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UTILITIES COMMISSION
W. RACINE (1917-2005)
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December 5, 2008

Via Hand Delivery

Jean Jewell
IPUC Commission Secretary
472 W. Washington
Boise, Idaho 83702

Re: *IPC-E-08-10*

Dear Mrs. Jewell:

Enclosed for filing you will find the original and nine (9) copies of the revised Idaho Irrigation Pumpers Association, Inc's Rebuttal Testimony of Anthony J. Yankel, together with the Exhibit identified therein. This was necessitated by a mistake in the Exhibit number and the omission of the Exhibit in the testimony previously sent to you. Otherwise, the testimony has not changed. Also enclosed is a CD containing the electronic file.

We apologize for any inconvenience this may have caused you.

Sincerely,



ERIC L. OLSEN

ELO/nj

Enclosures

c: Service List (via e-mail and regular mail)

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IDAHO PUBLIC
UTILITIES COMMISSION

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.)

CASE NO. IPC-E-08-10

IDAHO IRRIGATION PUMPERS ASSOCIATION, INC.

REBUTTAL TESTIMONY

OF

ANTHONY J. YANKEL

December 3, 2008

1 Q. PLEASE STATE YOUR NAME, ADDRESS, AND EMPLOYMENT.

2

3 A. I am Anthony J. Yankel. I am President of Yankel and Associates, Inc. My
4 address is 29814 Lake Road, Bay Village, Ohio, 44140.

5

6 Q. ARE YOU THE SAME ANTHONY J. YANKEL THAT PREVIOUSLY FILED
7 DIRECT TESTIMONY IN THIS CASE?

8

9 A. Yes.

10

11 Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

12

13 A. I will address the cost allocation and revenue spread testimonies of Staff
14 witnesses Hessing and Lobb as well as intervenor witnesses Peseau and Reading. More
15 specifically, I will address the fact that although these witnesses expressed recognition of the
16 general impact of growth on Idaho Power's cost of service results, they made no adjustments for
17 growth impacts, and in fact, allocated costs and proposed rate increases to the Irrigators that
18 completely ignores the impact of disproportionate growth on the system.

19 As a part of my rebuttal testimony, I will present a simple example of the impact of
20 disproportionate growth on the accuracy of the Company's class cost of service study. This
21 example will demonstrate that disproportionate growth by the Residential class not only provides
22 an inappropriate negative impact on a class such as the Irrigators that is not growing, but it also
23 results in far less of an increase to the Residential class than it would otherwise receive if the

1 price signal were sent to the class that is growing. This result is counterintuitive on its face. A
2 cost of service study that produces such inappropriate results is wholly inadequate for defining
3 cost of service, and thus revenue requirement, when there is such a disparity in the rate of growth
4 between customer classes. The Commission needs to address these inadequacies before it
5 considers a disproportionate rate increase for classes that are not growing, while not giving
6 disproportionately large increases to classes that are growing and thus causing the majority of the
7 new costs that are being incurred by Idaho Power.

8
9 **HYPOTHETICAL EXAMPLE**

10 Q. PLEASE SET THE STAGE FOR YOUR REBUTTAL TESTIMONY BY
11 DESCRIBING THE EXAMPLE THAT YOU WILL PRESENT TO DEMONSTRATE THE
12 IMPACT OF DISPROPORTIONATE GROWTH ON THE RELIABILITY OF THE
13 COMPANY'S CLASS COST OF SERVICE STUDY.

14
15 A. The illogical impact calculated by the Company's cost of service study due to
16 disproportionate growth can easily be demonstrated by the hypothetical example presented by
17 Staff witness Hessing in his rebuttal testimony in the Idaho Power's last rate case (IPC-E-07-8).
18 I will present the same example in this case, only slightly modified by the data for this case.

19
20 Q. PLEASE PROVIDE YOUR ASSUMPTIONS AND EXPLAIN HOW THEY
21 COMPARE TO MR. HESSING'S ASSUMPTIONS IN THE LAST CASE.

