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IDAHO PUBLIC  
UTILITIES COMMISSION

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

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5 IN THE MATTER OF THE APPLICATION )  
6 OF IDAHO POWER COMPANY FOR )  
7 AUTHORITY TO INCREASE ITS RATES )  
8 AND CHARGES FOR ELECTRIC SERVICE )  
9 TO ELECTRIC CUSTOMERS IN THE )  
10 STATE OF IDAHO, )  
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Case No.: IPC-E-07-08

REBUTTAL TESTIMONY OF DR. DON  
READING ON BEHALF OF THE  
INDUSTRIAL CUSTOMERS OF IDAHO  
POWER

1  
2  
3 **Q. Are you the same Don Reading who filed Direct Testimony in Case IPC-E-07-08?**

4 A. Yes, I am.

5 **Q What is the purpose of your Rebuttal Testimony?**

6 I rebut several assertions made by Staff witness Hessing relating to his Cost-of-Service  
7 (COS) testimony, load shapes of customer groups, and the relationship between average and  
8 marginal costs and revenues. I also make some observations relating to the Testimony of Kevin  
9 Higgins, on behave of The Kroger Company, regarding mandatory Time-of-Use (TOU) rates for  
10 Schedule 19 customers and his proposal that TOU rates be voluntary for Schedule 9 customers.  
11

12 **Q. What are your comments regarding Staff witness Hessing's Testimony about the**  
13 **allocation of costs to customer classes as they relate to load growth?**

14  
15 A. Mr. Hessing states that load growth has been occurring on Idaho Power's system by  
16 record amounts, and that this growth has been "substantially in the residential class". He goes on  
17 to say the cost of power to meet these growing loads has been much higher than it used to be at  
18 about 6 ¢ per kWh. [Hessing, Di, IPC-E-07-08, pp. 9 - 10.]  
19

20 **Q. According to Mr. Hessing, under the approved COS methodology, costs have been**  
21 **allocated 'disproportionately' to the residential class. Do you agree?**

22 No.

23 **Q. Please explain.**

24 Mr. Hessing states,  
25

26  
27 Under approved cost of service methodology these costs have been allocated  
28 disproportionately to the residential class, however, some of these high costs are

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1 allocated to all other classes as well. In the cost of service model the residential  
2 class received credit for all of the revenue from its load growth at near 6¢/kWh  
3 and a portion of the production cost increases at about the same rate. In cost of  
4 service the revenues offset the costs and the Residential Class is calculated to  
5 receive an increase below the Idaho Jurisdictional average, or even a decrease as  
6 demonstrated in Staff's results.  
7

8 Hessing, Di. P. 10.  
9

10 I have two issues with Mr. Hessing's statements. First, in the IPC-E-03-13 case the  
11 Company proposed the residential class receive a higher than overall percentage increase –  
12 19.03% overall v. 17.68% for residential, this was not true for the IPC-E-05-28 case filed two  
13 years later. In the 2005 case the "Traditional COS" allocated a percentage increase to the  
14 residential class of 1.7% out of an overall proposed increase of 7.82%. The other issue I have  
15 with Mr. Hessing's testimony is that it highlights the annual cost of supplying power for growth  
16 but does not consider the monthly marginal cost of power or the load pattern of the residential  
17 class.  
18

19 **Q. Could you discuss further Mr. Hessing's statements about the COS methodology**  
20 **'disproportionately' allocating costs to the residential class?**  
21

22 Yes. As discussed in my Direct Testimony the last litigated COS for Idaho Power was in  
23 the IPC-E-03-13 case, while the IPC-E-05-28 case was settled with an uniform percent increase  
24 of 3.2% for all classes. The COS studies filed by the Company in the IPC-E-05-28 case  
25 allocated significantly higher costs to the high load factor customers than for the residential  
26 class. The "Traditional COS" assigned 1.7% increase for the residential class while allocating a  
27 percentage amount 5 times higher to Large Power Service Schedule 19 at 8.63% out of an  
28

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1 overall proposed increase of 5.28%. The high load factor special contract customers all received  
2 double digit allocations ranging between 12.30% to 15.62%.

