

BOEHM, KURTZ & LOWRY

ATTORNEYS AT LAW
36 EAST SEVENTH STREET
SUITE 1510
CINCINNATI, OHIO 45202
TELEPHONE (513) 421-2255
TELECOPIER (513) 421-2764

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IDAHO PUBLIC
UTILITIES COMMISSION

Via Hand Delivery

November 16, 2011

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

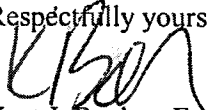
In re: Case No. IPC-E-11-08

Dear Ms. Jewell:

Enclosed please find the original and (9) copies of the REBUTTAL TESTIMONY OF KEVIN C. HIGGINS on behalf of THE KROGER CO. d/b/a FRED MEYER AND SMITH'S FOOD AND DRUG to be filed in the above referenced matter. I also attach a CD containing same in .Word format.

Please place this document of file.

Respectfully yours,



Kurt J. Boehm, Esq.

Jody M. Kyler, Esq.

BOEHM, KURTZ & LOWRY

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Encl.

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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)
IN IDAHO)**

Case No. IPC-E-11-08

Rebuttal Testimony of Kevin C. Higgins

on behalf of

The Kroger Co.

November 16, 2011

1 **REBUTTAL 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 pre-filed direct testimony in this case**
8 **on behalf of The Kroger Co. (“Kroger”)?**

9 A. Yes, I am.

10 **Q. What is the purpose of your rebuttal testimony?**

11 A. My rebuttal testimony responds to the positions of other parties on the
12 issue of the appropriate level of the Energy Efficiency Rider, Schedule 91.
13 Specifically, I respond to proposals from the PUC Staff to reduce the Rider from
14 4.75% to 4.0% and the NW Energy Coalition, the Idaho Conservation League,
15 and the Snake River Alliance – collectively the Conservation Parties – to maintain
16 the Rider at 4.75%.

17 **Q. Please summarize your rebuttal testimony.**

18 A. In my direct testimony I recommend that the Energy Efficiency Rider be
19 reduced from 4.75% to 3.40%. I continue to recommend adoption of this
20 proposal. My proposal will increase the funding available for energy efficiency
21 programs by \$6.35 million relative to current funding levels, after taking into
22 account the fact that \$16.4 million in Demand Response and Custom Efficiency
23 Incentives program costs are in the process of being shifted from energy
24 efficiency funding into base rates, as pointed out by Staff witness Don English. I

1 believe my proposal strikes the appropriate balance between energy efficiency
2 funding and customer rate impacts.

3 PUC Staff proposes to reduce the Energy Efficiency Rider to 4.0%. When
4 taken in combination with the 4.1% rate increase proposed in the Stipulation,
5 Staff's proposal increases net funding for energy efficiency by \$16.6 million
6 relative to 2010 levels. I recognize and appreciate that Staff is taking into account
7 the transfer of major program funding from the Energy Efficiency Rider into base
8 rates and is attempting strike a balance between energy efficiency funding and
9 customer rate impacts. However, in my view, Staff's proposal is still too heavily
10 weighted toward increased program funding.

11 The Conservation Parties recommend that the Energy Efficiency Rider
12 remain at its current level of 4.75%. The level of energy efficiency funding
13 recommended by the Conservation Parties represents an increase of
14 approximately \$23 million relative to 2010 levels. In my view, this is
15 overreaching and should be rejected by the Commission.

16
17 **Response to PUC Staff**

18 **Q. What does the PUC Staff recommend with respect to the level of the Energy**
19 **Efficiency Rider?**

20 A. PUC Staff witness Donn English recommends that the Energy Efficiency
21 Rider be reduced from 4.75% to 4.0%. Mr. English points out two major
22 considerations to support his recommendation: (1) the shifting of \$11.25 million
23 in demand response program costs from energy efficiency funding into base rates
24 pursuant to the proposed Stipulation; and (2) the establishment of a regulatory

1 asset for Custom Efficiency Incentives pursuant to Order No. 32245 that removes
2 \$5.2 million from energy efficiency cost recovery. When taken in combination
3 with the 4.1% rate increase proposed in the Stipulation, Mr. English points out
4 that Staff's proposal actually increases net funding for energy efficiency by \$16.6
5 million relative to 2010 levels. This would be a 92% increase in available energy
6 efficiency funds after moving the incentive payments for Demand Response
7 programs and incentives paid under the Custom Efficiency program from DSM
8 Rider funding into base rates.

