

RECEIVED



FILED



2004 MAR 19 PM 4:35

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)
TO CUSTOMERS IN THE STATE OF IDAHO)

CASE NO. IPC-E-03-13

IDAHO POWER COMPANY

REBUTTAL TESTIMONY

OF

PHIL A. OBENCHAIN

1 Q. Please state your name and business address.

2 A. My name is Phil A. Obenchain, and my business
3 address is 1221 West Idaho Street, Boise, Idaho.

4 Q. Are you the same Phil A. Obenchain who
5 previously testified before this Commission in this
6 proceeding?

7 A. Yes, I am.

8 Q. Do you have comments on certain adjustments
9 to test year amounts proposed in the pre-filed direct
10 testimony of Staff and Micron Witness Dr. Peseau?

11 A. Yes. Recognizing the need to limit issues, I
12 will only address Staff's and Micron's reductions to the
13 Company's annualizing adjustments and known measurable
14 adjustments to the test year rate base. This does not mean I
15 accept any additional proposed adjustments that are not
16 specifically addressed in my rebuttal testimony.

17 Q. What is the purpose and intent of the test
18 year in setting rates for an electric utility?

19 A. Rates established during a general rate
20 proceeding are often in effect for many years; for Idaho
21 Power Company it has been ten years since the last general
22 revenue requirement proceeding. According to NARUC's Cost
23 Allocation Manual it is important that rates established use
24 the most current actual, or projected, cost and sales
25 information available "which are expected to be

1 representative of those that will be experienced during the
2 time the rates are likely to remain in effect." (NARUC:
3 Electric Utility Cost Allocation Manual, 1992,p.24)
4 Typically this Commission and the Company have utilized the
5 most recent twelve months of actual data, with adjustments,
6 as the representative test period. Other state regulatory
7 Commissions have adopted either projected test periods or a
8 split between historical and projected to better match rates
9 to the costs that will be incurred by the utility during the
10 period in which the rates will be in effect.

11 In short, the test period should reflect, to the
12 greatest extent possible, the levels of rate base, expenses
13 and revenues that the utility would reasonably expect to
14 experience during the time the rates being requested are in
15 effect.

16 Q. What test period did the Company propose in
17 this case to best reflect the levels of rate base, expenses
18 and revenues that the Company will experience once new rates
19 become effective?

20 A. The Company filed its case based on six-
21 months of actual data and six-months of estimated 2003 test
22 year information adjusted for normalizing, annualizing, and
23 known and measurable adjustments.

24 Q. In his testimony on behalf of Staff Mr.
25 Leckie proposes the elimination of certain annualizing

1 adjustments from the Company's rate base. Would you please
2 discuss in more detail the purpose of "annualizing
3 adjustments" for a test year?

4 A. Annualizing adjustments are adjustments
5 necessary to reflect changes that occur within the test
6 period and will continue on an ongoing basis. In this case,
7 the test period is the twelve months ending December 31,
8 2003. If the annualizing adjustment is for an addition to
9 electric plant in service, then it is appropriate, in fact
10 imperative, that the investment be included for the full
11 year. Once again we can look to the NARUC Manual for
12 guidance as to the appropriateness of making this type of
13 adjustment to actual historical test year costs.

14 "In order to reflect the cost
15 conditions that may occur during the actual
16 effectiveness of the rates, most agencies
17 permit adjustments to the actual data to
18 reflect changed conditions, to correct for
19 unusual events during the recorded period,
20 or to include costs estimated for a time
21 period in the near future. *The goal is to*
22 *adjust the actual costs to present normal*
23 *operating conditions as accurately as*
24 *possible so that rates resulting from a*
25 *proceeding are appropriate for application*

1 in the immediate future (emphasis
2 added)." (NARUC: Electric Utility Cost
3 Allocation Manual, 1992, p.24)

4 Q. What are the plant investments the Company
5 has included in its annualized adjustment?

6 A. The plant investments the Company is
7 requesting be included for the entire twelve months of the
8 test year is for two large projects currently in rate base,
9 that are used and useful and will continue to serve customers
10 from this point forward. The first is the Bridger rewind
11 project at a total investment of close to \$8.7 million of
12 which \$6.6 million was reflected in the test year as an
13 annualizing adjustment. The second is the 230kv Brownlee-
14 Oxbow transmission line at a total investment of close to
15 \$14.5 million of which \$13.2 million was reflected in the
16 test year as an annualizing adjustment. The two large
17 projects total \$23.2 million of which \$19.8 million is for
18 the annualizing adjustment necessary to reflect the entire
19 investment for twelve months.

