

# GIVENS PURSLEY LLP

## LAW OFFICES

601 W. Bannock Street  
PO Box 2720, Boise, Idaho 83701  
TELEPHONE: 208 388-1200  
FACSIMILE: 208 388-1300  
WEBSITE: www.givenspursley.com

Gary G. Allen  
Peter G. Barton  
Christopher J. Beeson  
Clint R. Bolinder  
Erik J. Bolinder  
William C. Cole  
Michael C. Creamer  
Amber N. Dina  
Kristin Bjorkman Dunn  
Thomas E. Dvorak  
Jeffrey C. Fereday  
Martin C. Hendrickson  
Steven J. Hippler  
Debora K. Kristensen  
Anne C. Kunkel

Jeremy G. Ladle  
Michael P. Lawrence  
Franklin G. Lee  
David R. Lombardi  
John M. Marshall  
Kenneth R. McClure  
Kelly Greene McConnell  
Cynthia A. Melillo  
Christopher H. Meyer  
L. Edward Miller  
Patrick J. Miller  
Judson B. Montgomery  
Deborah E. Nelson  
W. Hugh O'Riordan, LL

G. Andrew Page  
Angela M. Reed  
Scott A. Tschirgi, LL.M.  
J. Will Varin  
Conley E. Ward  
Robert B. White  
Terri R. Yost

RETIRED  
Kenneth L. Pursley  
Raymond D. Givens  
James M. McClure

January 4, 2008

*Via Hand Delivery*

Jean Jewell  
Idaho Public Utilities Commission  
472 W. Washington  
P.O. Box 83720  
Boise, ID 83720-0074

Re: In the Matter of the Application of Idaho Power Company for  
Authority to Increase its Rates and Charges for Electric Service to  
Electric Customers in the State of Idaho  
Case Number: IPC-E-07-08  
Our File: 4489-29

Dear Jean:

Enclosed for filing please find an original and nine (9) copies of Dennis Peseau's  
Rebuttal Testimony in the above entitled matter. One copy has been designated as the  
reporter's copy, and a disk containing the testimony in ASCII format is also enclosed.

Thank you for your assistance in this matter.

Sincerely,

*for Conley Ward*

CEW/tma

cc: Service List (w/enclosures)

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Conley E. Ward [ISB No. 1683]  
GIVENS PURSLEY LLP  
601 W. Bannock Street  
P.O. Box 2720  
Boise, ID 83701-2720  
Telephone No. (208) 388-1200  
Fax No. (208) 388-1300  
cew@givenspursley.com

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Attorneys for Micron Technology, Inc.  
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**BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION**

IN THE MATTER OF THE APPLICATION  
OF IDAHO POWER COMPANY FOR  
AUTHORITY TO INCREASE ITS RATES  
AND CHARGES FOR ELECTRIC SERVICE  
TO ELECTRIC CUSTOMERS IN THE  
STATE OF IDAHO

Case No. IPC-E-07-08

**REBUTTAL TESTIMONY**

**OF**

**DENNIS E. PESEAU**

**ON BEHALF OF**

**MICRON TECHNOLOGY, INC.**

1 Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

2 A. My name is Dennis E. Peseau. My business address is Suite 250, 1500 Liberty Street,  
3 S.E., Salem, Oregon 97302.

4 Q. HAVE YOU PREVIOUSLY FILED DIRECT TESTIMONY IN THIS PROCEEDING?

5 A. Yes.

6 Q. WHAT IS THE PURPOSE OF THIS REBUTTAL TESTIMONY?

7 A. My rebuttal testimony briefly responds to some of the cost of service arguments  
8 presented by Staff and other Intervenors.

9 Q. ARE THERE ANY ISSUES ON WHICH THE COST OF SERVICE EXPERTS ARE IN  
10 GENERAL AGREEMENT ?

11 A. I think all of the Intervenor witnesses on cost of service would generally agree with Dr.  
12 Reading's observation that "the cost of service studies presented by the company produce  
13 perverse results." Testimony of Don Reading, P. 23, L. 22. These "perverse results" fall  
14 into two separate categories, the first of which is primarily the result of the Company's  
15 misapplication of the Commission's traditional cost of service methodology. This is  
16 easily corrected.

