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PUBLIC UTILITIES COMMISSION

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE PETITION OF )  
IDAHO POWER COMPANY FOR )  
MODIFICATION OF THE LOAD GROWTH ) CASE NO. IPC-E-06-68  
ADJUSTMENT RATE WITHIN THE POWER )  
COST ADJUSTMENT METHODOLOGY )  

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IDAHO POWER COMPANY

DIRECT TESTIMONY

OF

GREGORY W. SAID

April 2006

1 Q. Please state your name and business address.

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

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

6 A. I am employed by Idaho Power Company as the  
7 Manager of Revenue Requirement in the Pricing and Regulatory  
8 Services Department.

9 Q. Please describe your educational background.

10 A. In May of 1975, I received a Bachelor of  
11 Science Degree in Mathematics with honors from Boise State  
12 University. In 1999, I attended the Public Utility  
13 Executives Course at the University of Idaho.

14 Q. Please describe your work experience with  
15 Idaho Power Company.

16 A. I became employed by Idaho Power Company in  
17 1980 as an analyst in the Resource Planning Department. In  
18 1985, the Company applied for a general revenue requirement  
19 increase. I was the Company witness addressing power supply  
20 expenses.

21 In August of 1989, after nine years in the  
22 Resource Planning Department, I was offered and I accepted a  
23 position in the Company's Rate Department. With the  
24 Company's application for a temporary rate increase in 1992,  
25 my responsibilities as a witness were expanded. While I

1 continued to be the Company witness concerning power supply  
2 expenses, I also sponsored the Company's rate computations  
3 and proposed tariff schedules in that case.

4                   Because of my combined Resource Planning and  
5 Rate Department experience, I was asked to design a Power  
6 Cost Adjustment (PCA) which would impact customers' rates  
7 based upon changes in the Company's net power supply  
8 expenses. I presented my recommendations to the Idaho  
9 Public Utilities Commission in 1992 at which time the  
10 Commission established the PCA as an annual adjustment to  
11 the Company's rates. I sponsored the Company's annual PCA  
12 adjustment in each of the years 1996 through 2004 and  
13 supervised the preparation of the PCA adjustment in 2005 and  
14 2006.

15                   In 1996, I was promoted to Director of  
16 Revenue Requirement. At year-end 2002, I was promoted to  
17 Manager of Revenue Requirement.

18           Q.       What topic do you discuss in your testimony  
19 in this proceeding?

20           A.       There is only one topic in this proceeding  
21 and that topic is the determination of the appropriate load  
22 growth adjustment rate used for true-up computations within  
23 the power cost adjustment (PCA).

24           Q.       Why did the Company make this filing?

25           A.       The load growth adjustment rate was raised as

1 an issue during the negotiations leading to the Settlement  
2 Stipulation among the parties in Case No. IPC-E-05-28. In  
3 Section 6(d) of the Stipulation, the Parties agreed that  
4 "the PCA load growth rate issue will be addressed  
5 contemporaneously with the Company's upcoming PCA  
6 proceeding, which will be filed on or about April 15, 2006."  
7 This Petition for Commission review of the load growth  
8 adjustment rate is being filed contemporaneously with the  
9 Company's PCA application in compliance with the  
10 Stipulation.

11 Q. Why did the Company file this Petition under  
12 a different docket than its PCA Application?

13 A. The PCA Application anticipates normal  
14 Commission review with new PCA rates to be implemented on  
15 June 1, 2006. Commission review of the load growth  
16 adjustment rate does not require a conclusion by June 1,  
17 2006.

18 Q. What is the appropriate load growth  
19 adjustment rate at this time?

20 A. Idaho Power believes that the appropriate  
21 load growth adjustment rate is \$6.81/MWh, the current,  
22 embedded PCA-related cost of serving load.

23 Q. Does the current load growth adjustment  
24 methodology use the embedded PCA-related cost of serving  
25 load you are recommending?

