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IDAHO PUBLIC
UTILITIES COMMISSION

October 20, 2006

HAND DELIVERED
Jean D. Jewell, Secretary
Idaho Public Utilities Commission
472 West Washington Street
P. O. Box 83720
Boise, Idaho 83720-0074

Re: Case No. IPC-E-06-08
Petition For Modification of Load Growth Adjustment
Rate Within the Power Cost Adjustment Methodology

Dear Ms. Jewell:

Please find enclosed for filing an original and eight (8) copies of the Direct Rebuttal Testimony of Gregory W. Said regarding the above-referenced matter.

I would appreciate it if you would return a stamped copy of this transmittal letter to me in the enclosed self-addressed stamped envelope.

Very truly yours,

Barton L. Kline

BLK:sh
Enclosures

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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE PETITION OF IDAHO POWER COMPANY FOR MODIFICATION OF THE LOAD GROWTH ADJUSTMENT RATE WITHIN THE POWER COST ADJUSTMENT METHODOLOGY	)	CASE NO. IPC-E-06-08

IDAHO POWER COMPANY

DIRECT REBUTTAL 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. Are you the same Gregory W. Said who previously submitted direct testimony in this proceeding?

A. Yes, I am.

Q. What is the purpose of your rebuttal testimony?

A. I will respond to what I believe are incorrect or inappropriate assumptions and conclusions contained in the testimonies of Commission Staff Witness Hessing, Industrial Customers of Idaho Power (ICIP) Witness Reading and NW Energy Coalition Witness Weiss.

Q. Are you sponsoring any exhibits with your rebuttal testimony.

A. Yes. I am sponsoring three exhibits. Exhibit No. 1 provides documentation for several numbers I have included in my testimony. Exhibit 2 is a copy of a summary opinion by Moody Investment Service describing the potential adverse ramifications of changes in the PCA mechanism. Exhibit 3 shows how the fixed cost expense Idaho Power incurs due to load growth is greater than the revenue it receives from load growth.

Q. At line 14 on page 3 of his testimony, Mr. Hessing states that there two parts to the decision the

Commission is being asked to make in this case. Do you agree?

A. In this case, Idaho Power Company has asked the Commission to determine the appropriate load growth adjustment rate to be utilized within the Power Cost Adjustment (PCA) methodology. Mr. Hessing has stated that, prior to answering this question, the Commission should first determine whether the Company should be allowed to recover through the PCA any variable power supply costs associated with load growth. Based on the filed direct testimony it is apparent that the parties have differing opinions as to the purpose to be served by the load growth adjustment rate. The parties' recommendations in their testimony as to the appropriate load growth adjustment rate are driven by their views regarding the role the load growth adjustment rate should play in recovering Idaho Power's variable power supply expenses. As a result, it appears that the Commission will need to address the purpose of the load growth adjustment rate as well as Idaho Power's request for a determination of the appropriate local growth adjustment rate.

Q. Please summarize your recollections of the historical intent of the load growth adjustment rate.

A. As I stated in my direct testimony, in 1992 the Staff recommended a number of modifications to the

Company's original proposal for a PCA, many of which were adopted by the Idaho Commission. One major change the Staff recommended and the Commission accepted was to create an adjustment mechanism based upon changes in expense levels (dollars) rather than changes in unit costs ($/MWh). Adoption of an adjustment mechanism based on expenses levels created the potential for double collection of power supply expenses from customers. Idaho Power believes that the intent of the load growth adjustment rate was to eliminate the possibility of double collection of power supply expenses.

Q. Do the other witnesses in this case agree that eliminating the possibility of double collection of power supply expenses from customers has been a historical intent of the load growth adjustment rate?

A. Yes. At line 1 on page 6 of Dr. Reading's testimony, he states, "The load growth adjustment was implemented by the Commission to prevent the Company from double-collecting certain costs under the PCA." Mr. Hessing states at line 12 on page 5 of his testimony that, "without the adjustment the Company would double recover the normalized cost of power supply." NW Energy Coalition witness Weiss is silent with regard to the historical purpose of the PCA load growth adjustment rate.

