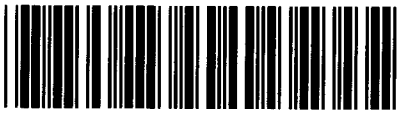
Control Number: 39896



Item Number: 611

Addendum StartPage: 0

BEFORE THE PUBLIC UTILITY COMMISSION OF TEXAS

PUC DOCKET NO. 39896

APPLICATION OF ENTERGY TEXAS, INC. FOR AUTHORITY TO CHANGE RATES AND RECONCILE FUEL COSTS	)))))))

CROSS REBUTTAL TESTIMONY OF

KEVIN C. HIGGINS

ON BEHALF OF

THE KROGER CO.

APRIL 11, 2012

CROSS 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 pre-filed direct testimony on behalf of The Kroger Co. ("Kroger") in this docket?

A. Yes, I am.

Q. What is the purpose of your Cross Rebuttal testimony?

A. My testimony responds to the direct testimony of Office of Public Utility Counsel ("OPC") witness Nathan A. Benedict regarding ETI's use of the Average and Excess Demand/4CP method for allocating production and transmission costs.

Q. Please summarize the conclusions of your Cross Rebuttal testimony.

A. I recommend that the Commission reject Mr. Benedict's proposal to substitute the Average and Peak method for the Average and Excess Demand/4CP method for allocating production and transmission costs.

Response to Mr. Benedict

Q. What aspect of Mr. Benedict's direct testimony are you addressing?

A. I am responding to Mr. Benedict's recommendation to abandon the use of the Average and Excess/4 CP ("A&E/4CP") cost allocation method and replace it with the Average and Peak ("A&P") method.

Q. What is your response to Mr. Benedict's proposal?

A. I disagree with Mr. Benedict's proposal. As Mr. Benedict admits, the Commission has previously given due consideration to the merits of the A&E/4CP method and found that this method best recognizes the contribution of both peak demand and the pattern of capacity throughout the year. I agree with the Commission's previous finding on this point and further note that Average and Excess Demand method is a well-accepted method for allocating production costs. In my personal experience, I am aware of this method being approved by regulatory commissions in Arizona, Colorado, New Mexico, Virginia, and Kentucky.

Mr. Benedict's argument to overturn past Commission precedent derives from his observation that the use of the A&E/4CP method produces a result that is very similar to the 4CP method.[1] Mr. Benedict maintains that because of this similarity, the A&E/4CP fails to properly allocate costs to off-peak demand. Mr. Benedict proposes that the A&E/4CP method be replaced by the A&P method.

Mr. Benedict's critique is directed specifically to the variant of the Average and Excess Demand method used by ETI, in which excess demand is

[1] Pre-filed direct testimony of Nathan A. Benedict, pp. 20-22.

allocated using a 4 CP metric. Significantly, his critique does not apply to what I would term the "standard" Average and Excess Demand method as described in the *Electric Utility Cost Allocation Manual* published by the National Association of Regulatory Utility Commissioners ("NARUC Manual").

Q. Please describe the "standard" Average and Excess Demand method.

A. As described in the NARUC Manual, the Average and Excess Demand method uses an average demand or total energy allocator to allocate that portion of the utility's generating capacity that would be needed if all customers used energy at a constant 100 percent load factor.[2] The cost of capacity above average demand is then allocated in proportion to each class's excess demand, where excess demand is measured as the *difference* between each class's individual peak demand[3] and its average demand. In this manner, the incremental amount of production plant that is required to meet loads that are above average demand is assigned to the users who create the need for the additional capacity. The fundamental difference between the "standard" Average and Excess Demand method and the A&E/4CP variant used by ETI is in the measurement of excess demand: the ETI variant uses a 4 CP to measure excess demand, whereas the conventional version uses class non-coincident peak ("NCP").

Q. Does the standard Average and Excess Demand method converge to a CP result as discussed by Mr. Benedict?

A. No, it does not.

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[2] NARUC Electric Utility Cost Allocation Manual, January 1992, p. 49.
[3] A class's individual peak demand is often referred to as "Class Non-Coincident Peak Demand" or "Class NCP."