1           A.       No. The current load growth adjustment  
2 methodology uses predicted marginal costs of serving load  
3 rather than embedded cost of serving load. The current  
4 approved load growth adjustment rate is \$16.84 per MWh.

5           Q.       Please summarize why the Company believes  
6 that the current use of predicted marginal costs of serving  
7 load to determine the load growth adjustment rate is unfair  
8 and should be changed?

9           A.       The use of predicted marginal costs in the  
10 PCA credits customers with the higher, marginal PCA-related  
11 cost of serving new customer loads even though the Company  
12 is only allowed to recover the lower, embedded PCA-related  
13 costs of serving new customer loads. This mismatch  
14 automatically penalizes the Company when it serves new  
15 customer loads. The Company should be afforded a reasonable  
16 opportunity to recover its PCA-related expenses associated  
17 with serving new customer loads in a timely manner. The  
18 best way to do this is to match the load growth adjustment  
19 rate to the Company's actual ability to recover its costs by  
20 using embedded costs to determine the load growth adjustment  
21 rate.

22                   Historical Background of the PCA

23           Q.       Were you the Company witness who recommended  
24 a PCA methodology to the Commission when the PCA was  
25 originally implemented in Case No. IPC-E-92-25?

1           A.       Yes, I was one of three Company witnesses in  
2 Case No. IPC-E-92-25 ("the original PCA case"). My  
3 testimony introduced the Company-proposed methodology for  
4 the original PCA.

5           Q.       Please define the term "power supply  
6 expenses" as the Company and the Commission have used the  
7 term historically.

8           A.       The Company and the Commission have used the  
9 term "power supply expenses" to refer to the sum of fuel  
10 expenses (FERC accounts 501 and 547) and purchased power  
11 expenses (FERC account 555) excluding PURPA qualifying  
12 facilities (QF) expenses minus surplus sales revenues (FERC  
13 account 447). For ratemaking purposes, QF expenses have  
14 been quantified separately from other power supply expenses  
15 and are treated as fixed inputs to power supply modeling  
16 rather than variable outputs.

17          Q.       How do PCA expenses differ from power supply  
18 expenses?

19          A.       PCA expenses include both power supply  
20 expenses and QF expenses.

21          Q.       In the original PCA case, did the Company-  
22 proposed PCA methodology include a load growth adjustment  
23 rate?

24          A.       No. Under the Company-proposed PCA  
25 methodology, the PCA mechanism would have compared the

1 actual PCA unit cost of serving load in dollars per  
2 megawatt-hour (actual PCA expenses/actual MWh) to the  
3 normalized PCA unit cost of serving load in dollars per  
4 megawatt-hour (normalized PCA expense/normalized MWh. The  
5 difference between the two rates would become the PCA rate.  
6 Under its proposed PCA methodology, the Company envisioned  
7 that 100 percent of the variation in power supply expenses  
8 (including QF purchases) would have been reflected in the  
9 PCA rate.

10 Q. Did the Commission adopt the PCA methodology  
11 proposed by the Company in the original PCA case?

12 A. No. While the Commission adopted many  
13 aspects of the PCA methodology proposed by the Company, the  
14 Commission determined that 100 percent tracking of power  
15 supply expenses would remove any incentive for the Company  
16 to seek the lowest-cost power supply opportunities. As a  
17 result, the Commission adopted a 90 percent sharing  
18 methodology for non-QF power supply expenses. QF expenses,  
19 however, were viewed differently by the Commission. Because  
20 the Company has no discretion whether to enter into QF  
21 contracts, the Commission determined that 100 percent of QF  
22 purchased power expense deviations from base would flow  
23 through the PCA.

24 Another Commission-adopted methodology  
25 difference from the PCA the Company proposed in the original

1 PCA case was that, instead of comparing actual variable PCA  
2 unit costs (in \$/MWh) to normalized PCA supply unit costs  
3 (in \$/MWh), the Commission adopted a methodology that  
4 compared actual PCA expenses (in dollars) to normalized PCA  
5 expenses (in dollars). This introduces some confusion, at  
6 times, because the terms costs and expenses are often used  
7 interchangeably.