9 **Q. What is your response to Staff's proposal?**

10 A. I appreciate that Staff is taking into account the transfer of major program
11 funding from the Energy Efficiency Rider into base rates and is attempting strike
12 a balance between energy efficiency funding and customer rate impacts.
13 However, in my view, Staff's proposal is still too heavily weighted toward
14 increased funding. A 92% increase in available energy efficiency funds is too
15 steep a ramp-up when customers are also facing a rate increase. Greater weight
16 should be given to customer rate impacts.

17 As I stated in my direct testimony, my proposal to reset the Energy
18 Efficiency Rider to 3.40% would increase the funding available for energy
19 efficiency programs by \$1.2 million when considering the shift in \$11.25 million
20 in demand response program costs from energy efficiency funding into base rates.
21 But as Mr. English points out, another \$5.2 million is being shifted into base rates
22 as a result of the establishment of a regulatory asset for Customer Efficiency
23 Incentives pursuant to Order No. 32245. When this additional headroom is taken
24 into account, my proposal to reset the Energy Efficiency Rider to 3.40% would

1 actually increase the funding available for energy efficiency programs by \$6.35
2 million. In my opinion, this strengthens the case for a reduction in the Rider to
3 3.4%.

4
5 **Response to Conservation Parties**

6 **Q. What do the Conservation Parties recommend with respect to the level of the**
7 **Energy Efficiency Rider?**

8 A. As presented in the direct testimony of Nancy Hirsch, the Conservation
9 Parties recommend that the Energy Efficiency Rider remain at its current level of
10 4.75%.

11 **Q. What is the Conservation Parties' rationale for retaining this level of charges**
12 **in light of the headroom that is created by the shifting of \$16.4 million of**
13 **current funding into base rates?**

14 A. Ms. Hirsch argues that the increased revenue available should be used to:
15 (1) pay down in one year the \$8 million balance owed by customers due to prior
16 period spending in excess of revenues collected; (2) continue the level of program
17 spending that led to the \$8 million balance owing; and (3) expand program
18 spending beyond this level by an additional \$7 million per year.

19 **Q. Do you believe this level of program expansion is reasonable?**

20 A. No. I do not agree that it is reasonable to be expanding the funding to the
21 degree advocated by the Conservation Parties. As I discussed above, a 3.4%
22 Rider would increase energy efficiency funding by \$6.35 million per year. At a
23 Rider of 4.0%, Staff demonstrates that its proposal would increase funding by
24 \$16.6 million over 2010 levels. Maintaining the Rider at 4.75% would add

1 another \$6.5 million per year to Staff's calculation. Thus, the level of energy
2 efficiency funding recommended by Ms. Hirsch represents an increase of
3 approximately \$23 million relative to 2010 levels. In my view, this is
4 overreaching.

5 **Q. Why shouldn't energy efficiency funding continue to be expanded so long as**
6 **it is cost effective?**

7 A. Even if energy efficiency is cost-effective it is still important to consider
8 the importance of short-term rate impacts. When energy efficiency programs pass
9 the standard tests used to determine cost effectiveness it may be tempting to
10 become complacent about the potential short-term rate impacts of the energy
11 efficiency investments. So long as an investment is cost effective, the argument
12 goes, society is better off if the investment is made, so we should strive to make
13 the incremental investment capital available. What sometimes gets overlooked in
14 this situation is that energy efficiency cost-effectiveness is measured (properly)
15 over the life of the investment by comparing it to the cost of supply-side
16 alternatives. Yet, the costs of the supply-side alternatives with which energy
17 efficiency competes are recovered from customers in a very different manner than
18 the cost of efficiency investments: supply side costs are recovered from customers
19 over the life of the investment, e.g., 35 years, smoothing out the rate impact over
20 time, whereas efficiency investment costs typically are recovered in full from
21 customers by the utility upfront, i.e., expensed in a single year. This mismatch
22 between cost recovery periods of supply-side and demand-side resources explains,
23 in part, why energy efficiency that is cost effective can nevertheless cause
24 unreasonable rate impacts in certain situations. Add to this the fact that utility

1 energy efficiency programs are fundamentally structured as cross subsidies
2 among individual customers, and we come to the obvious (but sometimes
3 overlooked) conclusion that short-term rate impacts do matter.

