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IDAHO PUBLIC  
UTILITIES COMMISSION

**BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION**

**BOB LEWANDOWSKI AND MARK** )  
**SCHROEDER** )

**V.** )

**IDAHO POWER COMPANY** )

**CASE NO. IPC-E-04-10**

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**Rebuttal Testimony of**

**Don C. Reading, Ph.D.**

**Ben Johnson Associates, Inc.**

**in behalf of**

**Mark Schroeder and Bob Lewandowski**

**August 19, 2004**

1 **Q. Are you the same Dr. Reading who prefiled direct testimony in this docket?**

2 A. Yes, I am.

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

4 A. I address the reply testimony filed by staff witness Sterling, Idaho Power witness Gale  
5 and the direct testimony of the two intervenors in this matter, PacifiCorp and Avista,  
6 respectively. However, I should note that my response to Avista and PacifiCorp is not  
7 comprehensive.

8 **Q. What do you mean, “not comprehensive”?**

9 A. Avista and PacifiCorp raise several issues that are far removed from the scope of this  
10 proceeding. Our complaint against Idaho Power is limited to a couple of very specific  
11 issues. Raising new issues beyond the scope of our complaint at this late date seems  
12 unfair; therefore, I intend to stay within the scope of our original complaint and  
13 supporting testimony.

14 **Q. What do you mean, “unfair”?**

15 A. I believe the new issues raised by Avista and PacifiCorp could have wide ranging  
16 consequences and that others in the QF industry – in addition to just Mark Schroeder and  
17 Bob Lewandowski – would definitely want to have an opportunity to respond. That is  
18 what I mean by “unfair”. In addition, given the extremely short time period we have to  
19 respond to the Intervenor testimony – we simply don’t have the requisite time to muster  
20 the resources needed to address all of the implications necessary to respond to those  
21 broad issues.

22 **Q. Are there other reasons you believe it is unfair for the commission to allow**  
23 **PacifiCorp and Avista to expand the scope of this proceeding?**

1 A. Yes. It seems unfair to allow Intervenors to be permitted to dramatically expand the  
2 scope of a proceeding initiated, not by them, at the eleventh hour. In my years working  
3 for and before this Commission, I have learned that broadening issues beyond the initial  
4 scope of a proceeding is not permissible.  
5

6  
7 **Q. How is your testimony organized?**

8 A. There are only three basic issues at play in this case: (1) the 90%-110% band question;  
9 (2) the threshold size at which a QF is entitled to published rates; and (3) the so-called  
10 'regulatory out' language.

11 **Q. Please proceed.**

12 A. Over the last 20-plus years, the QF Industry, Idaho Power and the commission achieved  
13 an equilibrium of sorts. Rates were set (and adjusted) to respond to changing markets on  
14 a regular basis. As a consequence, Idaho Power has a stable of QF contracts providing  
15 reliable and economic power. The State has benefited through new jobs, increased tax  
16 base and a more efficient power system. Until these issues surfaced just last year, not  
17 once did we hear from Idaho Power that a 90%-110% band was required. This case is not  
18 about QFs seeking special treatment. This case is about Idaho Power's attempt to change  
19 the status quo that this commission has crafted over the last two decades. I believe that  
20 Idaho Power should be held to a very high standard before being allowed to so  
21 dramatically upset the proverbial apple cart.

22 **Q. Have you reviewed Mr. Gale's reply testimony in this matter?**  
23

24 A. Yes.

25 **Q. Do you have any overall observations?**  
26

1 A. Yes. The underlying theme in Mr. Gale's testimony is that it is necessary to "better  
2 integrate QF resources into its resource planning and acquisition process as firm  
3 resources". Gale at p.4. Idaho Power plans to accomplish this resource planning goal by  
4 forcing each individual QF to generate within a narrow band of its estimated monthly  
5 production.

6 **Q What is the problem with company-wide resource planning using individual QF**  
7 **generating estimates?**

9 A. It simply does not reflect how the company actually plans. Idaho Power's IRP lumps all  
10 QFs together in planning for future years. True, the IRP provides a list of individual QF  
11 contracts, but for resource planning purposes all QFs are essentially aggregated and  
12 considered a single resource. Individual QFs are not individually modeled for resource  
13 planning purposes.

14 **Q. What is the import of that fact?**

16 A. It resolves all five reasons Mr. Gale identifies on p. 6 of his testimony, where he attempts  
17 to justify treating each individual QF as if it were a separate major resource. Idaho Power  
18 has 182 MW of QF resources from 70 different QFs. That is an average QF size of about  
19 2.5 MW each.