Q. Do you believe the standard Average and Excess Demand method produces reasonable results?

A. Yes. The Average and Excess method addresses a fundamentally important question in production cost allocation: once we've accounted for the capacity needed to serve the average demand on the system, how should we fairly assign the responsibility for the *additional* (or excess) capacity that is needed to meet the various capacity requirements put on the system by each customer class? The Average and Excess method makes an objective and reasonable attempt to answer this question.

Q. Have you calculated the allocation factors for the standard Average and Excess Demand method applied to ETI's production and transmission costs?

A. Yes. These calculations are presented in Exhibit KCH-4 and Exhibit KCH-5, and are summarized respectively in Table KCH-1 and Table KCH-2, below.

Table KCH-1

Comparison of Production Allocation Factors

Rate Class	ETI Proposed A&E/4CP	"Standard" A&E	OPC Recommended A&P
Residential	47.4493%	48.4013%	40.1181%
Small General Service	2.0990%	2.7209%	2.0595%
General Service	18.0259%	18.5183%	19.4933%
Large General Service	7.0794%	6.6558%	8.3822%
Large Industrial Power Service	20.4401%	20.2122%	25.5485%
Total Lighting	0.2900%	0.4042%	0.2768%
Total Texas Retail	95.3838%	96.9127%	95.8784%
Total Wholesale & Wheeling	4.6162%	3.0873%	4.1216%
Total Company	100%	100%	100%

Table KCH-2

Comparison of Transmission Allocation Factors

Rate Class	ETI Proposed A&E/4CP	"Standard" A&E	OPC Recommended A&P
Residential	49.7415%	49.6370%	41.8145%
Small General Service	2.2006%	2.7900%	2.1472%
General Service	18.8989%	19.1424%	20.3330%
Large General Service	7.4227%	6.9259%	8.7465%
Large Industrial Power Service	21.4323%	21.0859%	26.6691%
Total Lighting	0.3040%	0.4187%	0.2897%
Total Texas Retail	100%	100%	100%
Total Wholesale & Wheeling	0%	0%	0%
Total Company	100%	100%	100%

Q. Are you recommending that the Commission adopt the standard Average and Excess Demand method in this case?

A. No. I am not recommending that the Commission abandon the A&E/4CP method, even though the standard Average and Excess Demand method is grounded in sound reasoning and produces equitable results. Rather, I am simply presenting the standard Average and Excess Demand method for the Commission's consideration in response to Mr. Benedict's critique that the A&E/4CP method produces results that are very similar to the 4 CP. The standard Average and Excess Demand method is not subject to this criticism propounded by Mr. Benedict. At the same time, the standard Average and Excess Demand method is philosophically very close to the method currently approved by the Commission. If the Commission wished to adjust its approved production and transmission cost allocation method in response to Mr. Benedict's argument

concerning convergence with 4 CP, it would be far more reasonable to shift to the standard Average and Excess Demand method rather than undertake the radical departure to the A&P method espoused by Mr. Benedict.

Q. Why do you consider shifting to the A&P method to be a radical departure from the current cost allocation philosophy?

A. As I noted above, the Average and Excess demand method begins by allocating a portion of costs on the basis of average demand – or energy. The remaining (or "excess") capacity needs of the system are then allocated to classes based on peak usage – class NCP in the case of the "standard" approach, 4 CP in the case of the A&E/4CP method. In contrast, the A&P method proposed by Mr. Benedict, which is classified by the NARUC Manual as a "Judgmental Energy Weighting" approach, incorporates a subjective determination that includes the full value of average demand both in the "average" component of the A&P calculation as well as in the peak component of that calculation. In his testimony, Mr. Benedict addresses this "double-counting" critique of the A&P method and dismisses it as a red herring.[4]

Q. Do you disagree with Mr. Benedict's dismissal of the double-counting critique of the A&P method?

A. My answer depends on what aspect of the critique Mr. Benedict is attempting to dismiss. Mr. Benedict is correct when he states that the average and peak components of the A&P allocator are weighted and that the percentages used to weight each component sum to 100 percent.[5] Thus, the A&P method does not

