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VIA OVERNIGHT MAIL

December 2, 2008

Jean D. Jewell, Secretary
Idaho Public Utilities Commission
P.O. Box 83720
472 W. Washington Street
Boise, Idaho 83720-0074

In re: Case No. IPC-E-08-10

Dear Ms. Jewell:

Enclosed please find nine the original and (8) copies of the REBUTTAL TESTIMONY OF KEVIN C. HIGGINS on behalf of THE KROGER CO. dba FRED MEYER AND SMITH'S FOOD AND DRUG to be filed in the above referenced matter. I also attach an electronic version.

Copies have been served on all parties on the attached certificate of service. Please place this document of file.

Respectfully yours,

Michael L. Kurtz, Esq.
Kurt J. Boehm, Esq.
BOEHM, KURTZ & LOWRY

MLKkew
Encl.

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CERTIFICATE OF SERVICE

I hereby certify that true copy of the foregoing was served by electronic mail, unless otherwise noted, this 2ND day of December, 2008 to the following:

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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION)
OF IDAHO POWER COMPANY FOR AUTHORITY)
TO INCREASE ITS RATES AND CHARGES FOR) Case No. IPC-E-08-10
ELECTRIC SERVICE

AFFIDAVIT OF KEVIN C. HIGGINS

STATE OF UTAH)
)
COUNTY OF SALT LAKE)

Kevin C. Higgins, being first duly sworn, deposes and states that:

1. He is a Principal with Energy Strategies, L.L.C., in Salt Lake City, Utah;

2. He is the witness who sponsors the accompanying testimony entitled "Rebuttal Testimony of Kevin C. Higgins;"

3. Said testimony was prepared by him and under his direction and supervision;

4. If inquiries were made as to the facts and schedules in said testimony he would respond as therein set forth; and

5. The aforesaid testimony and schedules are true and correct to the best of his knowledge, information and belief.

Kevin C. Higgins

Subscribed and sworn to or affirmed before me this 1st day of December, 2008, by Kevin C. Higgins.

Notary Public

My Commission Expires: July 15, 2012

Notary Public
ANGELINE WHITWORTH
Commission #575247
My Commission Expires
July 15, 2012
State of Utah

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IDAHO PUBLIC
UTILITIES COMMISSION

BEFORE THE
IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF IDAHO POWER COMPANY FOR AUTHORITY TO INCREASE ITS RATES AND CHARGES FOR ELECTRIC SERVICE	)))))	Case No. IPC-E-08-10

REBUTTAL TESTIMONY OF KEVIN C. HIGGINS

On Behalf of The Kroger Co.,

Doing Business as Fred Meyer and Smith's

December 3, 2008

REBUTTAL TESTIMONY OF KEVIN C. HIGGINS

Introduction

Q. Please state your name and business address.

A. Kevin C. Higgins, 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 previously testified on behalf of The Kroger Co. in this proceeding?

A. Yes, I am.

Q. What is the purpose of your rebuttal testimony?

A. My rebuttal testimony responds to certain proposals made in the direct testimony of Staff witness Matt Elam and Idaho Irrigation Pumpers Association witness Anthony J. Yankel.

Q. Please summarize the major points in your rebuttal testimony.

A. (1) My direct testimony expresses strong support for Idaho Power's proposal to introduce time-of-use rates for Schedule 9 customers taking service at primary and transmission voltages. Staff witness Matt Elam also expresses support for Idaho Power's proposal, but Mr. Elam proposes modifications to Schedule 9 rates consistent with Staff's lower proposed revenue requirement. I

have reviewed Mr. Elam's proposed rate design for Schedules 9-P and 9-T and conclude that his proposal is consistent with the time-of-use design proposed by Idaho Power. Therefore, I support Mr. Elam's proposed rate design at Staff's revenue requirement, while also supporting and Idaho Power's proposed rate design at the Company's proposed revenue requirement.

(2) Mr. Yankel proposes to revise Idaho Power's Base Case cost-of-service study by allocating a portion of class costs based on a ten-year forecast of class growth. Mr. Yankel's proposal would assign generation and transmission costs to current customers based on projected increases to class load that have not yet materialized. In my opinion, this proposal is unreasonable and I recommend that it be rejected.

(3) Mr. Yankel also proposes to change the basis for allocating the revenue credits to classes attributable to Sales for Resale. Mr. Yankel's proposal fails to take proper account of the differing cost burdens borne by different customer classes for recovery of the production plant from which Sales for Resale are made. In my opinion, Mr. Yankel's proposed change is grossly inequitable and should be rejected.