17 The second problem with the results is, unfortunately, more intractable, and will  
18 have to be addressed in further investigations or proceedings outside this rate case.

19 Q. WHAT IS THE FIRST PROBLEM WITH THE COMPANY'S COST OF SERVICE  
20 RESULTS?

21 A. As I explained at length in my direct testimony, the Company's sudden shift of costs  
22 from low load factor customer classes to high load factor customer classes is both  
23 irrational and unjustifiable. Doctors Goins and Reading essentially make the same point

1 in their direct testimony. All three of us then go on to make changes to the Company's  
2 cost studies. Dr. Reading and I attempt to correct the Company's unjustifiable shift of  
3 costs from summer peaks to non peak seasons, and both of us reallocate CSPP purchases  
4 to both demand and energy. Dr. Goins would take the latter adjustment further and  
5 reallocate all system purchases, not just CSPP. Finally, both Dr. Reading and Dr. Goins  
6 propose a reallocation of the demand and energy components of some generating  
7 facilities.

8 Q. ARE ALL OF THESE PROPOSED CHANGES JUSTIFIED?

9 A. In general, yes, but I would not file rebuttal testimony just to reiterate a case that has  
10 already been made. My purpose in this section of my rebuttal testimony is to point out  
11 that these corrections to the Company's cost of service study are not all of equal weight  
12 or importance. By far the most important of the Company's cost of service errors is the  
13 underweighting of summer seasonal costs. I want to make sure there is no  
14 misunderstanding on this point. I also wish to underscore for the Commission the need to  
15 avoid setting customer rates that promote additional summer on peak load growth.

16 Q. IS THERE A SIMPLE WAY TO ILLUSTRATE THE IMPORTANCE OF SEASONAL  
17 COSTS?

18 A. The studies and rate burden proposed by Idaho Power, Staff, and the Irrigators depart  
19 from the historical W12CP method by deliberately allocating the high summer power  
20 costs away from the summer and into the non-summer off peak season. Barely a third of  
21 the power supply costs are allocated to the summer months under each of these studies,  
22 which is little more than the 25% that would be allocated to these months if there were no  
23 seasonal variations at all. This is despite the fact that, as I point out on page 43 of my

1 direct testimony, summer peak marginal costs are nearly 300% higher than in the off  
2 peak season, and total consumption is much higher in the summer than in the non-peak  
3 seasons. In a nutshell, this misallocation to the non-summer season is what causes the  
4 dramatic reversal of revenue requirement responsibilities between the high load factor  
5 customers and the irrigation class that I explained on pages 54-57 of my direct testimony.

6 Q. YOU EARLIER STATED THERE IS A SECOND "PERVERSE RESULT" IN THE  
7 COST STUDIES. WHAT WERE YOU REFERRING TO?

8 A. While there is some dispute about the exact nature of the load growth that is taking place  
9 on Idaho Power's system, I think it is fair to say there is general agreement that the vast  
10 majority of this growth is coming from the residential and commercial classes.  
11 Furthermore, this growth is disproportionately on peak, and it is therefore exacerbating  
12 the deterioration in Idaho Power's load factor. Under these circumstances, it is  
13 disconcerting to say the least, when most of the cost of service results show that these  
14 two rapidly growing classes should receive no increase in rates, or even a small decrease.  
15 On the surface, this would appear to violate the fairness and efficiency principles of cost  
16 of service.