[4] Pre-filed direct testimony of Nathan A. Benedict, p. 24.
[5] Ibid, p. 25.

double-count in the sense of committing a mathematical error. On the other hand, there is a legitimate critique of the A&P method that concerns the subjective decision to fully-weight average demand twice as part of the allocation calculation ("double count" in a conceptual sense as opposed to commission of a mathematical error). This "double-weighting" of average demand causes greater cost responsibility to be assigned to higher-load-factor customer classes, without a reasonable basis, in my opinion. As implied by the classification of this method in the NARUC Manual as a "Judgmental Energy Weighting" approach, shifting costs to higher-load factor customers in this manner is a matter of subjective judgment, one with which I strongly disagree, and which I encourage the Commission to reject.

Q. Does this conclude your Cross Rebuttal testimony?

A. Yes, it does.

BEFORE THE PUBLIC UTILITY COMMISSION OF TEXAS

Application of Entergy Texas, Inc. for Authority to Change Rates and Reconcile Fuel Costs	§	PUC Docket No. 39896

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 "Cross Rebuttal Testimony of Kevin C. Higgins;"

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

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 11th day of April, 2012, by Kevin C. Higgins.

Notary Public

Notary Public
KIMBERLIE ANN IGNJATOVIC
Commission #607671
My Commission Expires
April 10, 2015
State of Utah

