BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE PETITION OF)
THE COMMISSION STAFF REQUESTING)
THAT THE COMMISSION INVESTIGATE) CASE NO. IPC-E-01-43
THE BUY-BACK RATE IN THE LETTER)
AGREEMENT ENTERED INTO BY IDAHO)
POWER COMPANY AND ASTARIS LLC.)
_________________________________)

IDAHO POWER COMPANY

DIRECT TESTIMONY

OF

GREGORY W. SAID

Q. Please state your name and business address.

A. My name is Gregory W. Said and my business address is 1221 West Idaho Street, Boise, Idaho.

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

A. I am employed by Idaho Power Company as the Director of Revenue Requirement within the Pricing and Regulatory Services Department.

Q. What is your educational background?

A. In May of 1975, I received a Bachelor of Science Degree with honors in Mathematics from Boise State University. In 1996, I completed the University of Idaho's Public Utilities Executive Course in Moscow, Idaho. I have also attended numerous seminars and conferences on accounting and finance issues related to the utility industry and have attended seminars and courses involving public utility regulation.

Q. Could you please describe your business experience with Idaho Power Company?

A. In 1980, after a few years of employment with the State of Idaho, I became employed by the Resource Planning Department of Idaho Power Company. In 1989, I was offered and I accepted a position in the Company's Rate Department. In 1994, I was asked to become the Meridian District Manager for a one-year cross-training opportunity.

In 1995, I returned to my position in the Rate Department. In October of 1996 I was promoted to Director of Revenue Requirement in the Pricing & Regulatory Services department, a position I currently hold. I have presented testimony before the Idaho and Oregon regulatory agencies addressing various issues on numerous occasions.

Q. Please describe your experience with the Company with regard to the Company's power supply costs.

A. My first responsibility with the Company in 1980 was to develop the Secondary Transactions Simulation Model for use in determining the average net power supply expenses associated with multiple hydro conditions as well as the expenses associated with each hydro condition.

In December 1981, the Company applied for an increase in its general revenue requirement in Case No. U-1006-185. The Secondary Transactions Simulation Model became the basis for determining the Company's normalized net power supply expenses in that revenue requirement proceeding.

In the next general revenue requirement proceeding, Case No. U-1006-265, filed in September of 1985, I was the Company's power supply witness providing direct and rebuttal testimony as well as direct testimony upon rehearing. At the same time, I was also the power supply witness in the Company's Oregon jurisdictional filing.

In 1988, the Company applied for a temporary rate increase because of drought conditions. Once again, I was the Company witness addressing power supply issues.

In August of 1988, after nine years in the Resource Planning Department, I was offered and I accepted a position in the Company's Rate Department. With the Company's application for a temporary rate increase in 1992, my responsibilities as a witness were expanded, but I continued to be the Company's witness concerning power supply expenses.

Q. When was the concept of a Power Cost Adjustment (PCA) introduced?

A. In 1992, several parties urged the Company and the Commission to implement some form of rate mechanism for tracking power supply expenses. The Commission issued Order No. 24308 (in Case No. IPC-E-92-10) stating that the PCA issue would be analyzed in a formal proceeding initiated for that purpose or in the course of the Company's next general rate case. Exhibit 1 is a copy of Order No. 24308.

Q. As a result of Case No. IPC-E-92-10 and Order No. 24308, how did the Company initially address the issue of a Power Cost Adjustment?

A. During the IPC-E-92-10 proceeding, Mr. Marshall, the Chief Executive Officer of Idaho Power Company at that time, stated that the Company would conduct an independent investigation of the complexities of a Power Cost Adjustment, submit a report of Company findings, and solicit constructive comments from the parties and Commission Staff. Immediately after Order No. 24308 was issued, Mr. Marshall assigned the Rate Department (now known as Pricing and Regulatory Services) the responsibility of developing a Power Cost adjustment methodology that would be appropriate for Idaho Power Company if it was determined that the Company should have such an adjustment.

