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And Overnight Mail

September 15, 2008

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

Re: Case No. UE-197

Dear Ms. Hulse:

Please find enclosed the original and five (5) 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.
Kurt J. Boehm, Esq.
BOEHM, KURTZ & LOWRY

MLKkew
Enclosure
cc: Certificate of Service

CERTIFICATE OF SERVICE

I hereby certify that true copy of the foregoing was served via electronic mail (when available) and regular U.S. Mail (unless otherwise noted), this 15TH day of September, 2009.

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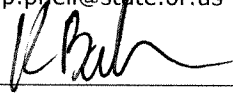
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**BEFORE THE PUBLIC UTILITY COMMISSION
OF THE STATE OF OREGON**

Portland General Electric)
General Rate Case Filing) **Docket No. UE-197**

Surrebuttal Testimony of Kevin C. Higgins

on behalf of

Fred Meyer Stores

September 15, 2008

1 (1) I continue to recommend that the Commission adopt my proposed changes
2 to the Schedule 83-S and 83-P Distribution Demand Charge. In my surrebuttal
3 testimony, I explain that the difference between PGE's approach and mine is
4 related to the treatment of "other" distribution costs that are trueed up in the
5 Distribution Demand Charge. In performing the true-up, PGE does not distinguish
6 between primary and secondary customers, but spreads the true-up to all Schedule
7 83 customers, including primary. In contrast, I re-allocate the true-up component
8 of the Distribution Demand Charge by assigning secondary costs/credits to
9 Schedule 83-S and by assigning primary costs/credits to Schedule 83-P, consistent
10 with the cost information in PGE's workpapers. I believe this approach is more
11 reasonable and consistent with cost causation. Adopting my recommendation
12 would result in an approximately equal percentage rate change for the two rate
13 schedules.

14 (2) I continue to recommend against adoption of PGE's decoupling proposal,
15 both as a general matter as well as on grounds specific to the Company's
16 proposal. PGE's rebuttal fails to respond to much of my critique of its proposal,
17 including my criticism that PGE's proposed "decoupling rider," Schedule 123,
18 would recover fixed costs associated with PGE's generation facilities from
19 shopping customers.

20 (3) In its rebuttal testimony, PGE maintains that its Domestic Production
21 Activities deduction will be zero in 2009, due in large part to the aggressive
22 accelerated depreciation the Company will take on a portion of its generation
23 assets. Moreover, the Company states that SB 408 will true-up for any difference

1 between the actual Domestic Production Activities deduction and the amount
2 attributed for ratemaking.

3 The SB 408 true-up mitigates my concern that a positive Domestic
4 Production Activities deduction would not be passed on to ratepayers.
5 Consequently, I am withdrawing my recommendation for a revenue requirement
6 adjustment attributable to the Domestic Production Activities deduction in this
7 proceeding. However, I believe that potential ratepayer benefits from the
8 Domestic Production Activities deduction should be considered in subsequent rate
9 proceedings.

10
11 **PGE's Proposed Rate Increases for Schedules 83-S and 83-P**

12 **Q. What is the nature of your disagreement with PGE concerning the proposed**
13 **rate increases for Schedules 83-S and 83-P?**

14 A. In the Company's direct testimony, PGE recommends an overall increase
15 of 7.7 percent for Schedule 83. However, the Company's proposed rate increase
16 for 83-S is 7.6 percent and the proposed rate increase for 83-P is 9.1 percent. In
17 my direct testimony, I recommend that Schedules 83-S and 83-P receive
18 approximately the same percentage rate increase. The basis of my
19 recommendation is that PGE's proposal to charge a common Distribution
20 Demand Charge for Schedules 83-S and 83-P shifts costs from secondary
21 customers to primary customers. Reversing this cost shift results in a Distribution
22 Demand Charge for Schedule 83-P of \$1.72 per kW, and a Distribution Demand
23 Charge for Schedule 83-S of \$2.15 per kW. Adoption of this cost-based

1 differential in the rate design, and accepting PGE’s other rate design changes for
2 these two rate schedules, would result in approximately the same percentage rate
3 increase for Schedules 83-S and 83-P.

4 **Q. What is PGE’s response to your recommendation that Schedules 83-S and**
5 **83-P should receive approximately the same percentage rate increase?**

6 A. PGE opposes my recommendation, as presented in PGE Exhibit 2000
7 (Kuns-Cody-Lynn). PGE denies that its approach shifts costs between primary
8 and secondary customers. PGE goes on to argue that my analysis does not reflect
9 the cost differentials to serve the average Schedule 83 customer, but rather
10 reflects the fact that the average Schedule 83-P customer is larger than the
11 average Schedule 83-S customer. PGE contends that its approach is “superior”
12 and “reflects true marginal cost pricing.” Finally, PGE compares the differences
13 between secondary and primary rates for two other regional utilities in which
14 Kroger takes service and concludes that its differentials are larger.

15 **Q. What is your response to PGE’s arguments?**

16 A. The Distribution Demand Charge as designed by PGE includes a true-up
17 of distribution costs not recovered in the other distribution charges, such as the
18 customer charge. For example, because the PGE customer charge does not fully
19 recover customer-related costs, PGE recovers the balance by including it in the
20 Distribution Demand Charge.