20 Q. Do you agree with Mr. Leckie that Idaho Power
21 deviated from accepted methodology in its annualizing
22 adjustments to the test year in this case?

23 A. No, I do not. Idaho Power used the same
24 annualizing methodology for these plant investments that the
25 Commission has approved for annualizing adjustments in prior

1 rate cases. I am aware of several Commission orders in prior
2 cases which support the Company's treatment of the
3 annualizing plant adjustments in this case. For example,
4 Unit No. 1 of the Company's Valmy generating station was
5 included in rate base for the entire twelve months ending
6 December 31, 1981 even though it did not come online until
7 December 11, 1981. (Orders No. 17499, Case No. U-1006-185)
8 In Case Nos. U-1006-185, U-1006-265, and IPC-E-94-5 payments
9 for purchase power from CSPP projects that came in at various
10 times during the test year were all included for the full
11 year.

12 Q. Did Mr. Leckie recommend the disallowance of
13 the annualizing adjustment because he did not believe the
14 particular plant item should be allowed in rate base?

15 A. No. Mr. Leckie does not seem to have an
16 objection to the investment being allowed in rate base, but
17 just that it should not be reflected in rate base for an
18 entire year.

19 Q. What is the basis for Mr. Leckie's
20 recommendation?

21 A. Mr. Leckie's recommendation is based in a
22 belief there is a mismatch between costs and revenues.

23 Q. With regard to costs and revenues, Mr. Leckie
24 states that by putting the annualizing adjustments for the
25 Bridger rewind project and Brownlee-Oxbow transmission

1 project in for a full year the Company is violating the
2 matching principle that would allow an annualizing
3 adjustment. Do you agree with Mr. Leckie that there must
4 necessarily be a revenue match to warrant inclusion of plant
5 for a full year?

6 A. Absolutely not. These two projects are not
7 revenue producing projects. There is no revenue that the
8 Company is failing to include. Thus, there is no mismatch of
9 costs and revenues. The Bridger rewind project consisted of
10 a generator rewind, control upgrade, plus, other plant
11 related costs, none of which creates additional revenue.
12 Even though these Bridger modifications did not add to the
13 plant's capacity, or create any additional revenue, the
14 investments were necessary to ensure ongoing plant
15 reliability.

16 Q. Why should the new 230kv Brownlee-Oxbow
17 transmission line be included for a full year?

18 A. Like the Bridger rewind project investment
19 discussed above, the Brownlee-Oxbow line represents a
20 sizeable investment by the Company. The benefits of the new
21 Brownlee-Oxbow line are twofold: first, it increases the
22 over-all reliability of the Company's transmission system and
23 second, it increases simultaneous Brownlee east and northwest
24 import capability. This line is fully operational and will
25 benefit customers this year and for years to come. It is an

1 appropriate ratemaking adjustment to reflect this investment
2 for a full year.

3 Q. Why is it appropriate to reflect these plant
4 additions in rate base for an entire year?

5 A. As stated previously, the purpose of a test
6 year is to reflect the costs and revenues that customers will
7 be facing during the period rates will be in effect. It is
8 appropriate that customers pay the full annualized cost
9 associated with these plant additions because customers are
10 receiving the benefits of these sizable plant investments now
11 and will be receiving the benefits in all months once new
12 rates are established. The amounts and impact to the
13 historical test year costs are identifiable. As a result, it
14 is not reasonable that the Company and its investors should
15 have to wait an additional year before being able to earn a
16 return on these sizeable increases in plant. Mr. Leckie's
17 proposed treatment reflects only a partial year's inclusion
18 of costs even though the plant will be there for customers
19 each and every month that new rates are in effect.

20 Q. Dr. Peseau testifies that the annualizing
21 adjustment the Company has proposed constitutes a move to the
22 establishment of a year-end rate base. Do you agree?

23 A. Dr. Peseau is mistaken as to the Company's
24 proposed annualizing adjustment. The Company did not propose
25 replacing the thirteen-month average balance with a year-end

1 balance. As explained above, the proposed \$19.8 million
2 annualizing adjustment is only for specific new large plant
3 investments and is treated in the same way that that the
4 Company treated new test year large plant additions in past
5 proceedings.

6 Q. In his testimony on behalf of Staff, Mr.
7 Leckie proposes the elimination of certain known and
8 measurable adjustments from the Company's rate base. Would
9 you please discuss in more detail the purpose of "known and
10 measurable adjustments" in a test year?