Q. Does Staff Witness Hessing contend that there

is an additional purpose for the load growth adjustment rate?

A. Yes. Mr. Hessing states at line 10 page 9 of his direct testimony that he does not believe that Idaho Power Company should be allowed to recover any power supply costs associated with load growth through the PCA mechanism. This implies that Staff believes that an additional purpose of the load growth adjustment rate is to remove from the PCA the power supply expenses incurred to serve load growth that occurs between rate cases.

Q. One of the reasons Mr. Hessing cites in support of his position that Idaho Power Company should not be allowed to recover the power supply costs of load growth in the PCA is that "Load growth related power supply costs are addressed in a general rate case." (Hessing Direct page 11, line 9) Please comment on this statement.

A. Mr. Hessing's statement is incorrect. The incremental costs of serving load growth between rate cases is not addressed in general rate cases. In my experience all of Idaho Power's general rate cases have been based upon historical test years. As such, normalized power supply expenses are set using *historic* periods of time and do not reflect any expenses associated with *prospective* load growth. As a result, the PCA mechanism is the appropriate and only vehicle for addressing the incremental power

supply costs caused by load growth that occurs between general rate cases.

Q. Another reason Mr. Hessing gives for his belief that Idaho Power Company should not be allowed to recover power supply costs attributable to load growth is that hundreds of utility accounts must be "trued up" in a general rate case. Is that what occurs in a general rate case?

A. Again, Mr. Hessing's statement is incorrect. The term "trued up" has specific meaning in a PCA context. In the PCA context, actual variable power supply expenses are tracked and matched to corresponding variable power supply revenues. There is no such "true up" in a general rate case. Rather, the variable power supply component of rates is established based upon a relatively current, but historic and normalized, level of variable power supply expenses.

The Company has no opportunity to true-up incremental variable power supply expenses associated with load growth that occurs between rate cases other than in the PCA.

Q. Mr. Hessing states at line 25 on page 10 of his testimony that "It is not fair or reasonable to exclusively select one group of costs or the other" for tracking through annual rate adjustments. He states that

"The only fair way to establish rates is to look at all the utilities costs together as is done in a general rate case." Please comment on these statements.

A. These statements suggest a misunderstanding of historic Commission practice and a bias against adjustment mechanisms in general. The Commission for many years has successfully used adjustment mechanisms to address cost recovery between general rate cases for several of the utilities it regulates. Intermountain Gas, Avista and Idaho Power all have variable cost adjustment mechanisms. This practice indicates that the Commission has already determined that it is indeed fair, just and reasonable to isolate individual cost components such as purchased natural gas on power supply costs for specific review outside a general rate case.

Q. In your prior answer you mentioned Intermountain Gas Company. Does Intermountain Gas Company have the ability to recover its purchased gas expense associated with load growth occurring between rate cases?

A. Yes. It is my understanding that the variable gas costs associated with serving additional gas loads are recoverable through Intermountain Gas's Purchase Gas Adjustment mechanism (PGA).

Q. Does Intermountain Gas Company's PGA contain any adjustment that looks like a load growth adjustment?

A. For fixed costs, yes. I believe that Intermountain Gas is in a position where additional consumption by existing or new customers actually reduces per unit fixed costs. Intermountain Gas Company estimates this fixed cost per unit reduction as part of its PGA mechanism. Idaho Power does not experience declining fixed costs per unit of consumption as I will discuss later in my rebuttal testimony.

Q. Does Mr. Hessing cite any other basis for his position that variable power supply expenses associated with load growth that occurs between rate cases should not be recoverable in the PCA?

A. In my opinion, the only remaining basis for Mr. Hessing's position that variable power supply expenses associated with load growth between rate cases should not be recovered is his interpretation of the Commission's intent expressed in Order No. 29602 issued in Case No. IPC-E-92-25.

