-recovery by the utility. Over-recovery will occur because the approved revenue for recovery will be divided by too-few kWh (or kW) in calculating rates, resulting in a per-unit charge that is too high given the kWh (or kW) actually being sold to customers.

At the same time, however, setting rates outside a general rate case is complicated by the question of class cost allocation: not only are billing determinants subject to change as test periods change, so is class cost responsibility. Absent a new class cost of service study, there appears to be two reasonable options available to the Commission to establish rates for recovering costs associated with a Major Plant Addition: (1) deferral of approved costs until the next general rate case proceeding; or (2) recovery from classes on a pro-rata basis, using updated *system* billing determinants to protect customers as a whole from over-recovery.

Q. What is the relevance of this discussion to the current proceeding?

A. As RMP is proposing that approved revenue recovery from this proceeding be deferred, there may not be an immediate need for the Commission to reach a decision regarding billing determinants. However, as this proceeding is the inaugural Major Plant Addition case, I believe it is useful to anticipate and consider certain fundamental issues such as how recovery in rates will be implemented, if for no other reason than to set proper expectations going forward.

Q. Are there other issues related to billing determinants that you wish to address?

A. Yes. A related question is the extent to which the revenues from jurisdictional load growth should be recognized as an offset to the approved recovery of Major Plant Addition costs.

Load growth in a new test period provides new margins (i.e., sales revenue minus variable costs) that add to utility earnings. When Major Plant Addition costs are recognized for recovery using a new test period, generally it would be appropriate to also recognize incremental margins from load growth as an offset to the total costs recovered to identify the true "net" impacts to the utility.

Q. Please explain why this is appropriate.

A. A revenue increase for a Major Plant Addition is intended to recover the utility's net increase in revenue requirement associated with the Major Plant Addition investment. When this revenue requirement is measured using a new test period, the margins from jurisdictional load growth in the new test period will help defray the cost of this investment. In determining the appropriate net revenue requirement, these incremental margins should be taken into account to avoid over-recovery and protect ratepayers.

Q. Is there precedent for recognition of such margins?

A. Yes. In Idaho, RMP recognizes a credit for incremental generation-related margins from jurisdictional load growth as part of its Energy Cost Adjustment Mechanism ("ECAM"). While the application of Idaho load growth adjustment occurs as part of a different single-issue ratemaking mechanism than the case at hand, the principle is the same: recognition of margins from load growth as an offset to costs recovered in a single-issue ratemaking context.

Q. What is the current margin credit in RMP's Idaho ECAM?

A. Currently, RMP recognizes a credit of $17.48 per MWH for each MWH of growth in Idaho load relative to the test period used in setting base fuel cost. The amount of this credit is calculated as the difference between production-related costs embedded in Idaho rates and Idaho's share of net power costs, divided by Idaho retail sales.

Q. If a similar margin credit were applied to projected Utah load growth, what would be the amount of the annual offset against Major Plant Addition revenue requirement in the proposed test period in this docket, July 1, 2010 to June 30, 2011?

A. Using a Utah load growth estimate of 515,000 MWH per year based on RMP's most recent Integrated Resource Plan ("IRP"), the offset would be approximately $9 million per year. I note, however, that because the Idaho load growth adjustment value only includes production-related margins, it produces a low-end estimate of a full-margin credit applied to Utah load growth.

Q. Do you believe a load growth offset is reasonably applied against the allowed cost recovery for a Major Plant Addition?

A. Yes. For the reasons discussed above, I believe it is reasonable and appropriate to recognize growth in margins in determining the net revenue requirement impact to the utility of a Major Plant Addition that is measured using a new test period.

Q. Must the total amount of the offset be determined in this docket?

A. Not necessarily. When cost recovery is deferred, then the recognition of the growth offset can also be deferred; indeed, the amount of the offset could be determined based on actual growth in weather-adjusted margins as recorded going forward.

Q. What is your recommendation to the Commission on this issue?

A. I recommend that the Commission recognize incremental margins from jurisdictional load growth as an offset to the Major Plant Addition revenue requirement approved in this case.

Q. Does this conclude your direct testimony?

A. Yes, it does.