11 A. Known and measurable adjustments are
12 adjustments necessary to reflect changes that occur after the
13 test period, in this case December 31, 2003, but that are
14 appropriately incorporated for a full year on an ongoing
15 basis. Again, *"The goal is to adjust the actual costs to
16 present normal operating conditions as accurately as possible
17 so that rates resulting from a proceeding are appropriate for
18 application in the immediate future (emphasis added).*
19 "(NARUC: Electric Utility Cost Allocation Manual, 1992,p.24)

20 Q. What are the plant additions the Company has
21 included as known and measurable adjustments to test year
22 rate base in this case?

23 A. The plant investment the Company is
24 requesting to be reflected in rate base for the twelve months
25 ending December 31, 2003 involves large transmission projects

1 that will be in plant-in-service and used and useful by the
2 time the rates determined by this proceeding go into effect.

3 These projects will continue to serve customers from that
4 point forward. The Company requested only those transmission
5 projects that were of a significant size to be included for
6 the full test year recognizing that upon their completion
7 they would be of immediate benefit to customers of Idaho
8 Power.

9 Q. Do you agree with Mr. Leckie that Idaho Power
10 deviated from accepted methodology in applying a known and
11 measurable adjustment for the full test year in this case?

12 A. No, I do not. Idaho Power calculated the
13 known and measurable plant adjustment for this case in the
14 same way as it has done, and the Commission has approved, in
15 all past rate cases that I am aware of. There are many
16 Commission orders in prior cases to support the Company's
17 treatment of certain known and measurable plant adjustments
18 in this case. In Case No IPC-E-265 the Commission approved
19 the inclusion of Valmy II in rate base as a known and
20 measurable adjustment. Valmy II came online in May of 1985
21 and was a known and measurable adjustment to the 1984 test
22 year. More recently, the Commission allowed the inclusion of
23 the Swan Falls plant addition in the Company's last general
24 rate case, Case No. IPC-E-94-5, as a known and measurable.
25 The Swan Falls plant addition came online in April of 1994

1 and was a known and measurable adjustment to the 1993 test
2 year. In the 94-5 case the Company calculated the known and
3 measurable adjustment for Swan Falls in precisely the same
4 manner as proposed in this case. In addition to the known
5 and measurable adjustment to plant in service, the Company
6 also made all of the new plant related adjustments in
7 accordance with accepted Commission practice. Specifically,
8 the Company and the Commission have always used a half-year
9 convention in the calculation of the first year's
10 depreciation reserve balance.

11 Q. Did Mr. Leckie recommend the disallowance of
12 the transmission plant the Company proposed to include as a
13 known and measurable adjustment to the test year because he
14 didn't believe the particular plant item should be allowed in
15 rate base?

16 A. No. Mr. Leckie does not seem to have an
17 objection to the item being rate based. In fact, Mr. Leckie
18 recommends that the Company make a known and measurable
19 adjustment to the test year, but only for one month. In over
20 twenty years of regulatory experience I am not aware of a
21 known and measurable adjustment to include a plant item, that
22 will be used and useful on an ongoing basis, for only one
23 month of the year.

24 Q. Why is it appropriate to include these known
25 and measurable plant additions in rate base for an entire

1 year?

2 A. As stated above, the use of a test year is
3 designed to reflect the costs and revenues that customers
4 will be facing during the period rates being requested are in
5 effect. It is appropriate that customers pay the cost
6 associated with the additional plant. Customers are
7 receiving the benefits of these sizable plant investments
8 now. The amounts and impact to the historical test year
9 costs are identifiable and it is not reasonable that the
10 Company and its investors should have to wait an additional
11 year or more before being able to include these sizeable
12 increases in plant.

13 Q. With regard to costs and revenues, Mr. Leckie
14 states that by putting the known and measurable adjustments
15 in for a full year the Company is violating the matching
16 principle that would allow such an adjustment. Do you agree
17 with Mr. Leckie that there must be full year of revenue match
18 to include plant adjustment for full a year?

19 A. No. The transmission projects at issue
20 involve investments, which will increase the transmission
21 system reliability. Even though these investments may not
22 produce revenues they do produce benefits for customers.

23 Q. Dr. Peseau testifies that the known and
24 measurable adjustments make a miss-match from the year-end
25 problem even worse. Do you agree?

1 A. Again, Dr. Peseau, is mistaken in his
2 understanding of what the Company has proposed. As with the
3 Company's annualizing adjustment, the known and measurable
4 adjustment was only for certain large investments to be
5 included in the test year not to bring the entire test year
6 balance to a June, 2004 level.

7 Q. Does this conclude your direct rebuttal
8 testimony?

9 A. Yes, it does.