Q. Please explain the basis for your opinion.

A. As I noted in my direct testimony, there were many contested issues at the time Idaho Power's initial PCA was approved. The load growth adjustment rate was only one of those issues. The Company agreed that, with a change from the Company-proposed PCA based upon changes in costs per megawatt-hour to the Staff-proposed PCA based upon changes in expenses (dollars) rather than costs per MWh,

there was a potential for double collection of power supply expenses related to load growth. All parties still agree on this point. What the Company did not fully appreciate or address at that time was the Staff's apparent belief that all power supply costs associated with load growth that occurs between rate cases should be non-recoverable in the PCA. As I have stated, The PCA is the only vehicle the Company has available to recover power supply expenses associated with load growth occurring between rate cases.

Q. Did Staff address this issue in the Company's general rate case that followed the initial implementation of the PCA?

A. No. Mr. Hessing states in his testimony in the paragraph beginning at line 17 on page 6 that Staff reviewed marginal power costs as part of its preparation for Case No. IPC-E-94-5. At that time, Staff believed that their computation of marginal costs at $16.22/MWh was close enough to the $16.84/MWh load growth adjustment rate used for PCA computation to not require testimony in that case. The Company also proposed no change to the load growth adjustment rate in that case. As a result, neither the Company nor the Staff had a clear understanding as to the position of the other with regard to the appropriate or intended purpose of the PCA load growth adjustment rate.

Q. When did the Company discover that Staff had

a different opinion than that of the Company concerning the intent of the load growth adjustment rate?

A. It was only after Staff presented testimony in the IPC-E-03-13 case, some nine years later, that the Company fully understood the difference of opinion that Staff and the Company had with regard to the application of the load growth adjustment rate. In the IPC-E-03-13 case, the parties proposed that the issue be tabled for future review. The Commission agreed and the review of that dispute is the subject of this proceeding.

Q. Why is the load growth adjustment rate within the PCA so significant that it merits its own regulatory hearing?

A. Because even relatively small changes in the rate can shift large dollar amounts.

Q. Please explain.

A. As page 1 of my Exhibit 1 shows, in Case No. IPC-E-06-07, the 2006 PCA case, load growth for the April 2005 through March 2006 time period was 611,114 MWh. Based upon Mr. Hessing's recommendation of a load growth adjustment rate of $40.87/MWh, expenses would have been credited by nearly $25 million (611,114 MWh * $40.87/MWh = $24,976,229). Actual loads were 14,718,687 MWh served at a net power supply expense of $82,723,371. Accepting Mr. Hessings proposal would suggest that base level loads of

14,107,573 MWh (14,718,687 - 611,114) were served at an expense of $57,747,142 ($82,723,371 - $24,976,229) and at a rate of $4.09 MWh. Accepting Mr. Hessing's proposal would also suggest that the additional load of 611,114 MWh was served at $40.87/MWh. Under Mr. Hessing's proposal, the final 4% of load (611,114 / 14,718,687 MWh) is assumed to be served at 30% of total power supply expenses. Under Mr. Hessing's proposal, only $4.2 million (611,114 MWh x $6.81/MWh) out of this nearly $25 million power supply expense would be recovered by the Company through base rates while over $20 million would be non-recoverable. The Company believes that the Commission never intended to exclude 25 percent of the Company's power supply expense from recovery in the PCA. To avoid that punitive result the Commission should now confirm that the intent of the PCA load growth adjustment rate is to eliminate the possibility of double collection of revenues and not to eliminate the Company's ability to recover variable power supply expenses associated with load growth between rate cases. As my previous testimony shows, the PCA is the only way the Company can recover those expenses.

Q. Please quantify the amount of variable power supply expense Idaho Power can recover through the PCA mechanism.

A. Currently, Idaho Power only has a PCA

mechanism in its Idaho jurisdiction. As a result, the Company is limited in its ability to collect upward deviations in power supply expenses to 94% (the Idaho jurisdictional amount). A second limiting factor is the 90% sharing of non-QF power supply expenses. The combination of the jurisdictional factor and the sharing factor result in a cap on collection equal to 84.6% (94% * 90%) of the variation in power supply expenses.

The 84.6% collection of variations in power supply expenses is further reduced by crediting load growth at greater than the embedded variable power supply costs rate of $6.81/MWh.

Q. Based on those percentages, what was the actual percentage of variation in power supply expenses allowed for recovery via the PCA and base rates in 2006?

