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**VIA ELECTRONIC MAIL AND
OVERNIGHT MAIL**

January 17, 2012

Mr. David E. Danner
Executive Director and Commission Secretary
Washington Utilities and Transportation Commission,
P.O. Box 47250
1300 S. Evergreen Park Drive, S.W.
Olympia, Washington 98504-7250

Re: Docket No. UE-111048 and UG-111049

Dear Mr. Danner:

Enclosed please find the original and eighteen (18) copies of the PREFILED CROSS-ANSWERING TESTIMONY OF KEVIN C. HIGGINS on behalf of THE KROGER CO. filed in the above-referenced matter. Please note that we also filed the above via electronic mail on same date.

By copy of this letter, all parties listed on the Certificate of Service have been electronically served. Please place this document of file.

Very Truly Yours,

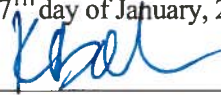


Kurt J. Boehm, Esq.
BOEHM, KURTZ & LOWRY

MLKkew
Enclosures
cc: Certificate of Service

CERTIFICATE OF SERVICE

I hereby certify that I have this day served a copy of the parties listed on the attached Master Service List by regular U.S. mail and electronic mail (when available) this 17TH day of January, 2012.



Kurt J. Boehm, Esq.

**EXHIBIT NO. ____ (KCH-6T)
DOCKET NO. UE-111048/UG-111049
2011 PSE GENERAL RATE CASE
WITNESS: KEVIN C. HIGGINS**

**BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

**WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,**

Complainant,

v.

PUGET SOUND ENERGY, INC.,

Respondent.

**Docket No. UE-111048
Docket No. UG-111049**

**PREFILED CROSS-ANSWERING TESTIMONY OF
KEVIN C. HIGGINS
ON BEHALF OF THE KROGER CO.**

January 17, 2012

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1 **CROSS-ANSWERING 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. Are you the same Kevin C. Higgins who previously pre-filed response**
8 **testimony in the electric portion of this proceeding on behalf of The Kroger**
9 **Co. (“Kroger”)?**

10 A. Yes, I am.

11 **Q. What is the purpose of your cross-answering testimony?**

12 A. My cross-answering testimony responds to the response testimony of
13 Ralph C. Cavanagh filed on behalf of the NW Energy Coalition on the subject of
14 revenue decoupling and PSE’s proposed Conservation Savings Adjustment rate.

15 **Q. Please summarize your conclusions and recommendations.**

16 Mr. Cavanagh opposes adoption of PSE’s proposed Conservation Savings
17 Adjustment rate, and recommends instead that a full revenue decoupling
18 mechanism be adopted for PSE’s electric rates. In my response testimony, I also
19 recommended against adoption of PSE’s proposed Conservation Savings
20 Adjustment rate. However, I also recommended against adoption of revenue
21 decoupling; and further explained that, given the choice between full revenue
22 decoupling and a lost-revenue approach, a lost revenue approach is preferable, so
23 long as certain protections to customers are included. Consistent with the

1 discussion in my response testimony, I recommend against adoption of Mr.
2 Cavanagh's proposal for full revenue decoupling.

3
4 **Response to Mr. Cavanagh**

5 **Q. What does Mr. Cavanagh recommend with respect to PSE's proposed**
6 **Conservation Savings Adjustment?**

7 A. Mr. Cavanagh opposes adoption of PSE's proposed Conservation Savings
8 Adjustment rate, and recommends instead that a full revenue decoupling
9 mechanism be adopted for PSE's electric rates.

10 **Q. Do you recommend the adoption of a full decoupling mechanism in this**
11 **proceeding?**

12 A. No, I do not. As I stated in my response testimony, decoupling is as
13 much a "revenue assurance" mechanism as it is a "conservation enabling"
14 mechanism. As such, it is sure to capture a much wider range of effects than just
15 customer responses to utility-sponsored energy efficiency programs. For
16 example, decoupling provides unwarranted insulation to the utility from the
17 effects of price elasticity. Generally, all sellers of goods face a risk that price
18 increases will reduce sales. But, with decoupling, if customers respond to utility
19 rate hikes by reducing their electricity usage, fixed charges are increased to
20 compensate the utility for any resultant reduction in per-customer usage. Such an
21 increase reflects an undue transfer of risk from utilities to customers.