4 **Q. What is your recommendation to the Commission with respect to the**
5 **proposal by the Conservation Parties to continue the Energy Efficiency Rider**
6 **at its current level of 4.75%?**

7 A. I recommend that the proposal be rejected in light of the additional
8 headroom that is now available.

9 **Q. Does this conclude your rebuttal testimony?**

10 A. Yes, it does.

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)
IN IDAHO)

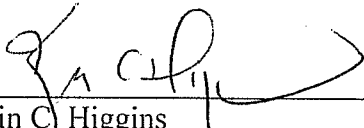
Case No. IPC-E-11-08

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 in said testimony 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.



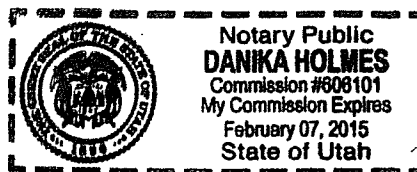
Kevin C Higgins

Subscribed and sworn to or affirmed before me this 15th day of October, 2011, by Kevin C. Higgins.




Notary Public

My Commission Expires: 2.2015



CERTIFICATE OF SERVICE

I hereby certify that true copy of the foregoing was served by electronic mail (when available) and regular U.s. mail, unless otherwise noted, this 16TH day of November, 2011 to the following:


Kurt J. Boehm, Esq.
Jody M. Kyler, Esq.

IDAHO POWER COMPANY
Lisa D. Nordstrom
Donovan E. Walker
Jason B. Williams
Idaho Power Company
1221 W. Idaho St. (83702)
Boise, ID 83707-0070
E-mail: lnordstrom@idahopower.com
dwalker@idahopower.com
jwilliams@idahopower.com

Gregory W. Said
Vice President, Regulatory Affairs
Idaho Power Company
1221 W. Idaho St. (83702)
P0 Box 70
Boise, ID 83707-0070
E-mail: gsaid@idahopower.com

COMMISSION STAFF:
Donald L. Howell, II
Karl Klein
Deputy Attorneys General
Idaho Public Utilities Commission
472 W, Washington (83702)
P0 Box 83720
Boise, ID 83720-0074
E-mail: don.howell@puc.idaho.gov
karl.klein@puc.idaho.gov

IDAHO IRRIGATION PUMPERS
ASSOCIATION, INC:
Eric L. Olsen
Racine, Olson, Nye, Budge & Bailey, Chartered
201 E. Center
P0 Box 1391
Pocatello, ID 83204-1391
E-mail: elo@racinelaw.net

Anthony Yanicel
29814 Lake Road
Bay Village, OH 44140
E-mail: tony@yankel.net

INDUSTRIAL CUSTOMERS OF IDAHO
POWER:
Peter J. Richardson
Gregory M. Adams
Richardson & O'Leary, PLLC
515 N. 77th Street, P0 Box 7218
Boise, ID 83702
E-mail: peter@richardsonandoleary.com
greg@richardsonandoleary.com

Don Reading
6070 Hill Road
Boise, ID 83703
E-mail: dreading@mindspring.com

THE UNITED STATES DEPARTMENT OF
ENERGY:
Arthur Perry Bruder
Attorney-Advisor
United States Department of Energy
1000 Independence Ave., SW
Washington, DC 20585
Email: Arthur.bruder@hq.doe.gov

Dwight Etheridge
Exeter Associates, Inc.
5565 Sterrett Place, Suite 310
Columbia, MD 21044
Email: detheridge@exeterassociates.com

Steven A. Porter
Assistant General Counsel
Electricity and Fossil Energy
United State Department of Energy
E-mail: steven.porter@hq.doe.gov

COMMUNITY ACTION PARTNERSHIP
ASSOCIATION OF IDAHO:

Brad M. Purdy, Attorney at Law
2019 N. 17th St.
Boise, ID 83702
E-mail: bmpurdy@hotmail.com

MICRON TECHNOLOGY, INC:

Richard E. Malmgren
Sr. Asst. General Counsel
Micron Technology, Inc.
800 South Federal Way
Boise, ID 83716
E-mail: remalmgren@micron.com

Mary V. York
Thorvald A. Nelson
Mark A. Davidson
Holland & Hart, LLP
6800 S. Fiddlers Green Circle
Suite 500
Greenwood Village, CO 80111
Email: myork@hollandhart.com
tnelson@hollandhart.com
madavidson@hollandhart.com

IDAHO CONSERVATION LEAGUE:

Benjamin J. Otto
Idaho Conservation League
710 N. Sixth Street
PO Box 844
Boise, ID 83701
Email: botto@idahoconservation.org

SNAKE RIVER ALLIANCE:

Ken Miller
Snake River Alliance
PO Box 1731
Boise, ID 83701
Email: kmiller@snakeriveralliance.org