DEVELOPMENT OF "STANDARD" AVERAGE & EXCESS PRODUCTION DEMAND ALLOCATION FACTORS

FOR THE TWELVE MONTHS ENDING JUNE 30, 2011

LINE NO	CLASS OF SERVICE	ENERGY @ PLANT[1] MWH	AVERAGE DEMAND[1] 8,760 HRS KW	AVERAGE DEMAND[1] RATIO	1 CP @ PLANT[2] KW	LOAD FACTOR WEIGHTING 59 4798% (e x 5948)	CLASS NCP @ PLANT[3] KW	EXCESS DEMAND KW	EXCESS DEMAND RATIO	1 - LOAD FACTOR WEIGHTING 40.5202% (j x 4052)	NCP AVERAGE AND EXCESS FACTOR (g + k)
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)
	Residential										
1	Secondary	6,072,340	693,189	34 1861%	1,635,233	20.3338%	3,423,255	2,730,066	69.2678%	28 0675%	48.4013%
	Small General Service										
2	Secondary	338,352	38,625	1 9049%		1.1330%	193,078	154,453	3 9188%	1 5879%	2 7209%
3	Primary	-	-	0 0000%		0 0000%		-	0 0000%	0 0000%	0 0000%
4	Total Small General Service	338,352	38,625	1 9049%	77,732	1 1330%	193,078	154,453	3 9188%	1.5879%	2.7209%
	General Service										
5	Secondary	3,320,473	379,049	18 6936%		11 1189%	998,634	619,585	15 7202%	6 3699%	17 4888%
6	Primary	161,074	18,387	0 9068%		0.5394%	44,355	25,968	0.6589%	0.2670%	0.8063%
7	Transmission Below 230 kV	53,204	6,074	0.2996%		0.1782%	10,459	4,385	0 1113%	0 0451%	0.2233%
8	Total General Service	3,534,751	403,510	19 8999%	643,866	11.8364%	1,053,448	649,938	16.4904%	6 6819%	18 5183%
	Large General Service										
9	Secondary	1,123,274	128,228	6.3238%		3 7614%	208,367	80,139	2 0333%	0 8239%	4 5853%
10	Primary	427,884	48,845	2.4089%		1 4328%	76,908	28,063	0.7120%	0.2885%	1 7213%
11	Transmission Below 230 kV	86,827	9,912	0 4888%		0.2907%	15,589	5,677	0 1440%	0 0584%	0 3491%
12	Total Large General Service	1,637,985	186,985	9 2216%	249,406	5 4850%	300,864	113,879	2 8894%	1.1708%	6 6558%
	Large Industrial Power Service										
13	Primary	151,894	17,339	0.8551%		0.5086%	23,477	6,138	0 1557%	0 0631%	0.5717%
14	Transmission Below 230 kV	3,435,856	392,221	19 3432%		11 5053%	569,406	177,185	4 4956%	1.8216%	13 3269%
15	Transmission 230 kV And Above	1,379,971	157,531	7.7690%		4 6210%	230,468	72,937	1.8506%	0 7499%	5 3708%
16	Primary (IS)	-	-	0.0000%		0 0000%	-	-	0 0000%	0 0000%	0 0000%
17	Transmission Below 230 kV (IS)	215,223	24,569	1.2117%		0 7207%	-	(24,569)	-0 6234%	-0 2526%	0 4681%
18	Transmission 230 kV And Above (IS)	218,225	24,912	1 2286%		0 7308%	-	(24,912)	-0 6321%	-0 2561%	0 4747%
19	Total Large Industrial Power Service	5,401,169	616,572	30 4075%	649,317	18 0863%	823,351	206,779	5 2464%	2 1259%	20 2122%
	Roadway Lighting										
20	Secondary	34,910	3,985	0 1965%	-	0 1169%	8,833	4,848	0 1230%	0 0498%	0 1667%
	Non-Roadway Lighting										
21	Secondary	49,228	5,620	0 2772%	-	0 1649%	12,686	7,066	0 1793%	0 0726%	0 2375%
22	**Total Lighting**	84,138	9,605	0 4737%	-	0 2818%	21,519	11,914	0 3023%	0 1225%	0 4042%
23	**Total Texas Retail**	17,068,735	1,948,486	96 0936%	3,255,554	57 1563%	5,815,515	3,867,029	98 1150%	39.7564%	96 9127%
	Wholesale For Resale										
24	Primary	-	-	0 0000%		0 0000%	-	-	0 0000%	0 0000%	0 0000%
25	Transmission Below 230 kV	-	-	0 0000%		0 0000%	-	-	0 0000%	0 0000%	0 0000%
26	Transmission 230 kV And Above	-	-	0 0000%		0 0000%	-	-	0 0000%	0 0000%	0 0000%
27	Primary ETR Tran	94,669	10,807	0 5330%		0 3170%	20,958	10,151	0 2576%	0 1044%	0 4214%
28	Transmission Below 230 kV ETR Tran	590,306	67,387	3 3233%		1 9767%	132,545	65,158	1 6532%	0 6699%	2 6466%
29	Transmission 230 kV And Above ETR Tran	8,890	1,015	0 0501%		0 0298%	-	(1,015)	-0 0258%	-0 0104%	0 0194%
30	Total Wholesale For Resale	693,865	79,209	3 9064%	153,494	2 3235%	153,503	74,294	1 8850%	0 7638%	3 0873%
31	**TOTAL COMPANY**	17,762,600	2,027,695	100 0000%	3,409,048	59 4798%	5,969,018	3,941,323	100 0000%	40 5202%	100 0000%