20 **Q. What does the fact that the average QF is so small mean with respect to Mr. Gale's**  
21 **five different rationales on page 6?**

22 A. In reason number one, Mr. Gale recites the alleged requirement that wholesale markets  
23 now have with respect to standardized contracts, creditworthy counter parties and the  
24 like. But the fact is, wholesale markets almost never trade in blocks that are smaller than

1           25 MW. So requiring QFs to meet the strict standards of today's wholesale markets is  
2           unreasonable.

3       **Q.    What about Mr. Gale's point that Idaho Power is now capacity constrained and not**  
4       **energy constrained?**

5       A.    Taken as a whole, Idaho Power's QF resource can be modeled and planned. Indeed,  
6       Idaho Power has planned on QF resource in its draft 2004 IRP, even though none of those  
7       resources have been burdened with the 90%-110% band. The operating characteristics of  
8       any individual QF are background noise – not the driver of the resource plan. The same  
9       rationale applies to Mr. Gale's comments relative to the transmission system. The  
10       company is well equipped to make needed transmission plans based on its aggregated QF  
11       resourced – it is not reasonable to assume that Idaho Power makes transmission planning  
12       decisions based on an individual resource being with 90% or 110% of 2.5 MW. That  
13       rationale suggests that Idaho Power makes transmission and resource decisions based, on  
14       average, on swings in load of .75 of 1 MW. For a system whose peak load is approaching  
15       3,000 MW, that is not a reasonable planning criterion.

16       **Q.    Do you have any comments on Mr. Gale's assertion that "the growing prominence**  
17       **of intermittent generating technologies, such as wind and solar, require a new**  
18       **approach in the company's PURPA contracting procedures"?**

19       A.    Yes. I am concerned that Idaho Power has unilaterally attempted to make a major policy  
20       change ("new approach") without first consulting the commission. I believe Idaho  
21       Power's concerns about so-called "intermittent technologies" are misplaced. However, in  
22       order to show how and why they are misplaced, a major fact finding proceeding will have

1 to be initiated by this commission. Slipping in a major change in its contracting policies  
2 without first allowing this commission to thoroughly examine the underlying rationale is  
3 inappropriate.

4  
5 **Q. What about Mr. Gale's final rationale for altering the decades-old standard practice**  
6 **by which Idaho Power has been required to purchase all of the output for a QF?**

7  
8 A. I am not sure it is a changed condition. The company has always used firm market  
9 purchases to varying degrees to manage risk. This is not new and, frankly, I see little  
10 connection between market purchases to hedge risk and QF contract terms.

11 **Q Let's turn to the first issue you identified – the 90%-110% band. Do you have any**  
12 **comments on Mr. Sterling's recommendations?**

13 A. Yes. Overall, Mr. Sterling has bought into Idaho Power's misguided attempt to  
14 distinguish between "firm and non-firm energy". For a hydro-based electric utility to call  
15 any generator with a capacity factor of less than 90% (or over 110%) as non-firm is akin  
16 to the pot calling the kettle black. It is inconsistent that Idaho Power would demand a  
17 level of "firmness" that it cannot itself possibly accomplish.

1

2

1     **Q.     Isn't the SAR a gas resource, and how does that figure into your analysis of "firm**  
2     **and non-firm" energy?**

3     A.     Let's be clear. This commission has never stated in any order I am aware of that QFs  
4     seeking long-term contracts should be distinguished on a firm/non-firm basis. In  
5     addition, the nature of Idaho Power's standard contract with QFs does not change when  
6     the SAR changes. Nor should it. The QF rates produced by the SAR methodology are an  
7     estimate of today's cost of marginal energy. Specific contract terms for allowing QFs to  
8     be paid are a function of how and whether this commission believes the QF industry  
9     should be allowed to exist. In other words, the nature of the SAR provides guidance as to  
10    price (or avoided cost rate) but has never strictly guided how those rates are applied in  
11    contracts with the QF industry.

12    **Q.     Do you have an example?**

13    A.     Yes; if QF contract terms were dictated by the nature of the SAR, then the contract term  
14    would have to mirror the life of the SAR – 35 years. Also the threshold size would  
15    mirror the size of the SAR – over 200 MW, etc., etc. So it is clear that just because the  
16    current SAR may have a capacity factor of greater than 80% or 90%, that the QF contract  
17    need not contain a similar capacity factor, not should it.

18    **Q.     Why?**

19    A.     Because to adopt a bright line capacity factor for QFs without also adopting a 35-year  
20    fixed term and 220 MW threshold, would be tantamount to allowing Idaho Power to call  
21    "heads you lose and tails I win"!