My combined Resource Planning Department and Rate Department experience uniquely qualified me to design a Power Cost Adjustment that would impact customers rates based upon changes in the Company's net power supply expenses.

Q. Were you responsible for the PCA investigation, in which the Company prepared a report delineating an appropriate Power Cost Adjustment methodology for Idaho Power Company?

A. Yes. On September 11, 1992, the Company filed its "Power Cost Adjustment Analysis" report with the Idaho Public Utilities Commission. At that time the Company also distributed copies of the report to interested parties. Exhibit 2 is a copy of that report.

Q. After distributing the report, did you solicit comments from interested parties and Staff?

A. Yes. There were a number of conversations about the Company's report with interested parties and Staff. The conversations primarily involved clarification of details within the report. In general, the parties continued to be in favor of implementing a PCA for Idaho Power Company.

Q. When did the Company apply for authority to implement a Power Cost Adjustment in its Idaho jurisdiction?

A. The Company filed its application for authority to implement a PCA in Idaho on November 24, 1992. The Case number was IPC-E-92-25.

Q. Were you a witness in that case?

A. Yes, I was.

Q. In that proceeding, did you state what you believe the primary objective of a Power Cost Adjustment should be?

A. I stated that the primary objective of a Power Cost Adjustment should be to provide a simple and understandable mechanism that closely matches revenues (resulting from rates) to the actual power supply expenses incurred by the Company. I went on to state that the objective could be met by identifying a variable component of a customer's rate that reflects the variable expenses of providing energy to serve the customer's load. That variable component would change as the cost of energy changed. As a result, proper and understandable price/cost signals would be sent to customers. When the Company's net power supply expenses were higher, the Power Cost adjustment would allow for the corresponding rate component to be adjusted to a higher level. Conversely, when the Company's net power supply expenses were lower, the rate component would be lowered.

Q. Please give a general description of the Power Cost Adjustment that you recommended in 1992.

A. The Power Cost Adjustment that I recommended in 1992 provided for an annual adjustment in rates to be made after April 1 each year based upon an estimate of the projected April 1 through March 31 annual variable cost of providing energy to firm loads. The power cost rate component would remain in effect for one year (May 16 through May 15). Any difference between estimated and actual annual variable costs of providing energy to firm loads would be trued-up by deferring the actual monthly expenses or revenues as they differed from the estimate. The deferred expenses or revenues would be amortized in the following annual power cost adjustment period (again May 16 through May 15 of the following year.)

Q. Does the general description of the Power Cost Adjustment that you recommended in 1992 accurately describe the Power Cost Adjustment that was approved by the

Idaho Commission?

A. The general description does describe the Power Cost Adjustment that was approved by the Idaho Commission with minor clarification. The general description that I have provided suggests that 100 percent of the deviations of actual PCA expenses from normalized levels would be reflected in PCA rate changes. The Commission, however, approved power cost rate adjustments that reflected only 90 percent of the deviations of actual PCA expenses from normalized levels except for deviations in CSPP expenses which are reflected at 100 percent.

Q. When did the Commission approve the use of a PCA for Idaho Power Company?

A. The Commission issued Order No. 24806 in Case No. IPC-E-92-25 approving a PCA for Idaho Power Company on March 29, 1993. Exhibit 3 is a copy of Order No. 24806.

Q. How did the Commission describe the approved PCA mechanism?

A. In Order No. 24806, the Commission stated:

> "The mechanism we approve has the following basic elements: It is based on annual forecasted power supply costs; deviations from predicted annual power supply expense are deferred and trued-up in a subsequent year; interest is accrued

on deferrals; an efficiency incentive shares variations in power supply costs from a base case between ratepayers and the Company on a 90-10 ratio; a procedure to guard against rate shock is included; power supply costs associated with changes in load are factored out of the PCA; rate changes mandated by the PCA are recovered by an equal cents per kilowatt hour allocation, and; proposed changes to the FMC rate structure are approved."