Data Sources

1 ETI's RFP Schedule P-7 2, A&E 4CP PROD

2 ETI's RFP Schedule O-9 1

3 ETI's RFP Schedule P-7 2, Energy & Demand at Plant.

DEVELOPMENT OF "STANDARD" AVERAGE & EXCESS TRANSMISSION ALLOCATION FACTORS

FOR THE TWELVE MONTHS ENDING JUNE 30, 2011

LINE NO	CLASS OF SERVICE	ENERGY @ PLANT[1] MWH	AVERAGE DEMAND[1] 8,760 HRS KW	RATIO	1 CP @ PLANT[2] KW	LOAD FACTOR WEIGHTING 59.8511% (e x .5985)	CLASS NCP @ PLANT[3] KW	EXCESS DEMAND KW	RATIO	1 - LOAD FACTOR WEIGHTING 40.1489% (j x 4015)	NCP AVERAGE AND EXCESS FACTOR (g + k)
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)
	Residential										
1	Secondary	6,072,340	693,189	35 5758%	1,635,233	21 2925%	3,423,255	2,730,066	70 5985%	28 3445%	49 6370%
	Small General Service										
2	Secondary	338,352	38,625	1 9823%		1 1864%	193,078	154,453	3.9941%	1 6036%	2 7900%
3	Primary	-	-	0 0000%		0 0000%		-	0.0000%	0.0000%	0 0000%
4	Total Small General Service	338,352	38,625	1 9823%	77,732	1 1864%	193,078	154,453	3 9941%	1 6036%	2 7900%
	General Service										
5	Secondary	3,320,473	379,049	19 4535%		11 6431%	998,634	619,585	16 0222%	6 4328%	18 0759%
6	Primary	161,074	18,387	0 9437%		0 5648%	44,355	25,968	0 6715%	0 2696%	0 8344%
7	Transmission Below 230 kV	53,204	6,074	0 3117%		0.1866%	10,459	4,385	0 1134%	0 0455%	0 2321%
8	Total General Service	3,534,751	403,510	20 7089%	643,866	12 3945%	1,053,448	649,938	16 8072%	6.7479%	19.1424%
	Large General Service										
9	Secondary	1,123,274	128,228	6.5809%		3.9387%	208,367	80,139	2 0724%	0 8320%	4 7708%
10	Primary	427,884	48,845	2 5068%		1 5003%	76,908	28,063	0 7257%	0.2914%	1 7917%
11	Transmission Below 230 kV	86,827	9,912	0 5087%		0 3045%	15,589	5,677	0 1468%	0 0589%	0 3634%
12	Total Large General Service	1,637,985	186,985	9 5964%	249,406	5 7436%	300,864	113,879	2.9449%	1.1823%	6 9259%
	Large Industrial Power Service										
13	Primary	151,894	17,339	0 8899%		0 5326%	23,477	6,138	0.1587%	0 0637%	0 5963%
14	Transmission Below 230 kV	3,435,856	392,221	20 1295%		12 0477%	569,406	177,185	4.5819%	1.8396%	13 8873%
15	Transmission 230 kV And Above	1,379,971	157,531	8 0848%		4 8388%	230,468	72,937	1.8861%	0 7573%	5 5961%
16	Primary (IS)	-	-	0.0000%		0 0000%	-	-	0 0000%	0 0000%	0.0000%
17	Transmission Below 230 kV (IS)	215,223	24,569	1 2609%		0 7547%	-	(24,569)	-0.6353%	-0.2551%	0 4996%
18	Transmission 230 kV And Above (IS)	218,225	24,912	1.2785%		0.7652%	-	(24,912)	-0 6442%	-0.2586%	0 5066%
19	Total Large Industrial Power Service	5,401,169	616,572	31 6436%	649,317	18 9391%	823,351	206,779	5.3472%	2 1469%	21 0859%
	Roadway Lighting										
20	Secondary	34,910	3,985	0 2045%	-	0 1224%	8,833	4,848	0 1254%	0 0503%	0 1727%
	Non-Roadway Lighting										
21	Secondary	49,228	5,620	0 2884%	-	0 1726%	12,686	7,066	0 1827%	0 0734%	0.2460%
22	**Total Lighting**	84,138	9,605	0 4929%	-	0.2950%	21,519	11,914	0 3081%	0 1237%	0 4187%
23	**Total Texas Retail**	17,068,735	1,948,486	100 0000%	3,255,554	59 8511%	5,815,515	3,867,029	100 0000%	40 1489%	100 0000%
24	**Total Texas Wholesale**	-	-	0 0000%	-	0 0000%	-	-	0.0000%	0 0000%	0 0000%
25	**TOTAL COMPANY**	17,068,735	1,948,486	100 0000%	3,255,554	59 8511%	5,815,515	3,867,029	100 0000%	40.1489%	100 0000%

Data Sources
1. ETI's RFP Schedule P-7.2, A&E 4CP TRANS
2 ETI's RFP Schedule O-9 1
3 ETI's RFP Schedule P-7.2, Energy & Demand at Plant.

CERTIFICATE OF SERVICE

I hereby certify that true copy of the foregoing was served by regular U.S. mail, postage prepaid, unless otherwise noted, on the attached this 12TH day of April, 2012 to the parties listed below.