17 Q. HOW CAN THIS SEEMINGLY INEXPLICABLE RESULT BE EXPLAINED?

18 A. Mr. Hessing's testimony for the staff makes a valiant effort to explain these results, but  
19 upon examination his explanation fails to support his point. First, as he correctly points  
20 out, some of these costs fall on all the other customer classes, and this is doubly true if  
21 they consume disproportionately on peak as the Irrigators do. But he then goes on to  
22 suggest that the residential class is essentially paying its way because its approximate 6

1 cents per kwh rate is high enough to cover the marginal cost of growth. This argument is  
2 incorrect.

3 Q. WHAT IS THE ERROR IN MR. HESSING'S SECOND ARGUMENT?

4 A. In the first place, there is only one month in the year (April) when residential rates are  
5 sufficient to cover marginal power supply costs, and during the summer peaks their rates  
6 are orders of magnitude below full marginal costs. Second, Mr. Hessing overlooks the  
7 fact that approximately half of the residential class's rate is designed to recover  
8 distribution costs, customer costs, and the like. So additional revenues only contribute  
9 about 3 cents to the recovery of power supply costs.

10 Q. SO WHAT IS THE REAL EXPLANATION FOR THE ANOMALOUS RESULTS FOR  
11 THE RESIDENTIAL AND COMMERCIAL CLASSES?

12 A. Part of the problem is due to the cost shifting I have talked about repeatedly, plus the  
13 vagaries introduced by Idaho Power's use of forecasted costs. But having said that, the  
14 heart of the matter is that embedded cost studies do not attempt to directly identify  
15 individual customer class's relative responsibility for the marginal cost of growth. In  
16 order to establish such a linkage, a marginal cost study of some sort would be necessary.

17 Q. ARE YOU SUGGESTING THE USE OF MARGINAL COST STUDIES IN THIS  
18 CASE?

19 A. I don't think there is remotely enough evidence in this record to support a leap of that  
20 sort, and in any event the Commission must tread very carefully here because of legal  
21 constraints. What I will say is what I have said before in my direct testimony. The  
22 Commission needs to reexamine the entirety of its ratemaking procedures in the light of  
23 changes to the Idaho Power system. Therefore, I again request that the Commission

1 order a formal investigation of the degree of cost differentials that Idaho Power is  
2 experiencing between summer and nonsummer capacity and energy costs in an effort to  
3 set rates to customer classes that will reduce the present incentives to consume during the  
4 higher cost summer peak period. Reduction of these incentives would heighten the  
5 effectiveness of demand side management programs, and reduce the high growth rates in  
6 Idaho Power's peak loads. Beyond that, I am not prepared to go further without in depth  
7 study.

8 Q. IN THE INTERIM, HOW SHOULD THE COMMISSION SET RATES IN THIS  
9 CASE?

10 A. Given all the problems with forecasted data and the various cost of service difficulties, I  
11 would not object to an across the board increase if the revenue requirement is ultimately  
12 determined to be something similar to the Staff's recommendation.

13 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

14 A. Yes.

## CERTIFICATE OF SERVICE

I HEREBY CERTIFY that on this 4th day of January, 2008, I caused to be served a true and correct copy of the foregoing by the method indicated below, and addressed to the following:

Jean Jewell  
Idaho Public Utilities Commission  
472 W. Washington Street  
Boise, ID 83720-0074

U.S. Mail  
 Hand Delivered  
 Overnight Mail  
 Facsimile  
 E-Mail

Barton L. Kline  
Lisa D. Nordstrom  
Idaho Power Company  
1221 W. Idaho Street (83702)  
P.O. Box 70  
Boise, ID 83707  
email: [bkline@idahopower.com](mailto:bkline@idahopower.com)  
[lnordstrom@idahopower.com](mailto:lnordstrom@idahopower.com)

U.S. Mail  
 Hand Delivered  
 Overnight Mail  
 Facsimile  
 E-Mail

John R. Gale  
Vice President Regulatory Affairs  
Idaho Power Company  
1221 W. Idaho Street (83702)  
P.O. Box 70  
Boise, ID 83707  
email: [rgale@idahopower.com](mailto:rgale@idahopower.com)