Q. Is a copy of the Electric Service Agreement between Idaho Power Company and FMC Corporation already an exhibit in this case?

A. Yes. Staff Exhibit No. 109 is a copy of the Electric Service Agreement between Idaho Power Company and FMC Corporation executed on December 30, 1997.

Q. Please describe the requirements for supplying demand and energy as outlined in section 4 of the electric service agreement.

A. Under the provisions of the agreement, Idaho Power Company was required to make available and FMC was required to purchase 250,000 kilowatts (kW) of Contract Demand consisting of a First Block of 120,000 kW and a Second Block of 130,000 kW. The agreement specified that

Contract Demand was supplied on a "take or pay" basis which means that FMC need not actually use power in the first or second block, but must pay for the fact that Idaho Power Company has made available the specified amount of power for FMC's use.

The provision of energy was separated into two pieces referred to as the First Block and Second Block as previously mentioned. Idaho Power must make available 120,000 kilowatt-hours (kWh) every hour during the term of the Agreement unless mutual agreement between FMC and Idaho Power has been reached whereupon the supplied energy can be reduced below 120,000 kWh per hour. The First Block of Energy is supplied on a fixed rate take or pay basis as is Contract Demand. As specified by contract, the rate can and has changed as a result of the Power Cost Adjustment (PCA) mechanism.

The Second Block of Energy was differentiated from the First Block of Energy in that it was not take or pay, but rather was provided at the request of FMC through a market "trader" employed by Idaho Power Company. The cost of energy within the Second Block floated with market prices, but acquisition of energy was totally at FMC's discretion.

Q. Did the Commission approve the current Electric Service Agreement between Idaho Power Company and

FMC?

A. Yes. Order No. 27463 issued on April 27, 1998 approved the Electric Service Agreement between Idaho Power Company and FMC. Order No. 27463 has been identified as Commission Staff Exhibit No. 110.

Q. What findings did the Commission make in Order 27463 approving the agreement?

A. The Commission noted that FMC was Idaho Power Company's single largest customer and that the provisions of the agreement between Idaho Power Company and FMC provided benefits to Idaho Power and its other customers.

Q. Did the Commission determine that the Electric Service Agreement between Idaho Power Company and FMC impacted the Company's Power Cost Adjustment?

A. Yes. The Commission found that certain adjustments to Idaho Power Company's PCA were appropriate in light of the agreement.

Q. What adjustments to the PCA were required as a result of the approval of the Electric Service Agreement between Idaho Power Company and FMC?

A. Prior to approval of the Electric Service Agreement in 1998, the FMC second block revenues were treated in a similar manner to the Company's surplus sales in that the second block revenues from FMC were considered a power supply expense reduction for PCA purposes. Normalized estimates of second block revenues from FMC had been established at $13,585,602 based upon typical consumption at Commission approved rates. With approval of the Electric Service Agreement in 1998, the actual revenues from the second block were no longer determined by Commission approved rates, but rather were equal to the expense, based upon market price, incurred by FMC to acquire second block energy. The estimated annual second block expense and revenue was estimated at $9,074,032 and the PCA base value of second block revenues was adjusted to this value.

In addition, a 51,840 Megawatt hour increase in the first block normalized energy level was reflected in the normalized Company firm load value within the PCA as a result of approval of the Electric Service Agreement. Because of the take or pay provisions for the first block, revenues are fixed and therefore not tracked within the PCA. However, a load growth or loss adjustment within the PCA reflects additional revenue of load growth or lost revenue associated with load decline for non-take-or-pay loads.

Q. Was the Electric Service Agreement between Idaho Power Company and FMC Corporation assigned and transferred to Astaris LLC?

A. Yes. Exhibit 4 is a copy of the agreement of consent signed by representatives of FMC and Idaho Power Company in June 2000 to assign the Electric Service

Agreement between Idaho Power Company and FMC Corporation to Astaris LLC. The Commission was notified of the assignment on June 30, 2000. Exhibit 5 is a copy of that notification.