1 A. I will make the following assumptions in conformance with Mr. Hessing's prior
2 example:

- 3 1) I used the same 250,000 MWh growth in annual residential load at the
4 generation level as did Mr. Hessing in the last case. It should be noted
5 that this figure is similar to the normalized Idaho jurisdictional load that
6 increased 251,792 MWh between this case and the last case.
- 7 2) The power supply costs to serve the additional load were 56.48 \$/MWh¹.
8 Therefore, the additional cost of power supply is \$14,120,000 (250,000 x
9 56.48). In the last case, Mr. Hessing used a power supply cost of 62.79
10 \$/MWh.
- 11 3) Like Mr. Hessing, I put all of these costs under Purchase Power, booked to
12 Account 555.1.
- 13 4. Like Mr. Hessing, I grew residential monthly energy and demand amounts
14 in proportion to the normalized amounts. This allowed the calculation of
15 new allocation factors for all classes (E10, D10, D13, D20, D30, D50, and
16 D60). Mr. Hessing only calculated new allocation factors for E10, D10,
17 and D13, thus my study assigns more cost to the Residential customers.
- 18 5. Residential usage at Sales level was 90.03% of the generation level growth
19 in load due to delivery losses.² Thus, the additional Residential sales were
20 225,083 MWh at Sales level. Mr. Hessing used 89.1% in the last case.

¹ See Company Exhibit 50 in this case for the annual Marginal Cost of Energy for 2008.

² Company Exhibit 68 page 5 lists Residential Generation load at 5,625,931 MWh and Company Exhibit 70 page 1 lists Residential Sales load at 5,065,087 MWh. Thus, Sales level is 90.03% (5,065,087 / 5,625,931) of Generation level.

- 1 6) I assumed that the increased retail revenue associated with the additional
2 Residential sales occurred at 62.77 \$/MWh, which is the current average
3 residential revenue per MWh³. The increased Residential revenue
4 associated with the load growth is \$ 14,128,460 (62.77 x 225,083).
- 5 7) Mr. Hessing ran his hypothetical example using the Company's "Base
6 Case" cost of service study, which he supported using in the last case. In
7 this case Mr. Hessing is supporting the use of the Company's 3CP/12CP
8 method. For that reason, I ran this hypothetical example using the
9 3CP/12CP cost study.

10

11 Q. HAVE YOU PREPARED AN EXHIBIT SHOWING THE RESULTS OF THIS
12 HYPOTHETICAL DISPROPORTIONATE GROWTH IN RESIDENTIAL LOAD?

13

14 A. Yes, I have prepared Exhibit 306 which is a summation of the changes in the main
15 cost categories for the larger rate schedules and the special contract customers that occurred
16 between the Company's filed 3CP/12CP study and using the above assumptions showing an
17 increase in usage to the Residential class only. This example is designed to demonstrate the
18 impact that disproportionate growth has on the Company's cost of service study results.
19 Contrary to what everyone knows regarding the fact that growth is causing a severe cost burden
20 to the system, the Company's cost of service study calculates that the Residential class should
21 get a decrease in its revenue requirement because of this hypothetical addition of 250,000 MWh
22 of load. Because the Company's cost of service study does not properly recognize the cost of

³ See Company Exhibit 70, page 1.

1 this hypothetical growth, the Company's cost of service study calculates a need to decrease the
2 Residential revenue requirement by \$3.3 million or 1% of its revenue requirement. However,
3 under the Company's cost of service study all of the other major customer groups and special
4 contract customers that did not grow have to have their revenue requirements increased in order
5 to offset the reductions that is calculated for the Residential class. The change in revenue
6 requirement based upon this hypothetical increase in Residential sales is as follows:

7	Residential (1)	\$ -3,299,152
8	General Service (9)	1,334,757
9	Large Power (19)	972,094
10	Irrigation (24)	302,580
11	DOE/INL	114,523
12	Simplot	102,014
13	Micron	368,166

14

15 Q. COULD THE INAPPROPRIATENESS OF THE ABOVE RESULTS BE
16 CHANGED IF THE IMPACT ON TRANSMISSION AND DISTRIBUTION COSTS WERE
17 ALSO CONSIDERED?

18

19 A. No. The only thing that the introduction of additional transmission and
20 distribution costs (associated with the growth) would have would be that on a total system basis,
21 the Company's overall revenue requirement would be shown to increase because of the cost of
22 that growth. Unfortunately, the Company's cost of service study would spread those additional
23 transmission and distribution costs to all customer groups (including those that did not cause the
24 costs to be incurred). The overall result would be the same—customer classes that were not
25 growing would be given some of the cost responsibility that rightfully belongs to the customer
26 group(s) that is growing and causing the costs increase.

