

Via Overnight Mail

June 24, 2005

Public Utility Commission of Oregon
550 Capitol Street NE, Suite 215
Salem, Oregon 97310
Attn: Kim Resch

Re: Case No. UE-170

Dear Ms. Resch:

Please find enclosed the original and five copies of the Surrebuttal Testimony of Kevin C. Higgins filed on behalf of the Fred Meyers Stores and Quality Food Centers, Divisions Of Kroger Co. in the above referenced matter.

Copies have been served on all parties of record. Please place this document of file.

Very truly yours,

Michael L. Kurtz, Esq.
BOEHM, KURTZ & LOWRY

MLKkew
Enclosure

cc: Hon. Michael Grant
 Certificate of Service

CERTIFICATE OF SERVICE

I hereby certify that true copy of the foregoing was served via regular mail, (unless otherwise noted), this 24th day of June, 2005.

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BEFORE THE PUBLIC UTILITY COMMISSION
OF THE STATE OF OREGON

In the Matter of Pacific Power &)
Light (d/b/a PacifiCorp) Request) Docket No. UE-170
for a General Rate Increase in)
the Company's Oregon Annual)
Revenues)

Surrebuttal Testimony of Kevin C. Higgins

on behalf of

Fred Meyer Stores

June 27, 2005

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

2

3 **Introduction**

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

5 A. Kevin C. Higgins, 215 South State Street, Suite 200, Salt Lake City, Utah,
6 84111.

7 **Q. By whom are you employed and in what capacity?**

8 A. I am a Principal in the firm of Energy Strategies, LLC. Energy Strategies
9 is a private consulting firm specializing in economic and policy analysis
10 applicable to energy production, transportation, and consumption.

11 **Q. Are you the same Kevin C. Higgins who previously filed direct testimony on**
12 **behalf of Fred Meyer Stores (“Fred Meyer”) in this proceeding?**

13 A. Yes, I am.

14 **Q. What is the purpose of your surrebuttal testimony?**

15 A. My surrebuttal testimony responds to two issues addressed in the rebuttal
16 testimony of PacifiCorp witness William R. Griffith. These issues are: (1)
17 equalizing the Schedule 200 tailblocks between Rate Schedules 28 and 30, as
18 called for in the Partial Stipulation; and (2) the Rate Mitigation Adjustment
19 (“RMA”). With respect to the latter, I would like to clarify certain inaccuracies in
20 Mr. Griffith’s characterization of my RMA proposal.

1 **Equalizing the Schedule 200 Tailblock between Schedules 28 and 30**

2 **Q. Mr. Griffith opposes the revenue adjustment you included in FM Exhibit**
3 **103, associated with equalizing the Schedule 200 tailblocks for Schedules 28**
4 **and 30. Do you wish to respond?**

5 A. Yes. The Partial Stipulation calls for the Schedule 200 tailblocks for
6 Schedule 28 and 30 to be equalized, but does not specify the mechanics for doing
7 so. One way to accomplish this equalization is to calculate a common tailblock
8 rate based on the aggregate tailblock revenue to be collected from both rate
9 schedules, and then to reduce the revenues for the rate schedule whose tailblock is
10 decreased by an amount equal to the increased revenues from the rate schedule
11 whose tailblock is being raised. This is the calculation I made in FM Exhibit 103.

12 Mr. Griffith proposes to implement the equalization of the tailblock rates
13 while holding the overall revenue requirement for each rate schedule constant; he
14 does this by raising the initial rate block for the rate schedule whose tailblock is
15 reduced, and lowering the initial rate block for the rate schedule whose tailblock
16 is increased.

17 I believe the approach I used results in a more rational rate transition for
18 customers who migrate between the two rate schedules as their loads change. This
19 concern notwithstanding, I do not object to Mr. Griffith's approach being adopted,
20 so long as the determination of the tailblock rate itself is consistent with the
21 method used in Mr. Griffith's rebuttal testimony.

1 **Rate Mitigation Adjustment**

2 **Q. On page 5 of his rebuttal testimony, Mr. Griffith states that you propose “to**
3 **discard the Company’s rate mitigation proposal of capping the increase for**
4 **any given customer class at 150 percent of the jurisdictional average net**
5 **increase.” Is this characterization accurate?**

6 A. No. Mr. Griffith’s use of the word “discard” is misleading. In my
7 testimony I very clearly *support* the use of a 150 percent cap for a net rate
8 increase of 6 percent or more. However, my testimony points out several
9 problems with applying this standard to a rate increase that is less than 6 percent.
10 An inflexible “percentage-of-average” cap on a relatively small average net
11 increase does not provide enough opportunity for rates to move relative to one
12 another to permit those classes that are paying above-cost rates (via subsidies) to
13 move materially closer to their actual costs-of-service.

14 For a net rate increase that is less than 6 percent, I recommend that the
15 mitigation cap on net increases for individual rate schedules should be set by a
16 fixed percentage differential of 3 percent. This change will better accommodate
17 movement in the direction of cost causation, while still providing significant
18 mitigation.

19 **Q. On page 6 of his rebuttal testimony, Mr. Griffith states that you recommend**
20 **a ceiling of 1.5 cents per kWh on any rate schedule paying a rate mitigation**
21 **surcharge. Is this characterization accurate?**

22 A. No. I recommend a ceiling of 1.5 cents per kWh on the subsidy that is
23 received by any rate schedule.

1 **Q. Mr. Griffith objects to limiting the size of the RMA subsidy, as you**
2 **recommend, because of the potential rate impacts for Schedule 41. Do you**
3 **wish to respond?**

4 A. Yes. The rate impact on Schedule 41 from reigning in the subsidy is an
5 indication of how far below cost-of-service this rate schedule is. With respect to
6 my RMA proposal, most of the impact on Schedule 41 would come from capping
7 its subsidy at 1.5 cents per kWh, and not from capping the class increase using a
8 fixed percentage differential of 3 percent. As I stated in my direct testimony, if a
9 subsidy greater than 1.5 cents per kWh is to be awarded, the cost should be borne
10 by society as a whole, and not just selected rate schedules, as proposed by the
11 Company.

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

13 A. Yes, it does.