Q. Did Astaris offer and Idaho Power Company agree to modify the agreement by amending certain provisions so as to provide for voluntary load reduction (VLR) on the part of Astaris?

A. Yes. Staff Exhibit 111 is a copy of a March 15, 2001 letter agreement detailing a voluntary load reduction offer by Astaris which was accepted by Idaho Power Company on March 16, 2001. The VLR detailed the Astaris intent to permanently discontinue operating two furnaces at the Pocatello facility throughout the remainder of the electric service agreement that would terminate on March 31, 2003. Astaris would continue to purchase 120 MW of energy per hour, but would consume no more than 70 MW of energy per hour. In consideration of the voluntary reduction in consumption of energy by Astaris, Idaho Power would pay Astaris set monthly amounts as detailed on page 8 of Exhibit No. 111. Both Astaris and Idaho Power Company acknowledged and agreed that the letter agreement was subject to the approval of the Idaho Public Utilities Commission.

Q. Did the Commission approve the amendments to the Electric Service Agreement?

A. Yes. The Commission approved the amendments to the Electric Service Agreement in Order No. 28695 issued on April 10, 2001. Exhibit 6 is a copy of Order No. 28695.

Q. Was the letter agreement conditioned on Commission approval of recovery for Idaho jurisdictional portions of the VLR payments through the PCA mechanism?

A. Yes. The intent of the VLR payments was to reduce overall power supply expenses that flow through the PCA. VLR payments have been recorded and included as a portion of power supply expenses in the Company's monthly PCA reports to the Commission. The Company is entitled to recover 90 percent of the Idaho jurisdictional portion (85 percent) of the Astaris VLR payments from Idaho customers. Through December 31, 2001, the Company has paid Astaris $79,819,392.52 of which $61,061,835.28 is recoverable from Idaho customers via the PCA. The next PCA adjustment to rates is scheduled for May 16, 2002

Q. Does the reduction in Astaris load receive specific treatment in the PCA computations?

A. Yes. Typically, Idaho Power is entitled to recover additional revenue associated with loss of firm load in PCA computations. However, because of the take or pay provisions within the Astaris service agreement, Idaho Power is not losing any revenues as a result of the VLR. Therefore, in PCA computations, Astaris loads are assumed to be at 120 MW to match the take or pay energy provisions of the agreement. As a result, PCA rates to customers are not increased specifically as a result of change in load by Astaris.

Q. Has Idaho Power Company entered into any additional Voluntary Load Reduction programs with other customer classes?

A. Yes. Idaho Power Company has entered into VLR programs with a number of customers in the Irrigation customer class.

Q. Is the treatment of the Astaris VLR program expenses handled in an identical manner to the treatment of Irrigation VLR program expenses within the Company's PCA?

A. No. Direct VLR program expense payments to either Astaris or Irrigation Customers have been recorded in deferred PCA balances in an identical manner. However, lost revenues associated with the reduced irrigation loads represent an additional program cost that need be recovered within the PCA methodology. Because of the take or pay provisions of the Astaris agreement, no revenues are lost when Astaris voluntarily reduces load and no additional program costs need be recovered through the PCA.

Q. Is Astaris continuing to operate at the 70-megawatt load level anticipated as a result of the voluntary load reduction of 50 megawatts from the first block level of 120 megawatts?

A. No. Astaris is currently operating at a load level of less that one megawatt.

Q. Has the Company made an inquiry to Astaris concerning Astaris' plans that involve power consumption for the Pocatello plant?

A. Yes.

Q. What was the Astaris response to the Company's inquiry?

A. I have been informed that despite repeated inquiry to Astaris from Company representatives, Astaris has not replied with information relating to its plans that involve power consumption for the Pocatello plant.

Q. Does this conclude your testimony?

A. Yes.