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

PUBLIC UTILITY COMMISSION	LEGAL DIVISION PUBLIC UTILITY COMMISSION 1701 N CONGRESS AVE STE 8-110 AUSTIN TX 78711 512-936-7260 512-936-7268 FAX
ENTERGY TEXAS INC	STEVEN H NEINAST ENTERGY TEXAS INC 919 CONGRESS AVENUE STE 701 AUSTIN TX 78701 512-487-3945 512-487-3958 FAX
TEXAS INDUSTRIAL ENERGY CONSUMERS **Filed MTI 11/29/11 rdh**	MEGHAN GRIFFITHS ANDREWS KURTH LLP 111 CONGRESS AVE STE 1700 AUSTIN TX 78701 512-320-9200 512-320-9292 FAX
STATE AGENCIES **Filed MTI 12/2/11 rdh**	SUSAN M KELLEY OFFICE OF THE ATTORNEY GENERAL P O BOX 12548 AUSTIN TX 78711-2548 512-475-4173 512-477-4544 FAX Email: susan.kelley@oag.state.tx.us bryan.baker@oag.state.tx.us
OFFICE OF PUBLIC UTILITY COUNSEL **Filed MTI 12/6/11 rdh**	SARA J FERRIS OFFICE OF PUBLIC UTILITY COUNSEL 1701 N CONGRESS AVE STE 9-180 AUSTIN TX 78711-2397 512-936-7500 512-936-7525 FAX

CITIES **(Bridge City, Groves, Orange, Pine Forest, and West Orange)** **Filed MTI 12/8/11 rdh**	STEPHEN MACK LAWTON LAW FIRM PC 701 BRAZOS STE 500 AUSTIN TX 78701 512-322-0019 512-716-8917 FAX
THE KROGER CO. **Filed MTI 12/14/11 rdh** **Filed Motion for Admission Pro Hac Vice – 12/22/11 rdh; SOAH Order No. 4 – Granting Motions for Admission Pro Hac Vice 1/17/12 as**	KURT J BOEHM ESQ BOEHM KURTZ & LOWRY 36 EAST SEVENTH ST STE 1510 CINCINNATI OH 45202 513-421-2255 513-421-2764 FAX Email: kboehm@BKLlawfirm.com GRANT CLIFTON ESQ 5700 JIM HOGG AVE AUSTIN TX 78756 512-934-1228 NO FAX Email: grantclifton@gmail.com
WALMART **(Wal-Mart Stores Texas, LLC and Sam's East, Inc.,)** **Filed MTI 12/27/11 rdh; SOAH Order NO. 3 – Granting MTI 1/17/12 as**	RICK D CHAMBERLAIN BEHRENS TAYLOR WHEELER & CHAMBERLAIN 6 N E 63RD ST STE 400 OKLAHOMA CITY OK 73105-1401 405-848-1014 405-848-3155 FAX Email: rdc_law@swbell.net
EAST TEXAS ELECTRIC COOPERATIVE, INC. **Filed MTI 1/5/12 rdh; SOAH Order No. 7 – Granting MTI 1/26/12 as**	MARK C DAVIS BRICKFIELD BURCHETTE RITTS & STONE PC 1005 CONGRESS AVE STE 950 ~~400~~ AUSTIN TX 78701 512-472-1081 512-472-7473 FAX Email: mdavis@bbraustin.com
THE UNITED STATES DEPARTMENT OF ENERGY **Filed MTI 1/13/12 rdh; SOAH Order No. 7 – Granting MTI 1/26/12 as**	STEVEN A PORTER THE UNITED STATES DEPARTMENT OF ENERGY 1000 INDEPENDENCE AVE SW WASHINGTON DC 20585 202-586-4219 NO FAX Email: Steven.Porter@hq.doe.gov

KAREN BERMUDEZ **Filed MTI per S.H. – AIS Item # 185 – 1/20/12** **rdh**	KAREN BERMUDEZ NO ADDRESS NO FAX 832-445-9192