3  
4 While it is true that the COS studies in the IPC-03-13 indicated higher percentage  
5 increases for the residential class than for high load factor customers, there was a dramatic  
6 change in the allocations among the customer classes in the rate case filed by the Company two  
7 years later in 2005. That trend of higher percentage increases to high load factor customers has  
8 continued in this current case. Therefore I don't believe the record supports Mr. Hessing's  
9 assertion that residential customers have been 'disproportionately' assigned higher costs.  
10

11 **Q. Could you please explain what you meant by saying Mr. Hessing failed to consider**  
12 **customer class load patterns and the monthly marginal cost of power in his analysis?**

13 His point seems to be that since residential customers pay higher rates than high load  
14 factor customers, the revenue offset tends to mitigate the percentage increases. High load factor  
15 customers pay less per kWh than the residential class for a myriad of reasons.  
16

17 **Q. What are some of those reasons?**

18 One major reason for these lower rates is that high load factor customers tend to use a  
19 steady amount of power, while on the other hand, the residential class shows a significant  
20 variation in the amount of power used through out the year. This use pattern has been causing  
21 peaking problems on Idaho Power's system and has lead to the construction of the Company's  
22 most recent and most expensive resources. While the cost of power to serve growth may well be  
23 in the 6-cents-per-kWh range as an annual average, Idaho Power's studies show the cost of  
24 power varies significantly through out the course of the year. The marginal cost of power is  
25 highest in the summer when residential demand is high.  
26  
27

28 **Q. Could you explain further the variations in the monthly marginal cost of power as**

1 **found in Idaho Power's studies?**

2 According to the Marginal Cost Study filed by Idaho Power (Tatum Workpapers), the  
3 monthly marginal cost of Power Supply varies between \$54.86 \$/Mwh in May to \$127.75  
4 \$/Mwh in July. The monthly marginal cost of power is shown in Exhibit 214 along with the  
5 monthly consumption patterns of the residential and industrial classes. As can be seen in Exhibit  
6 214, the 4<sup>th</sup> highest consumption month for the residential class is in July which is when the  
7 marginal cost of power is the highest. While the annual cost of serving growth may be  
8 approximately 6 cents per kWh, the marginal cost in July is more than twice that. This means  
9 that the residential class' higher rates per kWh are not covering the costs of the system during  
10 summer months when the costs of supplying power to the system are the highest.

11  
12  
13 Furthermore, the growth of summer peak for the residential class is expected to continue  
14 in the future which will exacerbate the peaking problem on Idaho Power's system. On the other  
15 hand, the load pattern of the industrial class can be seen as basically constant throughout the  
16 year.

17  
18 **Q. Why do you think it is important to consider the load patterns of a customer class**  
19 **when considering proper cost allocations?**

20  
21 As I outlined in my Direct Testimony, a properly calculated cost of service study should  
22 assign costs that will send price signals to a customer class that reflect the costs that class is  
23 placing on the system. While it is true, as Mr. Hessing states, there may be some revenue  
24 "offset" by the residential revenues, the low percentage increases for the residential class  
25 produced by the cost of service studies in the past two rate cases do not send the correct price  
26 signals to the class that is causing expensive peaking plants to be built by Idaho Power. Without  
27 these price signals customer behavior tends not to be altered which will mean the need for more  
28

1 power during the most expensive time of year which will increase costs to all customers on the  
2 system.

3 **Q. What rate design would be appropriate for a customer class that has the peaking**  
4 **profile like the residential class?**  
5

6 The most appropriate rate design would be time of day and time of use rates. Currently  
7 Schedule 19 is the only customer class that has mandatory time of day rates.

8 **Q. Do you have any comments on time of use rates for other classes, in addition to the**  
9 **residential class?**  
10

11 A. Kroger witness Higgins is proposing that some Schedule 9 customers be shifted to  
12 Schedule 19 and permitted to take service under time of use rate. However these classes tend to  
13 have a high load factors and thus are not as likely to benefit from time of use rates as the  
14 residential class.  
15

16 **Q. Do you have any comments on the use of voluntary time of use rates?**

17 A. Yes. Witness Higgins suggests that time of use rates may be voluntary for certain  
18 Schedule 9 customers and Staff Witness Hessing states that he is not opposed to making time of  
19 use rates voluntary for Schedule 9 Primary and Transmission service level customers. I believe  
20 that voluntary time of use rates would be appropriate for those customers because those  
21 customers who can benefit from time of use rates will take advantage of that opportunity while  
22 those who cannot benefit from such rates will choose to stay with the standard tariff. That said,  
23 however, I do have a serious problem with the proposed voluntary time of use rates for Schedule  
24 9 Primary and Transmission level customers.  
25

26 **Q. What are your concerns with voluntary time of use rates?**  
27

28 A. My concern is not with voluntary time of use rates, per se. It is the inequity of permitting

1 this class to opt in or out of time of use rates while at the same time mandating that such rates be  
2 imposed on the Schedule 19 class. In fact I would say such a rate design would not be merely  
3 inequitable, I would say it is discriminatory.  
4

