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IDAHO PUBLIC  
UTILITIES COMMISSION

3 December 2008

Ms. Jean Jewell  
Commission Secretary  
Idaho Public Utilities Commission  
472 W. Washington  
Boise, ID 83702

RE: IPC-E-08-10

Dear Ms. Jewell:

We are enclosing the original and nine (9) copies of **REBUTTAL TESTIMONY OF DR. DON READING ON BEHALF OF THE INDUSTRIAL CUSTOMERS OF IDAHO POWER'S** in the above case.

Sincerely,

Nina Curtis

Richardson & O'Leary PLLC

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IDAHO PUBLIC  
UTILITIES COMMISSION

BEFORE THE  
IDAHO PUBLIC UTILITIES COMMISSION

N THE MATTER OF THE APPLICATION OF )  
IDAHO POWER COMPANY FOR AUTHORITY ) CASE NO. IPC-E-08-10  
TO INCREASE ITS RATES AND CHARGES FOR )  
ELECTRIC SERVICE TO ELECTRIC )  
CUSTOMERS IN THE STATE OF IDAHO )  
)

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

**DECEMBER 3, 2008**

1 INTRODUCTION

2 **Q. Are you the same Don Reading who filed Direct Testimony in Case IPC-E-08-10?**

3 A. Yes.

4

5 **Q. What is the purpose of your rebuttal testimony in this Docket?**

6 A. I discuss statements made by Staff witness Hessing dealing with changes in the cost-of-  
7 service (COS) methodology that have occurred since the Company's IPC-E-03-13  
8 general rate case and the current Docket. I also discuss the cost-of-service studies that  
9 were filed in Direct Testimony and my understanding of the Staff's Rebuttal filing.

10

11 **Keith Hessing**

12

13 **Q. You state that you have comments over a point put forward by Staff witness Hessing**  
14 **in his Direct Testimony. What is the issue you address?**

15

16 A. As I discussed in my Direct Testimony, there have been dramatic shifts in the costs of  
17 capacity and energy for the Company in the 5 years since general rate case IPC-E-03-13  
18 was filed by the Company. The growth in system load over this time period has come  
19 primarily from the residential class while the high load factor classes and the irrigation  
20 class have experienced little or no growth. The growth in the residential class load has  
21 caused the Company to experience pressure on capacity resources. In response, the  
22 Company has built 250 MW in gas peaking units in the past few years. In spite of the  
23 increased costs to serve the growing residential load, the Company's cost-of-service  
24 studies have displayed paradoxical and counterintuitive results.

25

26 **Q. What paradoxical and counterintuitive results are the Company's cost-of-service**  
27 **studies showing?**

28 They assign disproportional rate increases to high load factor customers, and significantly  
29 lower percentage increases to the residential class.

30

31 **Q. What did Mr. Hessing have to say about these counterintuitive results from the**

1        **Company's COS filings since IPE-E-03-13?**

2        A.        Mr. Hessing frames the issue by saying:

3                There are a number of circumstances that have  
4                caused changes in cost of service results. Load growth,  
5                substantially in the residential class, has occurred in  
6                record amounts. The cost of power supply to meet the  
7                growing load, at approximately 6¢/kWh, has been much higher  
8                than it used to be. Under cost of service methodology a  
9                disproportionately larger share of all costs, old and new,  
10               are allocated to the residential class because the  
11               residential classes percentage share of energy, peak demand  
12               and customers has increased. A mix of old and new costs  
13               is also allocated to all other classes even if they  
14               experienced no load growth. No customer class is entitled  
15               to rates based on a grandfathered share of old costs. In  
16               the cost of service model the residential class received  
17               credit for all of the revenue from its load growth at near  
18               6¢/kWh and a portion of the production cost increases at  
19               about the same rate. In the cost of service study the  
20               increased revenues offset the increased costs and the  
21               Residential Class is shown to deserve an increase below the  
22               Idaho Jurisdictional average, or even a decrease as  
23               demonstrated in Staff's results.

