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IDAHO PUBLIC
UTILITIES COMMISSION

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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) CASE NO. IPC-E-06-8
ADJUSTMENT FACTOR WITHIN THE POWER)
COST ADJUSTMENT (PCA) METHODOLOGY)
_____)

**REBUTTAL TESTIMONY OF
STEVEN D. WEISS
ON BEHALF OF NW ENERGY COALITION**

1

2 Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

3 A. My name is Steven Weiss. I am employed by the NW Energy Coalition
4 (“Coalition”), 219 First Ave. South, Suite 100, Seattle, WA 98104.

5 Q. HAVE YOU TESTIFIED BEFORE IN THIS PROCEEDING?

6 A. Yes. I provided direct testimony.

7 Q. WHAT IS THE SUBJECT OF YOUR REBUTTAL?

8 A. I will respond to the direct testimony of Mr. Reading (Industrial Customers of Idaho
9 Power, or “ICIP”) and Mr. Hessing of the Commission Staff who address the
10 testimony of Mr. Said (Idaho Power).

11 Q. WHAT ARE THE POSITIONS OF THESE PARTIES?

12 A. Mr. Reading and Mr. Hessing take similar positions in this docket: that the load
13 growth adjustment should continue to be based on the marginal cost of power. Mr.
14 Said, on the other hand, believes that the adjustment should be based on the
15 embedded cost of serving load, because to do otherwise unfairly penalizes the
16 Company. Mr. Reading summarizes the issue at the page 2 (line 22) through page 3
17 (line 1) of his direct testimony: “The basic question being presented to the
18 Commission is whether the calculation of the load growth adjustment rate should be
19 changed from a marginal basis to an average basis.”

20 Q. WHAT ARE THE UNDERLYING REASONS FOR THEIR POSITIONS?

21 A. Staff and ICIP make a strong case that the Commission’s intent of the load growth
22 adjustment was to limit the PCA such that it allows the recovery of unpredictable
23 changes in power supply costs between rate cases due to variations in hydro output

1 and fuel costs incurred to serve *existing loads*. Their position is that the PCA-related
2 costs of load *growth*, however, should be absorbed by the Company until those costs
3 are included in the base rates through a general rate case. To accomplish this goal,
4 Staff and ICIP assert the load growth adjustment must be based on marginal costs, so
5 that the costs of load growth are completely removed from the PCA and therefore not
6 recovered by the Company.

7 Mr. Said, for Idaho Power, also makes a strong case that whatever the intent
8 of the original PCA, the Company should not be penalized "...for serving new
9 customer loads while at the same time the Company has an obligation to serve those
10 customers." (page 11, lines 19-21) He continues that, "Just as the Company has no
11 discretion with regard to QF pricing, the Company also has no discretion not to serve
12 new customer loads." To accomplish this goal, he argues that the Company should
13 recover all (subject to 90%/10% sharing per the PCA) of the incremental power costs
14 of serving new load, so the load growth adjustment should include only the embedded
15 power cost in the rate.

16 Q. WHAT IS YOUR VIEW OF THESE TWO POSITIONS?

17 A. I see these positions as bookends. If adopted, the Staff/ICIP proposal to set the
18 adjustment at today's true marginal costs (in the range of \$40/MWh) – probably –
19 would result in Idaho Power losing money as a result of load growth, while the
20 Company's position—probably—would result in a windfall of revenues above actual
21 costs.

22 Q. WHAT IS YOUR CONCERN WITH THE COMMISSION CHOOSING ONE OF
23 THESE TWO POSITIONS?

1 A. First, there is an equity concern. The mechanism should strive to be neutral and not
2 unjustly benefit either customers or shareholders. But the Commission is well-aware
3 of this issue. My second concern was the subject of my direct testimony where I
4 stressed that,

5 In periodic rate cases, a review of revenue and cost levels occurs, and rates
6 determined such that the utility can earn that rate of return. But just as
7 important an element of regulation is how the rate structure, and any trackers,
8 affects the Company *between* rate cases. (p. 3)

9 In other words, the Commission's treatment of the load growth adjustment will likely
10 affect the Company's attitude toward load growth—and thus its attitude toward
11 conservation. This concern, in my opinion, should be an important criterion for the
12 Commission's consideration because the Company's attitude toward conservation
13 should not be addressed obliquely through a complex component of an annual rate
14 adjuster.

15 Q. IN THE QUESTION BEFORE LAST, WHY DID YOU EMPHASIZE THE WORD
16 "PROBABLY"?

17 A. Because whether load growth benefits or harms the Company is an empirical matter,
18 not a theoretical one, and it depends upon a number of facts. As I explained in detail
19 in my direct testimony, new load creates both new revenues and new costs. It is not
20 always readily visible whether the new revenues outweigh the new costs. The only
21 way that can be determined is by ascertaining the incremental costs and revenues of
22 the new load. And generally speaking, the incremental costs are usually different
23 than the amounts embedded in rates.