A. The Company was allowed to recover just under $21 million via the PCA and nearly $4.2 million (611,114 MWh x $6.81/MWh) variable power supply related base rates or $25.1 million out of the $35 million variation in power supply expenses. This equates to 71.7%.

Q. What would the percentage have been if Mr. Hessing's proposed Load growth adjustment rate had been in place?

A. The Company would have been allowed to recover only $10 million via the PCA and nearly $4.2 million

via variable power supply related base rates or $14.2 million of the $35 million variation in power supply expenses. This would equate to only 40.6%.

Q. Is the Company concerned that a change to the load growth adjustment rate in the magnitude proposed by Staff Witness Hessing could have other negative impacts?

A. There are indications that such a change could have a negative impact on Idaho Power's credit rating. The financial community has indicated that it will look very carefully at any material change to the PCA. For example, my Exhibit 2 is a copy of the October 6, 2006 Summary Opinion on Idaho Power Company from Moody's Investment Service. In that report on Pages 2 and 3 under the heading ***What Could Change the Rate - Down***, Moody's includes "...any unexpected change that comprises the PCA mechanism..." as one of the events that could adversely affect Idaho Power's credit rating.

Q. Let's move next to Dr. Reading's testimony. At line 8 on page 7 of his testimony, Dr. Reading states that the load growth adjustment rate in the PCA prevents the Company from "collecting an amount that would automatically compensate the Company for the marginal costs it incurs to meet new loads." Do you agree?

A. Yes. Dr. Reading is pointing to the very penalty for load growth I described in my direct testimony.

Dr. Reading acknowledges in his statement that the Company incurs variable power supply expenses that it has no opportunity to recover in the PCA. The PCA is the very mechanism designed to review variable power supply expenses. As I have testified, the Company has no opportunity to recover these expenses in general rate cases or by any means other than the PCA.

Q. Dr. Reading suggests at line 14 on page 8 of his testimony that if the power supply costs associated with load growth are not removed from the PCA, "Idaho Power's customers would lose the opportunity to be involved in the review of the prudency of those costs." Is this true?

A. No. The prudency of power supply costs included in PCA computations is reviewed every year by PUC Staff. Historically, when Staff, in its review of power supply expense has identified specific power supply expenses that require additional review beyond the PCA time frames, the Commission has allowed additional time for a more in-depth review of such expenses. Parties other than Staff also have the same opportunity to review power supply expenses.

More importantly, power supply costs associated with load growth are not differentiated from power supply costs to serve existing loads. There is no reason that the prudency review for one component of power

supply costs (i.e., load growth) should be different than the review of another component of power supply costs (i.e., test year loads).

Q. You have stated in your rebuttal testimony that the Company did not fully understand the Staff position on the load growth adjustment rate in 1992 when the Commission adopted the Staff position on that issue. Dr. Reading states at line 13 on page 10 of his testimony that "the Commission had ample opportunity to consider, and decide, on the record that the load growth adjustment should not be based upon embedded average costs." Has Dr. Reading accurately described the record in that case?

A. No. Dr. Reading cites Commission Order No. 24806 to support his contention. Order No. 24806 actually states that the Commission adopted the load growth adjustment rate proposed by Staff because "it was the only method proposed." (Reading Direct Page 9 line 13 quoting IPUC Order No. 24806, p. 20.) A load growth adjustment rate based upon embedded average costs was not presented in the original PCA case. I believe that Dr. Reading is overstating the level of Commission review of the issue in 1992 in order to suggest that this issues does not need to be fully reviewed by the Commission at this time.

Q. Dr. Reading testifies at line 20 on page 12 of his testimony that nothing has changed since 1992 that

should suggest the Commission revisit the load growth adjustment rate issue. Do you agree?

A. No. Dr. Reading ignores the fact that only one load growth adjustment rate position was presented in the IPC-E-92-25 case. He also ignores the fact that there were different interpretations by the parties with regard to the intent of the load growth adjustment rate. He concludes that Idaho Power should have no right to ask for additional review on the issue now. Mr. Hessing and I disagree with Dr. Reading on this point and believe that the Commission should determine the purpose of the load growth adjustment rate. The Company does not believe that the Commission intended to create a penalty to the Company for serving additional load.