8                   A problem with comparing PCA expenses rather  
9 than comparing PCA unit costs is that the two PCA expense  
10 levels being compared correspond to two different load  
11 levels (i.e., actual and normalized). The Commission  
12 ultimately decided that the actual PCA expense level should  
13 be adjusted to reflect a proxy PCA expense of serving  
14 normalized load levels. In that manner, the proxy for actual  
15 PCA expense of serving normalized loads would be compared to  
16 the normalized PCA expense of serving normalized load and  
17 the difference between the two would be divided by the  
18 normalized sales level to determine the PCA rate.

19                   Other adjustments to the Company's proposed  
20 methodology such as the natural logarithmic function for  
21 forecasting annual power supply expenses were also adopted  
22 by the Commission. Those adjustments are not at dispute in  
23 this proceeding.

24                   Q.       In the original PCA case, how was the actual  
25 PCA expense of serving actual loads adjusted to arrive at

1 the proxy for actual PCA expense of serving normalized  
2 loads?

3 A. The difference between actual loads and  
4 normalized loads would be determined monthly as part of the  
5 PCA true-up. It was assumed that typically loads would grow  
6 over time and a load growth adjustment would reduce actual  
7 PCA expenses of serving actual loads to the proxy for actual  
8 PCA expenses of serving normalized loads at the rate of  
9 \$16.84 per megawatt-hour for each megawatt-hour of load  
10 growth.

11 Q. How was the load growth adjustment rate of  
12 \$16.84 per megawatt-hour determined?

13 A. The \$16.84 per MWh load growth adjustment  
14 rate was determined by averaging the Boardman and Valmy fuel  
15 costs.

16 Q. Did the Staff contend that a load growth  
17 adjustment was required to insure that the Company did not  
18 recover its costs twice?

19 A. Yes. Order No. 24806 issued in Case No. IPC-  
20 E-92-25 recaps the Staff contention as follows:

21 Staff argues that the power supply costs of serving  
22 differences between normal and actual firm retail  
23 load should be factored out of the PCA. Differences  
24 from normalized firm retail load are caused by  
25 factors such as changes in load and abnormal  
26 weather. Staff contends that some differences in  
27 power supply costs are caused by changes in load and  
28 that the associated differences in power supply  
29 costs are not appropriate for PCA treatment. If the

1 Company is allowed to increase rates to account for  
2 the power supply costs of serving additional load  
3 and to recover base rates which also include power  
4 supply costs, the Company is double recovering those  
5 costs. Fuel costs (a component of net power supply  
6 costs) are first paid when load growth customers pay  
7 their electric bills at the end of the month. They  
8 are again paid in the following year after the  
9 Company captures them in its year-end true-up and  
10 spreads them to ratepayers.

11  
12 Q. Without a load growth adjustment, could the  
13 Company double-recover the costs of load growth?

14 A. If the Company-proposed methodology had been  
15 adopted, the Company believes that a load growth adjustment  
16 would not have been required and no double recovery would  
17 have occurred. However, because the PCA methodology  
18 originally proposed by the Company was modified to create an  
19 adjustment based upon changes in expense (dollars) levels  
20 rather than changes in unit costs (\$/MWh), a potential for  
21 double collection was created.

22 Q. As growth occurs, how does the Company  
23 recover its power costs?

24 A. As loads grow, the Company first recovers PCA  
25 expenses to serve that load growth at the normalized,  
26 embedded PCA-related cost of service rate included in the  
27 base rates of the Company. The PCA true-up mechanism then  
28 tracks actual PCA expenses that include the additional  
29 expenses to serve load growth. Without a credit for the  
30 revenues already received (embedded) the Company would

1 collect the fully tracked additional expenses (disregarding  
2 90% sharing) providing, in essence, a second collection of  
3 expenses. The first collection would be at embedded cost  
4 and the second collection would be at actual cost.