21 My analysis of this true-up is shown in Table KCH-1S, below.

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Table KCH-1S

Schedule 83 Distribution Demand Charge – Components

	PGE Proposed Rate	Fred Meyer Proposal	
	Total 83 Amount <u>(\$000s)</u>	83-S Amount <u>(\$000s)</u>	83-P Amount <u>(\$000s)</u>
Distribution Demand Costs	\$32,708	\$31,342	\$1,366
Under-Recovery of Customer Charges	1,882	1,823	58
Over-Recovery of Trans. & Related Service	(623)	(597)	(26)
Under-Recovery of Facilities Charges	47	262	(215)
Under-Recovery from Rounding	15	12	3
Reactive Demand Revenue	<u>(811)</u>	<u>(746)</u>	<u>(65)</u>
Subtotal	\$33,217	\$32,096	\$1,121
 KW demand	 15,575,321	 14,924,883	 650,438
Proposed Charge	\$2.13	\$2.15	\$1.72

Prior to the true-up, my analysis of the Distribution Demand Charge applies the same charges for secondary customers as primary customers, i.e., \$2.10 per kW. (This is derived by dividing “Distribution Demand Costs” by “kW demand.”) As shown in Table KCH-1S, when PGE trues-up the “other” distribution costs by applying their over/under-collection amounts to the Distribution Demand Charge, PGE does not distinguish between primary and secondary customers. For example, PGE does not attempt to assign unrecovered secondary customer-related costs exclusively to secondary customers, but spreads the true-up to all Schedule 83 customers, including primary. PGE similarly

1 spreads the other true-up components to secondary and primary customers
2 without regard to cost causation between them.

3 In contrast, I re-allocate the true-up component of the Distribution Demand
4 Charge by assigning secondary costs/credits to Schedule 83-S and by assigning
5 primary costs/credits to Schedule 83-P, consistent with the cost information in
6 PGE's workpapers. Properly allocating the true-up component results in a
7 Distribution Demand Charge of \$1.72 per kW-month for Schedule 83-P and \$2.15
8 per kW-month for Schedule 83-S.

9 **Q. Does your approach create an undue cost advantage for primary customers**
10 **as suggested by PGE?**

11 A. No. As I stated above, the net effect of my modification to PGE's proposal
12 is that Schedules 83-P and 83-S would receive approximately the same rate
13 increase. This maintains the status quo between Schedules 83-S and 83-P.
14 Moreover, my analysis demonstrates that this result is cost-justified.

15 **Q. What is your response to PGE's discussion of the secondary and primary**
16 **rates in other states?**

17 A. PGE's arguments about the rates in other service territories in which
18 Kroger takes service are largely irrelevant. PGE's rates should be based on its
19 costs, not some other utility's.

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

21 A. I recommend that the Commission adopt my proposed changes to the
22 Schedule 83-S and 83-P Distribution Demand Charge. Adopting my

1 recommendation would result in an approximately equal percentage rate change
2 for the two rate schedules.

3

4 **Revenue Decoupling**

5 **Q. Have you reviewed PGE’s response to your testimony opposing its revenue**
6 **decoupling proposal?**

7 A. Yes, I have. PGE’s response is provided in the rebuttal testimony of Ralph
8 Cavanagh.

9 **Q. What is your response to Mr. Cavanagh’s rebuttal?**

10 A. Mr. Cavanagh’s rebuttal fails to respond to most of the issues raised in my
11 critique of PGE’s proposal. For example, a specific problem I point out with
12 PGE’s proposal is that its “decoupling rider,” Schedule 123, would recover fixed
13 costs associated with PGE’s generation facilities from shopping customers. Mr.
14 Cavanagh and PGE provide no response to this criticism. Moreover, in the limited
15 response Mr. Cavanagh does provide to my testimony, he misquotes it.¹

16 **Q. Does PGE’s rebuttal cause you to modify any of your recommendations on**
17 **decoupling in your direct testimony?**

18 A. No.

19

20 **Domestic Production Activities Deduction**

21 **Q. Have you reviewed PGE’s response to your testimony regarding the**
22 **Domestic Production Activities Deduction?**

¹ The quotation attributed to my testimony on page 20, lines 19-21, of Mr. Cavanagh’s rebuttal does not appear in my testimony in this case, but is a phrase I used in a Utah proceeding.

1 A. Yes. PGE maintains that its Domestic Production Activities deduction will
2 be zero in 2009 due in large part to the aggressive accelerated depreciation the
3 Company will take on a portion of its generation assets. Moreover, the Company
4 states that SB 408 will true-up for any difference between the actual Domestic
5 Production Activities deduction and the amount attributed for ratemaking.

6 **Q. What is your response to PGE's rebuttal?**

7 A. The SB 408 true-up mitigates my concern that a positive Domestic
8 Production Activities deduction would not be passed on to ratepayers.
9 Consequently, I am withdrawing my recommendation for a revenue requirement
10 adjustment attributable to the Domestic Production Activities deduction in this
11 proceeding. However, I believe that potential ratepayer benefits from the
12 Domestic Production Activities deduction should be considered in subsequent rate
13 proceedings.

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

15 A. Yes, it does.