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Q. WHAT CAN BE CONCLUDED FROM THE ABOVE EXAMPLE REGARDING THE IMPACT OF DISPROPORTIONATE GROWTH AS CALCULATED FROM THE COMPANY'S COST OF SERVICE STUDY?

A. Although the Company's cost of service study may be adequate for calculating relative cost causation in a static environment or where growth is relatively even between customer groups, it is wholly inadequate for addressing the differences in cost causation when the growth rate is different between customer groups. In fact, the Company's cost of service study is very capable of calculating illogical results when the growth rate is uneven. With respect to the Irrigation class, the growth rate on the Idaho Power system has been uneven for at least the last 25 years.

Q. IN THE PAST IT HAS BEEN SUGGESTED THAT THE SUPREME COURT HAS PROHIBITED THE CHARGING OF DIFFERENT RATES TO CUSTOMERS BASED UPON WHEN THE CUSTOMER FIRST STARTED TAKING SERVICE. DOES YOUR PROPOSAL GO AGAINST THIS PRINCIPLE?

A. No. My proposal is not to treat customers differently, but to fix the Company's cost of service study so that it does not produce illogical results with respect to the disproportionate growth on the system. The Company has proposed for years, and the Commission has generally accepted, allocation factors that include some form of weighting for marginal system costs. My proposal is similar, in that it is to develop allocation factors that

1 reflect the marginal usage (growth) on the system and to allocate costs according to the classes
2 causing the growth (marginal cost).

3

4 **TESTIMONY OF OTHER WITNESSES**

5 Q. WHAT IS THE STAFF'S OVERALL POSITION REGARDING THE
6 COMPANY'S COST OF SERVICE STUDY IN THIS CASE?

7

8 A. The Staff's overall position is that the 3CP/12CP cost of service study proposed
9 by the Company reasonably allocates costs to the various classes. Staff witness Lobb states⁴:

10 Specifically, the recommended cost of service study provides a more accurate
11 allocation of production costs based on how production plant is used, when it is
12 used and the value of the plant at the time it is used.

13 As demonstrated in the example provided above, the Company's cost of service study may
14 accurately allocate costs on a static basis, but it is incapable of accurately reflecting cost
15 causation in a situation where growth is disproportionate—a situation that has existed for years.

16

17 Q. DOES THE STAFF ADDRESS THE FLAWS IN THE COMPANY'S COST OF
18 SERVICE STUDY?

19

20 A. No. After making the above statement that the Staff found the Company's
21 3CP/12CP study to provide a more accurate allocation of costs, Staff witness Lobb goes on to
22 state⁵:

23 With respect to revenue spread among the classes, Staff believes that cost of
24 service is an inexact science to be used as a guide in setting class revenue

⁴ See Direct testimony of Randy Lobb, page 19, lines 14-17.

⁵ See Direct testimony of Randy Lobb, page 19, lines 18-23.

1 requirements. That is why Staff witness Hessing uses cost of service in his
2 proposal to move toward, but not all the way to, cost of service as indicated by the
3 study. (Emphasis added)

4 Although the Staff recognizes that cost of service is “an inexact science”, it does not go so far as
5 to recognize that, with respect to disproportionate growth, that the Company’s cost of service
6 study produces counterintuitive results. Furthermore, the Staff’s limitations on the increase to
7 the various classes is not based upon the inexactness of the study, but the concept of
8 gradualism—the Staff is willing to use the “inexact” study as the target to which rates should be
9 directed. As pointed out in the above example, the Company’s cost of service study is not only
10 inexact, but it produces illogical results with respect to disproportionate growth on the system.
11

12 Q. DOES STAFF WITNESS HESSING’S TESTIMONY ADDRESS THE
13 DISPROPORTIONATE GROWTH ON THE SYSTEM OR ITS IMPACT UPON COST OF
14 SERVICE TO THE VARIOUS CUSTOMER CLASSES?
15

16 A. Although Staff witness Hessing recognizes the disproportionate growth that is
17 taking place on the system, his recommendation regarding rate spread does not take these factors
18 into account. As a matter of fact, Mr. Hessing simply discounts the impact of disproportionate
19 growth. Mr. Hessing recognizes the disproportionate growth and the cost of that growth when he
20 states⁶:

21 There are a number of circumstances that have caused changes in cost of service
22 results. Load growth, substantially in the residential class, has occurred in record
23 amounts.