U.S. Mail  
 Hand Delivered  
 Overnight Mail  
 Facsimile  
 E-Mail

Peter J. Richardson  
Richardson & O'Leary  
515 N. 27<sup>th</sup> Street  
Boise, ID 83702  
email: [peter@richardsonandoleary.com](mailto:peter@richardsonandoleary.com)

U.S. Mail  
 Hand Delivered  
 Overnight Mail  
 Facsimile  
 E-Mail

Eric L. Olsen  
Racine, Olson, Nye, Budge & Bailey  
Chartered  
P.O. Box 1391  
201 E. Center  
Pocatello, Idaho 83204-1391  
email: [elo@racinelaw.net](mailto:elo@racinelaw.net)

U.S. Mail  
 Hand Delivered  
 Overnight Mail  
 Facsimile  
 E-Mail

Anthony Yankel  
29814 Lake Road  
Bay Village, Ohio 44140  
email: [tony@yankel.net](mailto:tony@yankel.net)

U.S. Mail  
 Hand Delivered  
 Overnight Mail  
 Facsimile  
 E-Mail

Dr. Don Reading  
6070 Hill Road  
Boise, Idaho 83703  
email: [dreading@mindspring.com](mailto:dreading@mindspring.com)

U.S. Mail  
 Hand Delivered  
 Overnight Mail  
 Facsimile  
 E-Mail

Weldon Stutzman  
Neil Price  
Deputy Attorney Generals  
Idaho Public Utility Commission  
472 W. Washington (83702)  
P.O. Box 83720  
Boise, Idaho 83720-0074  
Email: [weldon.stutzman@puc.idaho.gov](mailto:weldon.stutzman@puc.idaho.gov)  
[Neil.price@puc.idaho.gov](mailto:Neil.price@puc.idaho.gov)

U.S. Mail  
 Hand Delivered  
 Overnight Mail  
 Facsimile  
 E-Mail

Michael Kurtz, Esq.  
Kurt J. Boehm, Esq.  
Boehm, Kurtz & Lowry  
36 E. Seventh Street, Suite 1510  
Cincinnati, OH 45202  
email: [mkurtz@BKLawfirm.com](mailto:mkurtz@BKLawfirm.com)  
[kboehm@BKLawfirm.com](mailto:kboehm@BKLawfirm.com)

U.S. Mail  
 Hand Delivered  
 Overnight Mail  
 Facsimile  
 E-Mail

Lot H. Cooke  
United States DOE  
1000 Independence Ave. SW  
Washington, DC 20585  
email: [lot.cooke@hq.doe.gov](mailto:lot.cooke@hq.doe.gov)

U.S. Mail  
 Hand Delivered  
 Overnight Mail  
 Facsimile  
 E-Mail

Dale Swan  
Exeter Associates, Inc.  
5565 Sterrett Place, Suite 310  
Columbia, MD 21044  
Email: [dswan@exeterassociates.com](mailto:dswan@exeterassociates.com)

U.S. Mail  
 Hand Delivered  
 Overnight Mail  
 Facsimile  
 E-Mail

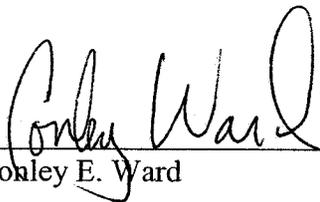
Dennis E. Peseau, Ph.D.  
Utility Resources, Inc.  
1500 Liberty Street, Suite 250  
Salem, OR 97302  
Email: [dpeseau@excite.com](mailto:dpeseau@excite.com)

U.S. Mail  
 Hand Delivered  
 Overnight Mail  
 Facsimile  
 E-Mail

Electronic Copies Only:

Dennis Goins  
Email: [dgoinspmg@cox.net](mailto:dgoinspmg@cox.net)

Arthur Perry Bruder  
Email: [Arthur.bruder@hq.doe.gov](mailto:Arthur.bruder@hq.doe.gov)

  
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Conley E. Ward