5 **Q. In what way would such an inequity rise to the level of discriminatory rate making?**

6 A. Mr. Higgins points out the many similarities between the Primary and Transmission  
7 level Schedule 9 customers and the existing Schedule 19 customers. According to Mr. Higgins  
8 the cost to serve these two classes is nearly identical. If that is true then the rate design for these  
9 two classes should not include voluntary time of use rates for one half of the equation and  
10 mandatory time of use rates for the other half.  
11

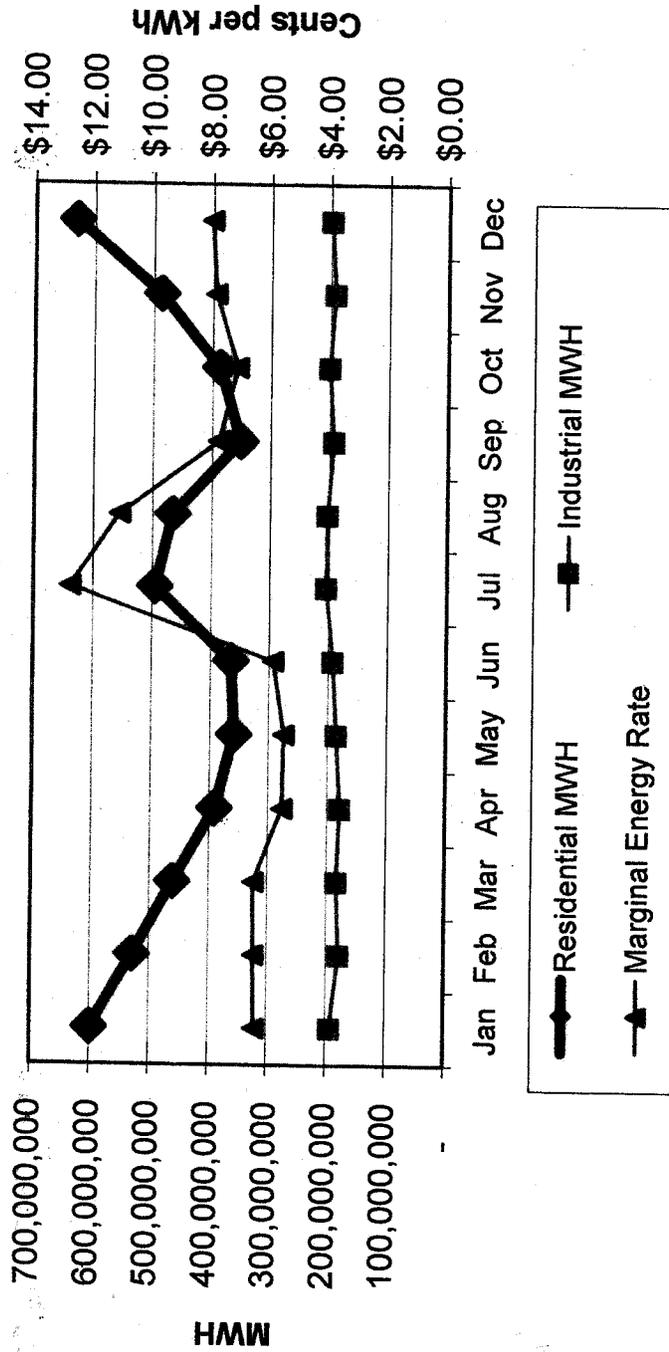
12 **Q. What is your proposed solution to this potential discrimination in rate design?**

13 A. Time of use rates should be made voluntary for all Schedule 9 and 19 customers. This  
14 would provide the maximum benefit with the minimum disruption to these customers.  
15

16 **Q. Does this conclude your rebuttal testimony?**

17 A. Yes, it does.  
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**Normalized MWH Sales Generation Level Including Losses - 2007;  
Marginal and Average Cost**



source: Tatum Workpapers, pg. 45, 51

## CERTIFICATE OF SERVICE

I HEREBY CERTIFY that on the 4<sup>th</sup> day of December, 2008, a true and correct copy of the foregoing REBUTTAL TESTIMONY OF DR. READING on behalf of the Industrial Customers of Idaho Power was served by U.S. Mail, postage prepaid to and hand delivered to those so indicated:

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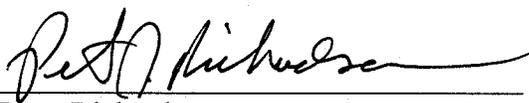
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