Q. What load growth adjustment rate does Mr. Hessing propose for approval at this time?

A. Mr. Hessing recommends a load growth adjustment rate of $40.87/MWh.

Q. What load growth adjustment rate does Dr. Reading propose?

A. Dr. Reading suggests that the appropriate load growth adjustment rate could be anywhere from $36.42/MWh to $48.81/MWh.

Q. Were either Mr. Hessing's or Dr. Reading's recommendations for the appropriate load growth adjustment

rate determined in conformance with the methodology utilized by the Commission in 1192 to determine a load growth adjustment rate of $16.84/MWh?

A. No. The Commission's determination in 1992 of $16.84/MWh as the appropriate load growth adjustment rate was based on a marginal cost of Idaho Power resources that could serve additional loads. The methodology used an average of the costs of Idaho Power Company's two most expensive base load resources, Valmy and Boardman. Mr. Hessing now recommends a change of methodology to a marginal cost approach that compares two power supply model runs. This new method introduces marginal surplus sales revenues and marginal purchased power expenses contained in the model runs to a methodology that previously only looked at the costs of Company-owned resources on the margin. Dr. Reading offers two other new methods and suggests that the Commission adopt a value somewhere in the range suggested by the two methods.

It should be noted that, whatever methodology the Commission adopts in this Case, the methodology should be driven by the purpose for the PCA. Although Dr. Reading suggests that the Company cannot now question the Commission's intent underlying the PCA load growth adjustment rate expressed in 1992, both he and Mr. Hessing are comfortable proposing alternate methodologies for

computing the load growth adjustment rate without presenting the load growth adjustment rate that would result from a methodology consistent with the current Commission-approved methodology.

Q. What would the load growth adjustment rate be based upon the 1992 adopted methodology?

A. The Company's two highest cost base-load resources continue to be Valmy and Boardman. In the IPC-E-05-28 case, Valmy cost was $16.51/MWh and Boardman cost was $12.62/MWh. The average of these two numbers is $14.57/MWh.

Q. If the Commission does not choose to confirm that the sole intent of the load growth adjustment is to remove the potential for double collection of power supply expenses that could occur due to load growth, does the Company believe it is appropriate to change the current method by which the load growth adjustment rate is determined?

A. No.

Q. Please describe the fundamental difference between the currently approved Commission methodology for determining the load growth adjustment rate and the methodology proposed by Mr. Hessing.

A. Under the currently approved Commission methodology for determining the load growth adjustment rate, the Commission considered the marginal cost of Company-owned

base-load resources likely to be dispatched to meet additional loads. Mr. Hessing's newly recommended methodology introduces marginal purchased power expenses and the marginal value of surplus sales into the equation.

Q. Please quantify the impacts of introducing marginal purchased power expenses and marginal surplus sales revenues in Mr. Hessing's newly proposed methodology.

A. Under Mr. Hessing's newly proposed methodology, a base case power supply model run based upon a 2005 normalized test year is compared to a second power supply model run with loads incremented by 10 megawatts. His result of $40.87/MWh is what he considers to be the marginal cost of serving the additional 10 megawatts of load. However, closer evaluation shows that nearly 7 of the additional 10 megawatts of load growth, i.e., new native load, would be served by generation that would otherwise have gone to surplus sales. Mr. Hessing's proposed methodology suggests that existing loads should be *guaranteed* the value of surplus sales that no longer occur once the Company has an obligation to serve new native loads. The Company's cost of serving new native load from resources that would otherwise be available for surplus sales should be the resource cost not the surplus sales value. Similarly, the inclusion of marginal purchased power costs introduces costs that were not included in the current

Commission-approved methodology. Removing surplus sales and off-system purchases from the equation and just looking at the marginal cost of Company-owned resources results in a rate of $17.15/MWh. This amount is higher than the average of Boardman and Valmy fuel costs at $14.57/MWh and reflects the occasional operation of the Company's combustion turbine units. The computation of the $17.15/MWh amount is shown on Page 2 of Exhibit 1.