22 Further, to the extent that customers reduce usage in response to economic
23 conditions or otherwise practice self-funded energy conservation, these behaviors

1 will be captured in the decoupling adjustment and unduly increase rates to
2 customers.

3 Moreover, targeting “average usage per customer” and attempting to
4 maintain a constant “revenue per customer” or “fixed-cost recovery per customer”
5 – as recommended by Mr. Cavanagh – is not an appropriate rate design objective
6 for larger non-residential customers. The fixed-cost recovery per customer of
7 these classes will be very sensitive to the *composition* of these customers. Given
8 the tremendous diversity among non-residential customers, attempting to attribute
9 to utility-sponsored energy conservation projects changes in “average fixed-cost
10 recovery per customer” of non-residential customers is meaningless. The concept
11 of an “average” non-residential customer for this purpose is without merit as a
12 ratemaking mechanism.

13 Changes in the overall economy are far more likely to influence fixed-cost
14 recovery per customer for non-residential customers than energy conservation
15 programs. Application of decoupling to these customers would result in undue
16 changes in rates in response to factors that are unrelated to energy conservation.

17 **Q. Are you familiar with any utilities that had implemented a decoupling**
18 **mechanism for larger non-residential customers based on “average usage per**
19 **customer” and later concluded that it was not appropriate?**

20 A. Yes. In a recent Detroit Edison rate case, Case No. U-16472, Detroit
21 Edison witness Don M. Stanczak testified that the usage-per-customer-based
22 revenue decoupling mechanism (“RDM”) approved by the Michigan Public
23 Service Commission for Detroit Edison was subject to the very shortcomings I am

1 warning about here and failed to accomplish its intended purpose, particularly for
2 larger customers. As described by Mr. Stanczak:

3
4 Edison's current RDM compares average actual electric use per customer by
5 customer class to the level of average electric use per customer used to set
6 Edison's base rates in the last rate case, Case No. U-15768. Increases, if any, in
7 average energy use per customer will be multiplied by the average per kWh
8 revenue, from the last rate case, for each class; this total amount will result in
9 customer credits. Similarly, any reductions in average energy use per customer
10 will be multiplied by the average per kWh revenue from the last rate case, with
11 the total being surcharged to customers...

12
13 Edison's pilot RDM has been in operation since February of 2010. Based on our
14 experience, it is clear that Edison's current RDM does not meet the requirements
15 of a well designed RDM. Edison's current RDM is highly sensitive to changes in
16 the number of customers, particularly relative to Commercial and Industrial (C&I)
17 customer classes, which have far fewer absolute numbers of customers than the
18 residential class. More specifically, small changes in numbers of customers, due
19 to such things as plant closing, customer additions, migration among customer
20 classes, including migration to Electric Choice, and the like, have a huge impact
21 on changes in average use per customer. As I indicated earlier, this is particularly
22 true for the C&I customer classes which tend to have relatively low customer
23 counts and high average electric use per customer.

24
25 ...[G]iven the sensitivity to customer counts, Edison's current RDM could result
26 in Edison improperly being required to issue refunds to customers even though
27 Edison's [energy optimization ("EO")] programs are producing the planned sales
28 reductions and or even if Edison's sales are declining on an absolute basis.
29 Similarly, the RDM could as likely result in Edison surcharging customers even
30 though its EO programs are not producing the planned energy reductions. In
31 summary, the current Edison RDM is not accomplishing its intended purpose.¹
32

33 The Detroit Edison full decoupling mechanism described by Mr. Stanczak
34 had been initiated by Detroit Edison and adopted by the Michigan Public Service
35 Commission against my recommendations (and the recommendations of others)
36 in 2009.² And yet by late 2010, Detroit Edison was proposing to abandon it in

¹ Michigan Public Service Commission, Case No. U-16472. Pre-filed direct testimony of Don M. Stanczak, pp. 14-16, October 29, 2010.