22    **Q.     Do you have any specific comments on Mr. Sterling's recommendations with respect**

1           **to the 90%-110% band concept?**

2       A.     Yes. Mr. Sterling proposes increasing the proposed band from 90%-110% to a band of  
3           80%-120%. Although a small step in the right direction, neither Staff nor Idaho Power  
4           have articulated a compelling reason to abandon 25 years of history in his  
5           recommendation to adopt a band. As noted in my direct testimony, the risk of not being  
6           paid is incentive enough to ensure the highest capacity factor possible from QFs.

7       **Q.     Do you have any comments on Mr. Sterling's recommendation as to the frequency**  
8           **at which a project owner may revise their monthly generation estimates?**

9       A.     Yes. Idaho Power recommends allowing the QF to adjust generation estimate every two  
10           years. Mr. Sterling recommends such updates be permitted every six months. If the  
11           commission adopts the band concept, allowing updates every six-months is reasonable  
12           and should be adopted. Please understand, however, that I do not support the band that  
13           requires the concept of re-estimates in the first place.

14      **Q.     Do you have any comments on the grace period proposed by Staff for excusing**  
15           **performance in the event of a forced outage?**

16      A.     Yes. Again, with the caveat that I am opposed to the entire band concept necessitating  
17           this discussion, the 30 day grace period is much more reasonable than Idaho Power's very  
18           limited 72 hour grace period.

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

20      A.     Simply put, we are arguing for the status quo. This commission has a long history of  
21           successfully implementing PURPA through power purchase agreements that require the  
22           utility to pay for all output generated by all QFs at full avoided costs. Nothing has

1           changed that calls for a radical change in that policy.

2   **Q.   Do you have any observations on the timing of Idaho Power's offer to limit the price**  
3   **for shortfall energy to 150% of Mid C?**

4   **A.   Yes. The timing of Idaho Power's movement on this issue came only as a result of our**  
5   **filing this complaint. It is indicative of their approach to QFs.**

6   **Q.   Does this conclude your testimony?**

7   **A.   Yes.**

8

9

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## CERTIFICATE OF SERVICE

I HEREBY CERTIFY that on this 19th day of August, 2004, I caused a true and correct copy of the foregoing **REBUTTAL TESTIMONY OF DR. DON READING ON BEHALF OF MARK SCHROEDER AND BOB LEWANDOWSKI** to be served by the method indicated below, and addressed to the following:

Jean Jewell  
Idaho Public Utilities Commission  
472 West Washington Street  
Post Office Box 83720  
Boise, Idaho 83720-0074

U.S. Mail, Postage Prepaid  
 Hand Delivered  
 Overnight Mail  
 Facsimile  
 Electronic Mail

Monica B. Moen, Attorney II  
Barton L. Kline, Senior Attorney  
Idaho Power Company  
PO Box 70  
Boise, ID 83707-0070  
[bkline@idahopower.com](mailto:bkline@idahopower.com)  
[mmoen@idahopower.com](mailto:mmoen@idahopower.com)

U.S. Mail, Postage Prepaid  
 Hand Delivered  
 Overnight Mail  
 Facsimile  
 Electronic Mail

Randy C. Allphin, Contract Admin.  
Power Supply Planning  
Idaho Power Company  
Post Office Box 70  
Boise, Idaho 83707-0070  
[rallphin@idahopower.com](mailto:rallphin@idahopower.com)

U.S. Mail, Postage Prepaid  
 Hand Delivered  
 Overnight Mail  
 Facsimile  
 Electronic Mail

John Prescott  
Vice-President – Power Supply  
Idaho Power Company  
Post Office Box 70  
Boise, Idaho 83707-0070  
[jprescott@idahopower.com](mailto:jprescott@idahopower.com)

U.S. Mail, Postage Prepaid  
 Hand Delivered  
 Overnight Mail  
 Facsimile  
 Electronic Mail

Conley E. Ward  
Givens Pursley LLP  
601 West Bannock  
Po Box 2720  
Boise, Idaho 83701-2720  
[cew@givenspursley.com](mailto:cew@givenspursley.com)

U.S. Mail, Postage Prepaid  
 Hand Delivered  
 Overnight Mail  
 Facsimile  
 Electronic Mail

Doug Glaspey  
U.S. Geothermal  
1509 Tyrell Lane  
Boise, Idaho 83706  
dglaspey@usgeothermal.com

U.S. Mail, Postage Prepaid  
 Hand Delivered  
 Overnight Mail  
 Facsimile  
 Electronic Mail

Signed   
Nina Curtis