⁶ See direct testimony of Keith Hessing beginning at page 9 line 23.

1 However, in spite of recognizing the disproportionate rate of growth between the Residential
2 class and all other classes (let alone the Irrigation class which is simply not growing), he does not
3 acknowledge that the cost of service study that the Staff endorses produces counterintuitive
4 results with respect to disproportionate growth—charging non-growing customer classes for the
5 growth and the cost of growth of other classes. However, this counterintuitive result is exactly
6 what his Exhibit 124 in the last case showed. Instead, he states⁷:

7 No customer class is entitled to rates based on a grandfathered share of old
8 costs.

9 The Staff's emphasis is misplaced, as demonstrated by the example I provided earlier and Mr.
10 Hessing providing in the last case. The cost of service study is completely inadequate when it
11 takes costs that are solely incurred for a given class and not only allocates those cost to other
12 classes, but then calls for a rate decrease for the class that is causing the costs to be incurred in
13 the first place.

14

15 Q. WHAT DOES THE STAFF TESTIMONY SAY WITH RESPECT TO THE
16 NEED TO SEND APPROPRIATE PRICE SIGNALS TO CUSTOMERS?

17

18 A. Staff witness Lobb addresses price signals to customers in his testimony⁸:

19 Staff's policy with respect to rate design is to balance the need to send appropriate
20 price signals with the need to have relatively stable rates and appropriate revenue
21 recovery. (Emphasis added)

22 I agree that this is an appropriate policy. Customers need to be given appropriate price signals so
23 that they understand the costs that they are causing to be incurred on the system. However, if the
24 Company's cost of service study finds that the Residential class should be getting less than the

⁷ See direct testimony of Keith Hessing beginning at page 10 line 9.

⁸ See direct testimony of Randy Lobb beginning at page 20 line 12.

1 average increase in spite of its large rate of growth (as it did in the example above), then the
2 appropriate price signal is not being provided. Based upon the Company's cost of service study,
3 the cost of growth will continue to be under-priced, an inappropriately low price signal will be
4 sent, and growth (and its related costs) will be promoted as opposed to paying its own way.

5
6 Q. DO THE WITNESSES FOR THE INTERVENING PARTIES RECOGNIZE
7 THE INAPPROPRIATENESS ASSOCIATED WITH THE COMPANY'S COST OF SERVICE
8 STUDY AS IT RELATES TO DISPROPORTIONATE GROWTH ON THE SYSTEM?

9
10 A. Although there is some recognition of the problem, the other intervenors do not
11 fully address the issue. For example, Dr. Peseau on behalf of Micron recognizes that the
12 Company's cost of service study does not adequately address the cost of growth and in particular
13 peak growth on the system, but he fall short of directly addressing the issue of growth⁹:

14 Simply put, Idaho Power chooses a peculiar means of conducting its 3CP/12CP
15 cost of service study. It is not, in my opinion, a study that is guided by the
16 Electric Utility Cost Allocation Manual published January 1992 by NARUC, as
17 Mr. Tatum suggests. Testimony of Tim Tatum, P. 6, L. 4-8.

18 The reasons the choice of [the] study is peculiar is because it is in direct conflict
19 with the very real problem identified in numerous places in Idaho Power's filing,
20 this is the problem of the Company's excessive peak load growth, ...

21
22 Q. HAVE OTHER INTERVENING PARTIES MADE A SIMILAR
23 RECOGNITION OF THE LOAD GROWTH ISSUE AND SPECIFICALLY THE
24 DISPROPORTIONATE LEVEL OF GROWTH AMONG THE CLASSES?

25

⁹ See direct testimony of Dr. Peseau beginning at page 41 line 22.