5 Q. What does the Company view as a primary  
6 intent of the PCA?

7 A. The Company believes that a primary intent of  
8 the PCA is to allow rates to change annually to replace the  
9 normalized PCA component of base rates with a PCA component  
10 reflective of current (actual) PCA expenses.

11 Q. In order to remove double collection of PCA  
12 expenses and also be consistent with the PCA intent you have  
13 discussed, what is the appropriate load growth adjustment  
14 rate?

15 A. The appropriate load growth adjustment rate  
16 is equal to the normalized embedded PCA-related cost-of-  
17 service expense-rate component of base rates. By crediting  
18 load growth at the normalized, embedded PCA-related cost of  
19 service, expense-rate component of base rates, the Company  
20 recovers current (actual) PCA expenses.

21 Q. In the original PCA case, did the Staff  
22 propose use of the embedded PCA-related cost of serving load  
23 as the appropriate load growth adjustment rate when they  
24 proposed altering the Company-proposed PCA methodology?

25 A. No. The Staff proposed use of the marginal

1 cost of serving customer energy requirements as the  
2 appropriate load growth adjustment rate.

3 Q. In the original PCA case, did the Company  
4 state a position regarding the appropriateness of the Staff-  
5 proposed load growth adjustment rate?

6 A. No. At the time the PCA was created, the  
7 Staff's proposed marginal load growth adjustment rate seemed  
8 like a small detail compared to the larger goal of  
9 establishing a PCA mechanism. It was only after some time  
10 had passed that the Company came to realize the impacts of  
11 the penalty introduced by setting the load growth adjustment  
12 at a marginal level rather than an embedded level.

13 Company Recommendation

14 Q. Does the Company believe it is appropriate to  
15 credit the actual costs of serving new customer loads and  
16 recover only the embedded PCA related cost of serving new  
17 customer loads?

18 A. No. The Company believes that such a credit  
19 penalizes the Company for serving new customer loads while  
20 at the same time the Company has an obligation to serve  
21 those customers. Just as the Company has no discretion with  
22 regard to QF pricing, the Company also has no discretion not  
23 to serve new customer loads. The Company should be afforded  
24 a reasonable opportunity to recover the expenses associated  
25 with serving new customer loads.

1           Q.       Please describe the PCA penalty that results  
2 from use of a predicted marginal cost load growth adjustment  
3 rate as opposed to an embedded cost load growth adjustment  
4 rate.

5           A.       As loads grow following a test year, the  
6 Company is obligated to serve the additional loads and  
7 receives revenue at the embedded cost levels established for  
8 the test year (for example the \$5.24 per MWh established in  
9 1992). At the same time, the Company incurs additional  
10 costs associated with serving the additional load (these  
11 costs have varied greatly, but let's assume an individual  
12 year actual cost of \$30/MWh). These \$30/MWh costs are  
13 included in the PCA, but a credit of \$16.84/MWh also occurs  
14 so PCA cost recovery is for \$13.16/MWh (\$30-\$16.84 per MWh).  
15 Adding base rate recovery to PCA recovery results in total  
16 recovery at \$18.40/MWh (\$5.24+\$13.16 per MWh) and a penalty  
17 (non-recovery) of \$11.60/MWh (\$30-\$18.40 per MWh).

18                   Please note that this penalty is equal to the  
19 difference between the known embedded PCA related cost of  
20 \$5.24 and the approved load growth adjustment rate of  
21 \$16.84/MWh. If the load growth adjustment rate were equal  
22 to the embedded PCA related cost, no penalty would exist.  
23 The Company has an obligation to serve additional loads but,  
24 based upon a load growth adjustment rate higher than the  
25 embedded PCA related costs included in base rates, is denied

1 the opportunity to recover the additional expenses incurred  
2 to serve the additional loads.

3 Q. What was the embedded PCA related cost of  
4 serving customer load requirements at the time the PCA was  
5 originally established?