² Michigan Public Service Commission, Case No. U-15768.

1 favor of a lost-revenues approach because of the problems and shortcomings
2 described above by the utility's witness.

3 **Q. In his response testimony, Mr. Cavanagh refers several times to a decoupling**
4 **policy statement issued by the Arizona Corporation Commission in 2011.**
5 **Are you familiar with the current state of the debate over electric decoupling**
6 **in Arizona?**

7 A. Yes, I am. In 2011, Arizona's largest public utility, Arizona Public
8 Service Company ("APS"), filed a general rate case and proposed to implement,
9 as part of its filing, full revenue decoupling.

10 APS's proposal for full revenue decoupling was opposed by the Arizona
11 Corporation Commission Staff, AARP, the industrial and commercial customer
12 intervention group, and several customers intervening on their own behalf.

13 In January 2012, APS joined a multi-party settlement agreement in which
14 the utility abandoned its proposal for full revenue decoupling in favor of a
15 narrowly-tailored Lost Fixed Cost Recovery ("LFCR") mechanism applicable
16 only to customers with demands below 400 kW. The APS settlement agreement
17 includes an opt-out rate design for residential customers who choose not to
18 participate in the LFCR. For customers with demands of 400 kW or greater, the
19 APS settlement agreement addresses the concerns over fixed cost recovery
20 through rate design, i.e., properly-designed customer and demand charges – the
21 same approach that I am recommending be explored in this case.

22 I participated in the negotiation of the APS settlement agreement on behalf
23 of Arizona's industrial and commercial customer intervention group and support

1 the narrowly-tailored alternative to full decoupling that was negotiated by the
2 Arizona parties. The multi-party alternative to decoupling will be presented to the
3 Arizona Corporation Commission for its consideration in the upcoming weeks.

4 **Q. What is the upshot of your cross-answering testimony?**

5 A. Although I continue to recommend against adoption of PSE's proposed
6 Conservation Savings Adjustment rate, I also recommend that the Commission
7 reject the full revenue decoupling proposal being advanced by Mr. Cavanagh. If
8 the Commission determines that some type of fixed-cost recovery mechanism is
9 warranted, there are better alternatives, as stakeholders in Arizona have
10 concluded.

11 **Q. Does this conclude your cross-answering testimony?**

12 A. Yes, it does.

BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

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PUGET SOUND ENERGY, INC.,

Respondent.

Docket No. UE-111048


Docket No. UG-111049

AFFIDAVIT OF KEVIN C. HIGGINS

STATE OF UTAH)
)
COUNTY OF SALT LAKE)

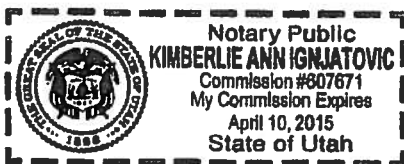
Kevin C. Higgins, being first duly sworn, deposes and states that:

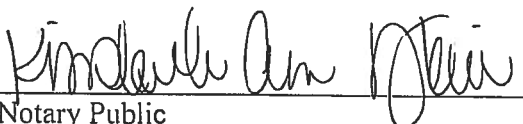
1. He is a Principal with Energy Strategies, L.L.C., in Salt Lake City, Utah;
2. He is the witnesses who sponsors the testimony entitled "Cross-Answering Testimony of Kevin C. Higgins";
3. Said testimony was prepared by him;
4. If inquiries were made as to the facts in said testimony and exhibits he would respond as therein set forth; and
5. The aforesaid testimony is true and correct to the best of his knowledge, information and belief.



Kevin C. Higgins

Subscribed and sworn to or affirmed before me this 17th day of January, 2012, by Kevin C. Higgins.





Notary Public

MASTER SERVICE LIST

As of: 12/7/2011

Docket: 111048

Original MSL Date: 6/14/2011

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