24               High load factor customer groups are situated  
25               differently. They are allocated a reduced portion of all  
26               costs, old and new, and have little or no new revenue to  
27               offset the new costs. The new costs more than offset the  
28               cost reduction due to the decrease in the allocation  
29               percentages and without additional revenue rates go up.  
30               Therefore, cost of service results indicate increases  
31               higher than the average. [Hessing Direct Testimony, pgs. 9-11.]  
32

33        Mr. Hessing goes on to say that because high load factor customers pay about 3¢/kWh  
34        and residential customers pay approximately 6¢/kWh, residential customers' contribution  
35        to revenue, on a per kWh basis, is double that of high load factor customers. This leads  
36        him to the conclusion that higher percent increases for high load factor customers follows  
37        naturally because they cover such a smaller share of the marginal cost of power on a kWh  
38        basis.

39        **Q.        Do you agree with Mr. Hessing's analysis?**

40  
41        A.        Only half way. While Mr. Hessing is correct that residential customers do contribute, on

1 a kWh basis, about double the revenue of high load factor customers, his analysis looks at  
2 only the revenue side of the cost-of-service equation. There is a reason that residential  
3 customers pay about double the amount that high load factor customers pay. The reason  
4 is that the residential class imposes -- again on a per kWh basis -- about double the costs  
5 on the system than do high load factor customers. The reason for these higher costs on a  
6 per kWh basis are many, and include such factors as the relatively poor load factor of the  
7 class, higher distribution costs, and much higher administrative costs.

8 **Q. Is it appropriate to only look at revenue in a cost of service analysis?**

9 No. Cost of service calculations include both customer class costs and revenues.

10 Considering only revenue and ignoring costs is like trying to cut paper with a one bladed  
11 scissor. You need to consider both the cost and revenue blades in order to assign proper  
12 rate responsibility for customer classes and in order to get the rate assignment job done  
13 accurately. Therefore, Mr. Hessing's example only provides part of the explanation for  
14 the paradoxical results of the Company's recent COS. For the reasons stated above,  
15 however, it does not provide a complete explanation.

16 **Cost-of-Service**

17 **Q. You recommend some changes to the cost-of-service testimony filed by the**  
18 **Company in your Direct Testimony. Didn't you state a cause of the shift of cost**  
19 **responsibility from residential and small commercial customer to high load factor**  
20 **customers was a methodological change in the calculation of coincident peak**  
21 **recommend by attendees in the COS workshops?**

22 A. Yes, in my Direct Testimony I state:

23  
24 Rather than using the median values for the system coincident demand factors I  
25 substituted in the 2007 values and ran the 3 CP/12 CP model with no other  
26 changes. Use of 2007 system coincident demand factors, rather than the five year  
27 median values, produced some significant shifts among some customer classes. In  
28 general there was a shift of costs away from the higher load factor customer  
29 classes to the lower load factor classes. [Direct Testimony, Don Reading, [p. 10.]  
30

31 I present cost-of-service results with this change and state:

32  
33 The Company's Cost of Service method requires several steps of transferring large

1 amounts of data to make this change. We are working with the Company to verify  
2 these steps have been made correctly. To the extent the results presented here vary  
3 from the Company's, we will adopt the Company's verification of these results  
4 and file revised exhibits. [p. 11.]  
5

6 It is my understanding that the Company and Commission Staff have worked together to  
7 verify the results I testified to in my direct testimony. I also understand that, as a result,  
8 Mr. Hessing has accepted the change in the cost-of-service methodology that substitutes  
9 the 2007 values for the system coincident demand factors for the median values of the  
10 past 5 years. I agree with this change and anticipate that Mr. Hessing's rebuttal  
11 testimony will confirm it as well. The rationale for this change is detailed in my Direct  
12 Testimony, and need not be repeated here. I also stated in my Direct Testimony that it  
13 would be worthwhile for the Company, Staff, and interveners to work together to arrive  
14 at an acceptable methodology to 'normalize' peak demand in the cost-of-service studies.

15 **Q. Does this conclude your Rebuttal Testimony on December 3, 2008?**

16 **A.** Yes, it does.  
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**CERTIFICATE OF SERVICE**

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6

I hereby certify that on the 3<sup>rd</sup> day of December 2008, I served the foregoing REBUTTAL TESTIMONY OF DR. DON READING in Case NO. IPC-E-08-10 to the following as indicated below:

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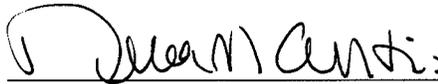
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