Response to Matt Elam

Q. In your direct testimony, you expressed strong support for Idaho Power's proposal to introduce time-of-use rates for Schedule 9 customers taking service at primary and transmission voltages. Have you reviewed the

proposed modifications to Schedule 9 rates proposed by Staff witness Matt Elam?

A. Yes, I have.

Q. What is your assessment of Mr. Elam's proposed modifications?

A. Mr. Elam also expresses support for Idaho Power's time-of-use proposal for Schedule 9-P and 9-T customers. However, because Staff proposes a lower revenue requirement than Idaho Power, it is necessary for Mr. Elam to modify the Schedule 9-P and 9-T time-of-use charges to be consistent with this lower revenue requirement.

I have reviewed Mr. Elam's proposed rate design for Schedules 9-P and 9-T and conclude that his proposal is consistent with the time-of-use design proposed by Idaho Power. Therefore, I support Mr. Elam's proposed rate design at Staff's revenue requirement, while also supporting Idaho Power's proposed rate design at the Company's proposed revenue requirement.

Response to Anthony J. Yankel

Q. What has Mr. Yankel's proposed with respect to revising Idaho Power's Base Case cost-of-service study?

A. Mr. Yankel has proposed that 50 percent of generation and transmission costs in the Company's Base Case analysis be allocated on the basis of projected class load growth over the next ten years. Mr. Yankel argues that such an approach would better reflect "forward-looking" costs.[1]

[1] Direct testimony of AnthonyJ. Yankel, p. 18, line 1 - p. 24, line 16.

Q. What is your assessment of this proposal?

A. The fundamentals of this proposition are unreasonable. The proposal would assign generation and transmission costs to current customers based on projected increases to class load that have not yet materialized. The first problem here is that the expected load growth is not necessarily attributable to current customers, but to customers who do not yet exist. As customers who do not yet exist cannot be charged for the "growth correction" being proposed by Mr. Yankel, the burden of this projected growth is instead assigned to the existing customers in the growing classes. Under this approach, class cost responsibility is weighted by (higher) future kilowatt-hours, but costs can only be recovered from current kilowatt-hours, creating an unreaonable cost burden for the affected customer classes.

A further problem is that current class cost responsibility would be allocated based on a ten-year growth projection that may not develop as forecasted. This would introduce an undue degree of speculation into the assignment of class cost responsibility.

Q. What is your recommendation with respect to Mr. Yankel's proposal to revise Idaho Power's Base Case cost-of-service study?

A. I recommend that the proposed revision be rejected.

Q. What change has Mr. Yankel proposed for the allocation of the revenue credits to classes attributable to Sales for Resale?

A. Mr. Yankel objects to the traditional allocation of Sales for Resale revenues based on class energy or demand. Instead, Mr. Yankel proposes that

each customer class be assigned a percentage share of production plant based on the class's allocation of production plant costs. Each class then would be credited with Sales for Resale revenues to the extent that its load is less than its assigned share of production plant in a given hour. The credit would be for a share of the off-system sales taking place in that hour as well as for deemed "sales" to other customer classes that are consuming more power than their respective "shares" of production plant. Conversely, to the extent that a class's load exceeds its assigned plant share in a given hour, the class would be assessed "purchased power" costs in that hour. As I noted, this crediting of Sales for Resale revenue and assignment of purchased power costs would not be limited to the actual sales and purchase transactions with third parties, but would extend to hourly "sales" and "purchases" that are deemed to take place between "surplus" and "deficit" retail customer classes.

The upshot of Mr. Yankel's proposal is that he is intending to allocate a greater portion of Sales for Resale revenue (than would occur under a traditional energy or demand allocator) to those classes that have highly variable usage patterns throughout the year. Mr. Yankel justifies this change based on his claim that classes with highly variable usage patterns "cause" off-system sales to happen because their variable usage patterns result in periods of under-utilization of plant for retail needs, thus "freeing up" the production plant to make off-system sales.

Q. What is your assessment of Mr. Yankel's proposal for allocating Sales for Resale revenues?

A. Mr. Yankel's proposal is grossly inequitable and should be rejected. Mr. Yankel's proposal fails to take proper account of the differing cost burdens borne by different customer classes for recovery of the production plant from which Sales for Resale are made. This inequity can be illustrated using the same example Mr. Yankel developed to make his point.

Q. Please proceed.

A. On pages 38-39 of his direct testimony, Mr. Yankel assumes that a utility serves a customer Class A that consumes a constant 500 MWh every hour of the year and a second customer Class B that consumes a constant 500 MWh every hour for six months and zero for the remaining six months. The utility responds to this usage pattern by installing 1000 MW of capacity, which exactly meets retail customer requirements for six months of the year; the utility then sells 500 MW off system for the six months in which Class B's consumption falls to zero.