1 A. Dr. Reading on behalf of the Industrial Customers of Idaho Power has made a
2 similar recognition of the problem with the Company's cost of service study as it relates to
3 growth and particularly the disproportionate growth with respect to the Irrigation class¹⁰:

4 The modifications I have recommended align cost responsibility more in line with
5 the Company's changing load growth patterns. These changes will also better
6 provide price signals to the customer classes that are creating costs through
7 system load growth. The results of these changes also increase the revenue
8 requirement for the irrigation class only slightly. The irrigation class has the
9 misfortune of having the need for power during summer on peak that is when the
10 Company's system needs are growing the fastest. Irrigation load is not growing.
11 Yet due to increasing residential and commercial demand, their cost allocations
12 are increasing due to their relatively high summer use.

13 It is interesting to note that even though Dr. Reading is trying to address the changing load
14 growth pattern and he recognizes that the Irrigators are not growing, his cost of service results
15 give even more of an increase to the Irrigators—he has not fully addressed the issue.

16
17 Q. WHAT ARE YOUR RECOMMENDATION REGARDING REVENUE
18 SPREAD IN THIS CASE?

19
20 A. As demonstrated in the example I gave earlier and as presented by Staff witness
21 Hessing in the last Idaho Power rate case, the Company's cost of service study produces
22 counterintuitive results when it addresses disproportionate load growth. As stated in my direct
23 testimony and as stated in the conclusions from the Workshop that was initiated by the
24 Commission as a result of Case IPC-E-04-23, there is “something inherently troubling with the
25 way costs, associated with growth, were allocated.”

¹⁰ See direct testimony of Dr. Reading beginning at page 17 line 1.

1 We have already had a Workshop to address the issue of treating the cost of
2 disproportionate growth on the system. That Workshop participants concluded that there was a
3 problem with the way the Company's cost of service study allocated the cost of growth, but the
4 Workshop participants left for the Commission the solution to that problem. No party is willing
5 to advocate an increase in costs to its client that will correct a problem for another customer
6 group. Of course, they would advocate a solution if the shoe was on the other foot. Now is the
7 time to for the Commission to recognize and address this problem so that the Irrigators and other
8 static classes are not be penalized by the disproportionate growth taking place on the system.
9 The methodology put forward by the Irrigators give the tools to the Commission to address this
10 issue in a nondiscriminatory and reasonable manner. A less than average increase, or no
11 increase, for the Irrigation class would be a step in the right direction of recognizing the
12 inequities inherent in the Company's cost of service methodology.

13
14 Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

15
16 A. Yes.

(A) (B) (C) (D) (E) (F) (G) (H)

Company's Cost of Service as Filed

	Sales @ Sales MWh	Sales rev \$	Other rev \$	Operate Exp \$	Rate Base \$	Total Revenue Requirement \$	Revenue Incr Required \$
Residential	1	5,065,087	317,956,461	299,092,447	947,164,395	329,742,912	11,786,451
Large Power	19	2,123,608	70,271,106	81,047,893	223,623,144	81,424,530	11,153,424
Irrigation	24	1,551,323	77,045,574	81,493,741	290,767,704	99,033,080	21,987,506
DOE/INL		215,000	5,828,175	7,096,666	17,412,591	7,306,727	1,478,552
Simplex		189,570	5,018,159	6,510,838	18,079,035	6,430,294	1,412,135
Micron		703,405	20,003,958	24,205,028	57,521,389	24,887,767	4,883,809

Company's Cost of Service Plus 250,000 MWh to Residential

	Sales @ Sales MWh	Sales rev \$	Other rev \$	Operate Exp \$	Rate Base \$	Total Revenue Requirement \$	Revenue Incr Required \$	Revenue Change \$
Residential	1	5,290,170	332,084,921	310,914,891	966,510,136	340,572,220	8,487,299	-3,299,152
Large Power	19	2,123,608	70,271,106	81,647,705	219,784,402	82,396,624	12,125,518	972,094
Irrigation	24	1,551,323	77,045,574	81,842,234	285,778,564	99,335,660	22,290,086	302,580
DOE/INL		215,000	5,828,175	7,159,970	17,105,586	7,421,250	1,593,075	114,523
Simplex		189,570	5,018,159	6,567,662	17,811,369	6,532,308	1,514,149	102,014
Micron		703,405	20,003,958	24,412,172	56,508,565	25,255,933	5,251,975	368,166