24 Q. ARE THERE OTHER COMPLICATIONS?

1 A. Yes. For one thing, the incremental costs of load growth are different for new load
2 from an existing customer versus new load from a new customer. For example,
3 according to Idaho Power's response to production requests in this case, the
4 incremental fixed costs of serving new customers added between the Company's two
5 most recent rate cases are much higher than the fixed costs per existing customer in
6 the rate cases. In the IPC-E-03-13 and -05-28 rate cases, the Company indicates that
7 total fixed costs per existing customer were about \$395/customer and \$422/customer,
8 respectively. The incremental fixed costs of serving customers added to the system
9 between rate cases is about \$791/customer, according to the Company's response.
10 See Exhibit 303 (Idaho Power response to production requests). The incremental
11 costs of serving load growth caused by a new customer are higher than the costs for
12 serving an existing customer due to a number of factors, including line extensions, a
13 new meter, etc. Second, the incremental costs are customer-specific (or at least class-
14 specific). Third, Idaho Power's line extension policy will also affect how much
15 revenue new customers provide. Finally, the incremental revenues received from
16 additional load may be adjusted depending upon the outcome of IPC-E-04-15
17 (evaluating disincentives to conservation programs).

18 Q. WHAT CAN YOU CONCLUDE FROM THESE COMPLICATIONS?

19 A. Together, these factors do not make it obvious whether any particular KWh of new
20 load will benefit or hurt the Company's bottom line without further analysis.
21 Therefore, it is not clear what the Company's incentives will be regarding load
22 growth of any particular customer class, or between existing and new customers.

1 Q. WHAT PRINCIPLES, THEREFORE, DO YOU BELIEVE THE COMMISSION
2 SHOULD ADHERE TO IN DETERMINING THIS ISSUE?

3 A. It is the Coalition's opinion that:

4 (1) The Commission should not use the PCA to set conservation policy, because
5 IPC-E-04-15 case is addressing that issue precisely. In other words, the
6 Commission should not attempt to set the growth adjustment mechanism too
7 high (towards the Staff's bookend) as a substitute for a comprehensive
8 conservation policy.

9 (2) The correct policy position in this case, when taken together with the outcome
10 in IPC-E-04-15, should be one where the Company is neutral toward load
11 growth, neither harmed nor benefited.

12 Following these principles would be consistent with the goal of decoupling: to
13 remove the incentive to promote load growth.

14 Q. HOW WOULD YOU RECOMMEND THE COMMISSION PROCEED?

15 A. I would recommend a two-step process. First, the Commission should decide what
16 goal it is attempting to pursue in this proceeding. The Staff/ICIP position is that
17 power costs incurred to serve load growth should not be dealt with in the PCA at all,
18 but should only be addressed via general rate cases. This position is certainly in line
19 with the original intent of the PCA. However, it has the serious unintended
20 consequence of failing to address the incentive or disincentive that policy would give
21 the Company between rate cases. With regard to Idaho Power's position, the
22 Commission should decide whether the Company should recover power costs
23 incurred to serve load growth on the same basis as it recovers power costs incurred to

1 serve system loads reviewed in the most recent rate case. These competing positions
2 each could potentially undermine the intent of the IPC-E-04-15 docket, by creating
3 incentives that decoupling should neutralize.

4 The third choice is one that the Coalition recommends. It is that the combined
5 outcome of this proceeding and IPC-E-04-15 should result in rate designs that, as
6 close as possible, make the Company neutral toward changes in load.

7 Q. WHAT WOULD BE THE SECOND STEP?

8 A. Implementation. Assuming that the Commission chose the third option, above, the
9 Commission would require the Company to develop class-specific incremental net
10 revenues (net of incremental costs) received from new loads. Each class would have
11 at least two results: (1) net revenues due to new load from existing customers, and
12 (2) net revenues due to new load from new customers. In developing these numbers
13 the Company would have to take into account both the outcome of the decoupling
14 docket, and its line extension policies. These incremental net revenues would then
15 become the load growth adjustments the Company would use in calculating its PCA.
16 I provided examples of this calculation in my direct testimony. The result would be a
17 mechanism that would recover neither too much nor too little revenue through the
18 PCA, and therefore neither benefit nor harm the Company. This, in my opinion is the
19 only result that would be consistent with a *rate design* policy of ensuring the
20 Company's neutrality toward changing loads and changing customer numbers.