Q. Please compare the two marginal cost methodologies Dr. Reading recommends to the current Commission-approved methodology for computing the load growth adjustment rate.

A. In a similar manner to Mr. Hessing's approach, Dr. Reading's first methodology recommends inclusion of marginal purchased power costs and marginal surplus sales benefits in addition to the Commission methodology that looks only at the marginal cost of Company owned resources. Dr. Reading's second methodology recommends the use of Bennett Mountain power plant costs as the appropriate marginal cost resource. Because Bennett Mountain is a peaking unit, and would only run a few hours a year, it is clear that Bennett Mountain would not be the resource utilized to meet load growth during all hours of the year. Dr. Reading's use of Bennett Mountain in his second method sets an artificially high load growth

adjustment rate based upon an inaccurate assumption that a peaking unit is the typical marginal resource throughout the year.

Q. Does Mr. Weiss have a recommendation for the appropriate load growth adjustment rate?

A. No. Instead, Mr. Weiss recommends a major PCA redesign to create different load growth adjustment rates by customer class and to further differentiate by either new loads of existing customers or new loads of new customers within each class.

Q. Is this recommendation appropriate?

A. No.

Q. Is Mr. Weiss's recommendation for a major PCA redesign to create different load growth adjustment rates for new loads of new customers and new loads of existing customers in each customer class appropriate?

A. No. First, to create an appropriate load growth adjustment rate, the Company believes the incremental revenue that the Company receives is more appropriately considered than is the incremental cost of serving new load. (i.e., eliminate the potential for double collection of variable power supply expenses associated with load growth rate cases.)

Second, Mr. Weiss seems confused on the concept of incremental costs as they relate to this issue.

A new kilowatt-hour of consumption at any specific point in time will have the same incremental variable power supply cost regardless of the customer type (new or existing) or customer class (residential or commercial for example) consuming the power. Differences in class cost of service arise from costs that are evaluated outside of the PCA such as facilities required to serve customers, rather than commodity price. The infusion of non-power supply expenses into the PCA mechanism which is designed to address only power supply expenses is inappropriate.

Q. Much of Mr. Weiss's testimony in this case is directed at evaluating the additional revenue that the Company receives as a result of load growth. Please comment on this testimony.

A. Unlike Dr. Reading and Mr. Hessing, who for the most part ignore the revenue side of the equation, Mr. Weiss focused his attention on revenues generated by load growth. Because this is a PCA case, the Company believes it is appropriate to look only at the revenue generated by the component of rates associated with power supply expenses, (i.e., the embedded power supply cost of $6.81/MWh). However, Mr. Weiss considers the total additional revenue generated by the full customer rates as a potential credit to variable power supply expenses. Idaho Power contends that other components of the total customer rate are

intended to recover costs other than variable power supply expenses such as distribution, transmission, general and administrative expenses. These costs should not be credited to variable power supply expenses.

Q. Please give an example of how Mr. Weiss considers load growth revenues that are generated by rate components other than power supply expenses.

A. On pages 5, 6 and 7 of his testimony, Mr. Weiss describes what he believes is a reasonable example of how the Company benefits from load growth. In his example, he assumes that the Company receives 6.5 cents for all kWh's of load growth. In response to a Company data request, Mr. Weiss explained that the 6.5 cents/kWh was his estimation of the average summer residential rate. This class specific summer rate includes the 0.681 cents/kWh associated with power supply expenses and another 5.82 cents/kWh of non-variable power supply expense related costs.

Q. Is Mr. Weiss's 6.5 cents/kWh total revenue assumption representative of true Idaho total incremental revenues.

A. No. Mr. Weiss's assumption that all load growth in the residential class occurs during the summer season immediately skews his analysis. Year round load growth in the residential class due to increased use of "instant start" televisions and other electronic devices is

one example of why Mr. Weiss's assumption is poor. A more reasonable approach that recognizes that growth can occur in any class and at any time of year would be to use the Idaho jurisdictional average retail rate of 4.57 cents/kWh. Page 3 of Exhibit 1 shows the computation of the average retail rate.