Mr. Yankel correctly notes that under the 12 CP method for allocating production plant costs, Class A would be allocated 2/3 of generation demand costs and Class B would be allocated the remaining 1/3. I expand upon Mr. Yankel's observation by presenting this cost allocation on a month-by-month basis below:

Month	1	2	3	4	5	6	7	8	9	10	11	12	Total
Class A CP	500	500	500	500	500	500	500	500	500	500	500	500	6000
Class B CP	500	500	500	500	500	500	0	0	0	0	0	0	3000
System CP	1000	1000	1000	1000	1000	1000	500	500	500	500	500	500	9000

I point out in passing that, in this example, the 2/3 allocation of generation demand costs to Class A and the 1/3 allocation of generation demand costs to Class B is the same allocation that would obtain if costs were allocated on an energy basis; thus, the set up of this simple example bears some nexus with the historical cost allocation practices in Idaho Power's service area for generation demand cost, which has traditionally been based on a combination of energy and 12 CP allocation factors.

Mr. Yankel goes on to correctly note that under a conventional treatment for allocating Sales for Resale revenues (such as occurs in Idaho Power's territory), Class A would be allocated 2/3 of the revenue and Class B would be allocated 1/3 of the revenue, based on the principle that the benefit of the revenue credit should track the allocation of plant costs. Mr. Yankel maintains that this result is inappropriate. He argues that the ability for the utility to make off-system sales derives from the highly variable usage pattern of Class B. Because Class B's load disappears for six months out of the year, thus making 500 MW available for off-system sales, Mr. Yankel argues that Class B should receive a greater proportion of the Sales for Resale revenues – 2/3 to be exact. Thus, Class B would pay for 1/3 of the plant costs, but receive 2/3 of the Sales for Resale benefit.

To appreciate the inequity of Mr. Yankel's proposal, it is instructive to consider what happens in a month in which an off-system sale is made in his example. Let's consider Month 7 in the table on the preceding page. In Month 7, the utility sells 500 MWh each hour from its production plant of 1000 MW. Mr.

Yankel argues that Class B is entitled to 2/3 of the benefit of this sale, since its demand of zero is 333 MW less than its (annual) allocated share of plant costs of 333 MW.

But how have cost responsibilities been allocated for this month? Because its demand is zero in Month 7, Class B has already been absolved of any cost responsibility in Month 7 under the 12 CP method (or under an energy allocation method, for that matter). Instead, the full burden of paying for the cost of production plant in Month 7 has fallen to Class A – which means that absent Sales for Resale revenues, Class A would not only have to pay for the production plant that serves its 500 MW of load, it would also have to pay for the 500 MW that was built to serve Class B for six months of the year, as Class B has not been assigned any costs in Month 7. Of course, in light of this cost burden, it is entirely appropriate for Class A to receive the lion's share of the benefit for Sales for Resale in Month 7, as would occur under a conventional allocation. Indeed, a reasonable case can be made that Class A is entitled to 100 percent of the Sales for Resale revenues in Month 7, as Class A has been allocated 100 percent of the production plant costs in that month. If anything, a conventional allocation approach is revealed as being unduly generous to Class B by sharing 1/3 of the Sales for Resale revenues in a month in which Class B was absolved of any production plant cost responsibility.

Q. But how can you claim that Class B is absolved of any production plant cost responsibility in Month 7 when Class B is allocated 1/3 of production plant costs?

A. Look at the table. Class B is allocated 1/3 of production plant costs on an annual basis. It is allocated 50 percent of plant costs for Months 1-6 and zero plant costs in Months 7-12. This averages out to be 1/3 of production plant costs during the course of the year. But in the months in which off-system sales are made, Class B is asked to contribute nothing. This is the key consideration that Mr. Yankel overlooks when he proposes to transfer to this class the majority of the off-system sales benefit.

This point can be further illustrated through an analogy. Consider two roommates who share a house and split the rent evenly for six months out of the year. Roommate A resides in the house year-round, whereas Roommate B leaves for six months. When Roommate B is gone, Roommate A has full responsibility for the rent. To mitigate this impact, he sublets the vacant room for six months and (generously) offers Roommate B 1/3 of the proceeds. Roommate B declines the offer and cites Mr. Yankel's argument: Roommate B claims that 2/3 of the proceeds should go to him because if he hadn't moved out for six months, the sublet would not have been possible.

I think most parties would agree that Roommate B's claim is unreasonable. It is fundamentally the same claim being made by Mr. Yankel in his example.

Q. Does this conclude your rebuttal testimony?

A. Yes, it does.