6 A. The normalized level of PCA expenses was  
7 \$73,079,128 and the normalized load was 13,952,283 MWh.  
8 Based upon these numbers, the embedded PCA related cost of  
9 serving customer load requirements was \$5.24 per MWh.

10 Q. How does this compare with the current  
11 embedded PCA related cost of serving customer load  
12 requirements?

13 A. Consistent with the Stipulation in Case No.  
14 IPC-E-05-28, the 2005 normalized level of PCA expenses is  
15 \$100,916,495 and the normalized load is 14,819,152 MWh.  
16 Based upon these 2005 normalized values, the current  
17 embedded PCA related cost of serving customer load  
18 requirements is \$6.81 per MWh.

19 Q. What has been the change in the normalized  
20 PCA cost of serving normalized load growth during the period  
21 of time between 1993 and 2005?

22 A. The normalized PCA cost of serving has  
23 increased from \$5.24 per MWh to \$6.81 per MWh.

24 Q. Please describe the incremental changes in  
25 PCA expenses since 1993.

1           A.       The change in normalized PCA expenses since  
2 1993 has been an increase of \$27,837,367. The change in  
3 normalized loads has been 866,869 MWh. The incremental  
4 change in the normalized PCA cost of serving the additional  
5 886,869 MWh of normalized load growth has been \$31.39 per  
6 MWh.

7           Q.       What are the reasons for the increases in  
8 normalized PCA expenses over the last 12 years?

9           A.       Normalized PCA expenses have increased by  
10 \$27,837,367 because normalized power supply expenses have  
11 increased by \$7,319,370 and normalized QF expenses have  
12 increased by \$20,517,997.

13          Q.       What portion of the load growth from 1993 to  
14 2005 has been served by QF generation?

15          A.       QF generation in 1993 was 574,710 MWh. In  
16 2005, QF generation was 957,041 MWh. Growth in QF  
17 generation has provided 382,331 MWh (43 percent) of the  
18 886,869 MWh of load growth.

19          Q.       What has been the incremental rate for QF  
20 growth?

21          A.       QF expenses have increased by \$20,517,997.  
22 QF generation has increased by 382,331 MWh. The incremental  
23 rate for QF growth has been \$53.67/MWh.

24          Q.       What portion of the load growth from 1993 to  
25 2005 has been served by power supply excluding QF

1 generation?

2 A. Growth in non-QF generation has provided  
3 504,538 MWh (57 percent) of the 886,869 MWh of load growth.

4 Q. What has been the incremental rate for non-QF  
5 growth?

6 A. Non-QF expenses have increased by \$7,319,370.  
7 Non-QF generation has increased by 504,538 MWh. The  
8 incremental rate for non-QF served load growth has been  
9 \$14.51 per MWh.

10 Q. Is the future actual cost of serving load  
11 growth known?

12 A. No.

13 Q. Was the future actual cost of serving load  
14 growth known in 1993?

15 A. No. However, we now know that the \$16.84  
16 load growth adjustment rate was higher than the \$14.51 per  
17 MWh incremental non-QF power supply cost of serving load  
18 growth over the 12 years.

19 Q. Does this historical review of incremental  
20 non-QF power supply costs change the Company view as to the  
21 appropriateness of estimating a future marginal power supply  
22 cost rate for use as the load growth adjustment rate?

23 A. No. The penalty the Company faces when an  
24 estimated future marginal power supply cost is used as the  
25 load growth adjustment rate remains regardless of the

1 accuracy of the estimate of future marginal power supply  
2 cost. My discussion of the last 12 years of history merely  
3 points out that the penalty the Company has experienced was  
4 greater than the penalty would have been if the estimate of  
5 future marginal power supply cost had been closer to the  
6 embedded PCA-related cost at which the Company served loads.

7 Q. What is the Company's recommendation for the  
8 appropriate load growth adjustment rate?

9 A. The Company recommends a load growth  
10 adjustment rate of \$6.81/MWh, the current embedded PCA  
11 related cost of serving load.

12 Q. Does this conclude your direct rebuttal  
13 testimony?

14 A. Yes, it does.