Q. Mr. Weiss concludes at line 6 on page 7 of his testimony that incremental costs incurred by the Company were 4.5 cents/kWh and as a result the Company would realize 2 cents/kWh of net revenue for residential customers. Is he correct?

A. Based upon the 2 cents/kWh correction to Mr. Weiss's 6.5 cents/kWh revenue assumption I described in my previous answer, his assumed 2 cents/kWh net revenue conclusion disappears. In addition, there is also no revenue to cover the additional costs of distribution and transmission that would be required to serve the additional loads.

Q. At line 23 on page 8 of his testimony, Mr. Weiss states in that incremental fixed costs are "certainly less than embedded fixed costs." Do you agree with Mr. Weiss's statement?

A. No. In its discovery in this case, the NW Energy Coalition requested information regarding the incremental fixed costs of serving new loads in recent

years. Under my supervision, data from the last two general rate cases was evaluated to determine the incremental fixed costs of serving new loads between the 2003 test year and the 2005 test year. Exhibit 3 contains the data utilized to create the Company's response. Detail of embedded and marginal costs by customer class, including separation of distribution, transmission and generation fixed costs is included in Exhibit 3. Page 1 of Exhibit 3 shows fixed rate components by class for the 2003 test year. For example, the transmission fixed costs for the residential class in 2003 were $4.26/MWh. Page 2 of Exhibit 3 shows fixed rate components by class for the 2005 test year. The comparable transmission fixed costs for the residential class in 2005 were $5.06/MWh. Page 3 of Exhibit 3 shows the incremental fixed costs by class that occurred between rate cases.

Q. What is the most important information contained in Exhibit 3 for purposes of this case?

A. Witnesses in this case suggest that the Company always benefits from load growth. This suggestion is incorrect.

With the exception of the irrigation class, the incremental fixed costs of serving new loads for every component (distribution, transmission and generation) between the 2003 test year and the 2005 test year were higher than the embedded fixed costs of serving customers.

Mr. Weiss's statement that incremental fixed costs are certainly less than embedded fixed costs is not supported by any evidence and is certainly contradicted by Exhibit 3. The Company currently incurs greater expenses due to load growth than it receives from load growth. Including additional penalties for load growth in the PCA methodology is unwarranted.

Q. Mr. Weiss recommends that the load growth adjustment rate be increased by $10/MWh to provide the Company with a clear incentive to encourage conservation. Please comment on this recommendation.

A. Mr. Weiss suggests that the Company's ability to recover its power supply expenses should be limited as a means to encourage the Company to promote conservation measures. Likewise, Mr. Hessing suggests that the Company proposal to allow for recovery of prudently incurred power supply expenses associated with load growth creates a disincentive to DSM activity.

Currently, a separate case, IPC-E-04-15, exists to address methods for removal of disincentives to DSM activity. Creation of a PCA load growth penalty is not a means of removing disincentives to DSM activity. Rather it is an anti-growth position that penalizes the Company for growth trends that are beyond its control such as immigration to Idaho. DSM programs identified in the

Company's resource plan are not designed with the intent to consistently eliminate load growth. Instead, the Company's DSM programs are intended to reshape or reduce consumption in a cost-effective manner. The recommendations of Mr. Weiss and Mr. Hessing to adopt an anti-load growth view are counter to productive removal of disincentives to DSM activity.

Q. Are there any other concerns you have with Mr. Hessing's proposal?

A. I believe that Mr. Hessing's recommendation of a $40.87/MWh load growth adjustment rate might create a perverse impact from a conservation perspective. As an example, assume that all load growth occurs within the Large Power Service class. (In light of current state and local efforts to bring new businesses to Idaho, that is not a completely spurious assumption). The average Idaho Large Power Service customer pays $30.90/MWh. For such a customer, consumption of each additional megawatt-hour costs $30.90 but results in a PCA credit of $40.78, part of which flows back to the Large Power Service customer. The impact is that the more energy the customer uses, the lower the cost per megawatt-hour. I believe that a customer's ability to decrease its rates by increasing consumption is not an effective means to promote conservation. A more effective conservation approach would be to let all customers

experience the true cost of variable power supply costs so that they will take measures to avoid consumption during periods of high price. Artificially lowering the price to customers does not send appropriate price signals to promote conservation by those customers. Creating PCA credits that are greater than the embedded cost of variable power supply artificially and unfairly lowers the price customers pay. Creating PCA credits that are greater than the total rate that a customer pays creates an incentive to customers to consume more in order to reduce per unit costs.

