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BEFORE THE IDAHO PUBLIC UTILITIES
COMMISSION

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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 THE STATE OF IDAHO)
)

CASE NO. IPC-E-03-13

Rebuttal Testimony of

Don C. Reading, Ph.D.

Ben Johnson Associates, Inc.

on behalf of

Industrial Customers of Idaho Power (ICIP)

March 19, 2004

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Q. Are you the same Don Reading who previously filed Direct Testimony on behalf of the Industrial Customers of Idaho Power (ICIP) in this Docket?

A. Yes.

Q. What is the purpose of your Rebuttal Testimony?

A. This Testimony will focus on the Direct Testimony of Staff Witness Rick Sterling pages 7 through 19 that address ratemaking treatment of Idaho Power’s Danskin Station Generating facility.

Q. Could you briefly summarize the conclusions about the viability of the Danskin facility found in Staff Witness Sterling’s Direct Testimony?

A. Staff Witness Sterling believes Danskin Station will remain useful after the proposed Bennett Mountain plant becomes operational. He states, “Small peak loads needs *might be more economically met . . .*” by running Danskin even given its higher costs than Bennett Mountain. [emphasis added, Direct Testimony of Rick Sterling, Idaho Public Utilities Commission, pgs. 18,19, IPC-E-03-13.] He comes to this conclusion without discussing the full economic cost of Danskin’s output other than to say the actual cost of the facility to date have been “much closer” to the upper limit presented by Idaho Power during the permitting process. [Ibid, p. 11.]

Q. Do you agree with his conclusions?

A. No. His acceptance for the inclusion of Danskin in rates is not based on the economics of the plant as presented in this Docket by Idaho Power but rather on the fact the cost of construction met the Company’s estimates and that deferral balances accruing to the PCA were very high in early 2001.

Q. Could you be more specific about your criticism of Staff Witness Sterling’s Direct Testimony?

1 A. He begins his analysis by quoting the Commissions Order 28773 that states,

2
3 We are unconvinced that the best measure of the cost of alternative resources is market
4 price estimates in effect at the time the decision to proceed was made. The record
5 supporting such a finding remains to be developed.

6
7 And,

8
9 We find that there is insufficient record to assess and determine the reasonableness of the
10 Company's commitment estimate and cannot therefore provide the Company with a
11 dollar amount of rate base assurance. . . . The Company needs to provide the
12 Commission with more information. What other alternatives were considered? What
13 was the Company's forecasted need? [Idaho Public Utilities Commission Order No.
14 28773, IPC-E-01-12, July, 2001.]

15
16 He goes on to say that Idaho Power to date has not provide the additional information
17 requested by the Commission. Therefore the Staff will do the job of the Company
18 because,

19
20 Danskin's plant cost recovery represents a large portion of increased revenue requirement
21 requested in this case. Staff believes it is important to address the issue and provide the
22 Commission with the Staff position. [Direct Testimony of Rick Sterling, Idaho Public
23 Utilities Commission, pg. 8, IPC-E-03-13.]

24
25 **Q. Do you feel the Staff adequately filled in for the Company and provided the**
26 **Commission with the information they requested?**

27 A. No. A large portion of Staff's testimony is directed at the reasonableness of capital costs
28 of the plant and the request for proposals process for the construction of the plant. Staff's
29 conclusion is that the capital cost portion of the plant was reasonable given the time
30 frame of construction. Staff did not present an analysis of the cost of output from

1 Danskin as presented by the Company in this case and how these costs stack up against
2 other alternatives such as conservation, load shedding, interruptability, etc.. As pointed
3 out in my Direct Testimony filed in this Docket the projected average normalized cost of
4 Danskin of \$13.65 per kWh is so high that reasonable alternatives cry out to be
5 considered.

6
7 **Q. How does Staff explain the fact that the actual costs of Danskin to date have by**
8 **“much closer” to the upper limit of those estimated before construction?**

9 A. Staff presents two reasons. First that it is a peaking plant and therefore would be expected
10 to have higher costs than a base load plant. The second reason stated by Staff was the
11 chaotic conditions in the energy markets during the planning of the plant. Staff however
12 failed to discuss cost of output from the plant that are being assigned to rates in this case.

13
14 **Q. Do you accept Staff’s reasoning?**

15 A. Staff’s analysis is incomplete. It is true that peaking facilities should reasonably be
16 expected to cost more than base load plant. The real question is how much more
17 expensive and what could be the cost effective alternatives to the cost of output. Staff
18 failed to address these issues as requested of the Company by the Commission.

19
20 Staff is correct that conditions during the later part of 2000 and the first half of 2001 were
21 in turmoil as I discussed in my Direct Testimony on pages 9 and 10. However Staff
22 focuses on the deferrals in the PCA as the cost measure for justifying the plant and not
23 cost of the plant itself or cost effectiveness of alternatives. This proxy measure while
24 important is not the proper standard to measure the cost effectiveness of a generation
25 facility. Any generation plant, Danskin included, needs to be measured based on its own
26 economics compared to its need and the costs of alternatives. Both Staff and the
27 Company have failed to provide this analysis that would address the concerns of the
28 Commission at the time it issued Order 28773.

1 **Q. You pointed out above that Staff stated there would need for Danskin to meet**
2 **“Small peak loads needs” after Bennett Mountain comes on line. What analysis do**
3 **they provide to justify this statement?**

4 **A.** As pointed out in my direct testimony Staff indicated in their comments in the Bennett
5 Mountain Docket that they felt that Danskin would operate at half its current operations.
6 The Company projects the plant would operate on average less than 10 hours per year at a
7 cost of \$13.65 per kWh. At these few hours and enormous cost it seems reasonable that a
8 more cost effective alternative could be found.

9

10 **Q. Did Staff’s Direct Testimony cause you to change any of your recommendations**
11 **regarding the Danskin Generating Station?**

12 **A.** No. Staff did not focus the correct measures to justify the cost of the plant and failed to
13 examine the costs the Company has ask ratepayers to shoulder relative to the value
14 received from the plant. They also failed to consider the alternatives as requested by the
15 Commission.

16

17 **Q. Does this conclude your testimony on March 19, 2004.**

18 **A.** Yes it does.