21 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

22 A. Yes.

23

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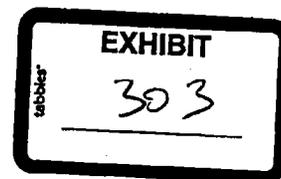
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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

| | |
|------------------------------------|--------------------------|
| IN THE MATTER OF THE PETITION OF) | CASE NO. IPC-E-06-08 |
| IDAHO POWER COMPANY FOR) | |
| MODIFICATION OF THE LOAD) | IDAHO POWER COMPANY'S |
| GROWTH ADJUSTMENT RATE) | RESPONSE TO THE SECOND |
| WITHIN THE POWER COST) | PRODUCTION REQUEST OF NW |
| ADJUSTMENT METHODOLOGY) | ENERGY COALITION |
|) | |
|) | |

COMES NOW, Idaho Power Company ("Idaho Power" or "the Company") and, in response to the Second Production Request of NW Energy Coalition to Idaho Power Company dated September 29, 2006, herewith submits the following information:

IDAHO POWER COMPANY'S RESPONSE TO THE SECOND PRODUCTION REQUEST OF NW ENERGY COALITION - 1



REQUEST FOR PRODUCTION NO. 11:

Please provide actual—or in their absence, best estimates—of the average fixed costs per customer that the Company incurs to serve new customers for each of the three (3) most recent years that are available. Please break down these costs by customer class for each class that would be affected by the PCA mechanism at issue in this docket.

RESPONSE TO REQUEST FOR PRODUCTION NO. 11:

Actual fixed costs by customer class are not determined on a regular basis. The Company's best estimate of the average fixed costs per customer would be derived by completing a cost-of-service study. The cost-of-service study is one part of the analyses completed in preparing for a general rate case. The information from the cost-of-service studies for the Company's two most recent general rate cases, IPC-E-03-13 and IPC-05-28, will provide the Company's "best estimate" for the fixed costs per customer in the most recent years.

The table below shows the number of customers and the class fixed costs for each of the last two general rate case filings. The difference between the two rate cases would be the Company's best estimate of the average fixed costs per customer that the Company incurs to serve new customers in recent years.

| | | | |
|-------------------------|--|--------------------|-------------------|
| Residential | IPC-E-03-13 | IPC-E-05-28 | Change |
| Customers | 334,917 | 359,802 | 24,885 |
| Class Fixed Costs | \$132,442,770 | \$152,131,314 | \$19,688,544 |
| | Incremental Fixed Cost per New Customer | | \$791.18 |
| Small Commercial | IPC-E-03-13 | IPC-E-05-28 | Change |
| Customers | 33,618 | 34,310 | 692 |
| Class Fixed Costs | \$11,545,342 | \$13,435,685 | \$1,890,344 |
| | Incremental Fixed Cost per New Customer | | \$2,731.71 |

| | | | |
|-------------------------|--|--------------------|---------------------|
| Large Commercial | IPC-E-03-13 | IPC-E-05-28 | Change |
| Customers | 17,213 | 17,587 | 374 |
| Class Fixed Costs | \$45,408,759 | \$56,109,964 | \$10,701,205 |
| | Incremental Fixed Cost per New Customer | | \$28,612.85 |
| Industrial | IPC-E-03-13 | IPC-E-05-28 | Change |
| Customers | 116 | 116 | 0 |
| Class Fixed Costs | \$17,611,901 | \$22,696,177 | \$5,084,276 |
| | Incremental Fixed Cost per New Customer | | N / A |
| Irrigation | IPC-E-03-13 | IPC-E-05-28 | Change |
| Customers | 14,737 | 15,085 | 348 |
| Class Fixed Costs | \$52,606,270 | \$51,362,375 | (\$1,243,896) |
| | Incremental Fixed Cost per New Customer | | (\$3,574.41) |
| Total Company | IPC-E-03-13 | IPC-E-05-28 | Change |
| Customers | 400,601 | 426,899 | 26,299 |
| Class Fixed Costs | \$259,615,042 | \$295,735,516 | \$36,120,473 |
| | Incremental Fixed Cost per New Customer | | \$1,373.48 |

These computations are based on net investment after customer contributions in aid of construction.

The response to this request was prepared by Mike Youngblood, Pricing Analyst II, Idaho Power Company, in consultation with Lisa D. Nordstrom, Attorney II, Idaho Power Company.

REQUEST FOR PRODUCTION NO. 12:

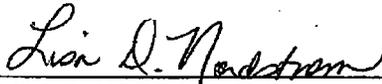
Please provide the same information requested in the previous question net of any line extension revenues. In calculating the line extension revenues per customer per year, assume an appropriate amortization time period.

RESPONSE TO REQUEST FOR PRODUCTION NO. 12:

The question references line extension revenues which the Company believes is a reference to customer contributions in aid of construction. Such contributions are direct offsets to investment for ratemaking purposes. Please see Response to Request for Production No. 11.

The response to this request was prepared by Mike Youngblood, Pricing Analyst II, Idaho Power Company, in consultation with Lisa D. Nordstrom, Attorney II, Idaho Power Company.

DATED this 12th day of October, 2006, at Boise, Idaho.



LISA D. NORDSTROM
Attorney for Idaho Power Company

CERTIFICATE OF SERVICE

I hereby certify that on this 20TH day of October 2006, true and correct copies of the REBUTTAL TESTIMONY OF STEVEN WEISS were delivered to the following persons via U.S. Mail:

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A handwritten signature in black ink, appearing to read "Dale Swan", is written over a horizontal line.