Q. Please summarize your rebuttal testimony.

A. All parties agree that a principal purpose of the PCA load growth adjustment rate is to eliminate the potential for double recovery of power supply expenses. Idaho Power believes this should be the sole purpose of the load growth adjustment rate.

Mr. Hessing believes that the Company should not be allowed to recover any power supply expenses associated with load growth based upon his contention that the Company has such recovery opportunities in other ratemaking proceedings. I have demonstrated that this is a false assumption.

Mr. Reading believes that the Company should not be allowed to recover any power supply expenses associated with load growth based upon his contention that

such costs cannot be adequately reviewed for prudency within PCA timeframes. I have pointed out that power supply costs associated with load growth are no different from other power supply expenses which have been adequately reviewed within PCA timeframes since inception of the PCA.

Mr. Weiss recommends a major modification to the PCA methodology that I have shown to be inappropriate.

In the name of conservation, Mr. Hessing and Mr. Weiss have recommended adoption of a load growth adjustment rate that is greater than embedded costs and for some classes, greater than their total rate. I have indicated that I believe their proposal is more in the vein of a penalty imposed on Idaho Power for things beyond Idaho Power's control, including its service areas growing population. Their proposal suggests a punitive approach rather than a true conservation effort.

Mr. Hessing and Mr. Reading have recommended new methods for determining marginal costs of supplying power based upon inclusion of marginal purchased power costs and marginal surplus sales revenues rather than looking at the marginal cost of Company-owned resources as was done by the Commission in Case No. IPC-E-92-25. I have discussed the inappropriate impacts of such a change in methodology.

Q. Do you have any additional comments in light of the testimonies of Mr. Hessing, Dr. Reading and Mr.

Weiss.

A. Yes. Setting the PCA load growth adjustment at a level that is greater than the embedded variable power supply component of base rates has precluded the Company from recovering a portion of its prudently incurred power supply expenses. While the Company seeks to remove such non-recovery on a forward-going basis, the potential changes in the magnitude of the PCA load growth adjustment rate as proposed by Mr. Hessing and Dr. Reading significantly reduce the value of the PCA to the Company and its customers. Penalizing Idaho Power for load growth that is beyond the Company's control is not good regulatory policy nor is it beneficial to Idaho residents. Idaho Power is pursuing cost-effective DSM in accordance with its Integrated Resource Plan and the Orders of this Commission. In reality, including anti-growth positioning within the PCA will do nothing more than force the Company to file more frequent rate cases.

Q. Are annual general rate cases the answer to this problem?

A. No. So long as historic test years are used, even annual rate cases will not allow the Company to recover its additional variable costs attributable to load growth.

Q. Please recap the Company's recommendations regarding the appropriate load growth adjustment rate.

A. The PCA process provides the only opportunity for the Company to recover variations in its variable power supply expenses between rate cases, whether incurred to serve existing loads or new loads. As such, the PCA load growth adjustment rate should only eliminate the potential for double recovery of variable power supply expenses. The appropriate load growth adjustment rate based upon these criteria is $6.81/MWh which is the embedded variable power supply rate.

If the Commission finds that the PCA load growth adjustment rate should also remove costs associated with serving additional loads, Company-owned baseload resource costs should be the predominant drivers consistent with the current approved PCA load growth adjustment rate methodology. As such, the load growth adjustment rate should be no higher than $17.15/MWh.

Q. Does this conclude your direct rebuttal testimony?

A. Yes, it does.

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that on this 20th day of October, 2006, I served a true and correct copy of the within and foregoing document upon the following named parties by the method indicated below, and addressed to the following:

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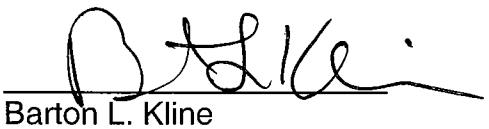

Barton L. Kline