

RECEIVED

2013 NOV -1 PM 4:56

IDAHO PUBLIC
UTILITIES COMMISSION

LISA D. NORDSTROM
Lead Counsel
lnordstrom@idahopower.com

November 1, 2013

VIA HAND DELIVERY

Jean D. Jewell, Secretary
Idaho Public Utilities Commission
472 West Washington Street
Boise, Idaho 83702

Re: Case No. IPC-E-13-16
Certificate for Public Convenience and Necessity for Jim Bridger Units 3 and
4 – Replacement Pages 2, 5, and 6 to the Rebuttal Testimony of Michael J.
Youngblood

Dear Ms. Jewell:

It has come to the attention of Idaho Power Company (“Company”) that pages 2, 5, and 6 of the Rebuttal Testimony of Michael J. Youngblood contain confidential information that should have been redacted. Therefore, nine (9) copies of Mr. Youngblood’s redacted rebuttal testimony are enclosed for filing. Other than the redactions, no other changes have been made to the testimony.

In addition, enclosed in a separate envelope are nine (9) copies of **confidential** pages 2, 5, and 6 to Mr. Youngblood’s testimony.

If you have any questions regarding the enclosed documents or this matter, please do not hesitate to contact me.

Very truly yours,



Lisa D. Nordstrom

LDN:evp
Enclosures
cc: Service List (w/encls.)

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that on this 1st day of November 2013 I served a true and correct copy of the within and foregoing LETTER TO JEAN D. JEWELL DATED NOVEMBER 1, 2013, upon the following named parties by the method indicated below, and addressed to the following:

Commission Staff

Kristine A. Sasser
Deputy Attorney General
Idaho Public Utilities Commission
472 West Washington (83702)
P.O. Box 83720
Boise, Idaho 83720-0074

Hand Delivered
 U.S. Mail
 Overnight Mail
 FAX
 Email kris.sasser@puc.idaho.gov

Industrial Customers of Idaho Power

Peter J. Richardson
Gregory M. Adams
RICHARDSON ADAMS, PLLC
515 North 27th Street (83702)
P.O. Box 7218
Boise, Idaho 83707

Hand Delivered
 U.S. Mail
 Overnight Mail
 FAX
 Email peter@richardsonadams.com
greg@richardsonadams.com

Dr. Don Reading
6070 Hill Road
Boise, Idaho 83703

Hand Delivered
 U.S. Mail
 Overnight Mail
 FAX
 Email dreading@mindspring.com

Idaho Conservation League

Benjamin J. Otto
Idaho Conservation League
710 North Sixth Street
Boise, Idaho 83702

Hand Delivered
 U.S. Mail
 Overnight Mail
 FAX
 Email botto@idahoconservation.org

Snake River Alliance

Dean J. Miller
McDEVITT & MILLER LLP
420 West Bannock Street (83702)
P.O. Box 2564
Boise, Idaho 83701

Hand Delivered
 U.S. Mail
 Overnight Mail
 FAX
 Email joe@mcdevitt-miller.com

Ken Miller, Clean Energy Program Director
Snake River Alliance
P.O. Box 1731
Boise, Idaho 83701

Hand Delivered
 U.S. Mail
 Overnight Mail
 FAX
 Email kmiller@snakeriveralliance.org



Elizabeth Paynter, Legal Assistant

RECEIVED

2013 OCT 29 PM 4:05

IDAHO PUBLIC UTILITIES COMMISSION

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF IDAHO POWER)
COMPANY'S APPLICATION FOR A) CASE NO. IPC-E-13-16
CERTIFICATE OF PUBLIC CONVENIENCE)
AND NECESSITY FOR THE INVESTMENT)
IN SELECTIVE CATALYTIC REDUCTION)
CONTROLS ON JIM BRIDGER POWER)
PLANT UNITS 3 AND 4.)
_____)

IDAHO POWER COMPANY

REBUTTAL TESTIMONY

OF

MICHAEL J. YOUNGBLOOD

1 Q. Please state your name and business address.

2 A. My name is Michael J. Youngblood and my
3 business address is 1221 West Idaho Street, Boise, Idaho
4 83702.

5 Q. By whom are you employed and in what
6 capacity?

7 A. I am employed by Idaho Power Company ("Idaho
8 Power" or "Company") as the Manager of Regulatory Projects
9 in the Regulatory Affairs Department.

10 Q. Are you the same Michael Youngblood that
11 previously filed direct testimony in this docket?

12 A. Yes I am.

13 Q. What is the purpose of your testimony in
14 this matter?

15 A. The purpose of my rebuttal testimony is to
16 address certain issues raised in the direct testimony of
17 Idaho Public Utilities Commission ("Commission") Staff
18 witness Mike Louis and the direct testimony of the
19 Industrial Customers of Idaho Power ("ICIP") witness Dr.
20 Don Reading. Specifically, I will address the issues
21 raised concerning the authorization and binding ratemaking
22 treatment for the Company's Selective Catalytic Reduction
23 ("SCR") investments in Jim Bridger Units 3 and 4 pursuant
24 to *Idaho Code* § 61-541 and the issue regarding the

25

1 suggestion of an adjustment to the Company's Return on
2 Equity ("ROE").

3 Q. Please describe the recommendations of Staff
4 witness Mr. Louis.

5 A. The Company recognizes that Mr. Louis
6 supports the Company's decision to move forward with the
7 emission control investment project for Jim Bridger Units 3
8 and 4 as prudent action, and that he supports authorization
9 of a Certificate of Public Convenience and Necessity
10 ("CPCN") issued under *Idaho Code* § 61-526. However, Mr.
11 Louis recommends that only [REDACTED] of the [REDACTED]
12 of direct costs requested by the Company be authorized for
13 binding ratemaking treatment under *Idaho Code* § 61-541.

14 Q. What rationale did Mr. Louis give for not
15 recommending the full [REDACTED] of direct costs
16 requested by the Company for binding ratemaking treatment?

17 A. On page 20 of his direct testimony, Mr.
18 Louis states that he believes binding ratemaking treatment
19 should be limited to only those expense categories that are
20 necessary, and known and measurable, with a high level of
21 certainty. Based upon that belief, Mr. Louis states that
22 uncertain budgeted amounts for individual project
23 categories should be excluded from preapproval because
24 preapproval of budgeted amounts that are set using "liberal
25 estimating methods or that include slack from contingency

1 amounts" allow project managers to spend up to the amount
2 of their authorized budget without regard for potential
3 savings.

4 Q. Does Mr. Louis offer any evidence that the
5 Company's budgeted amounts were established using "liberal
6 estimating methods" or that the contingency dollars
7 included "slack" amounts?

8 A. No, he did not.

9 Q. Did Mr. Louis offer any explanation for
10 suggesting that if the expense categories he recommended to
11 be excluded from preapproved ratemaking were approved and
12 binding, that the project managers would disregard
13 opportunities to achieve reductions in costs relative to
14 Company commitment estimates?

15 A. No, he did not.

16 Q. Is it realistic to assume that expenses will
17 be incurred in the categories that Mr. Louis has excluded?

18 A. Yes. While I agree with Mr. Louis that
19 preapproval should be based on expense categories that are
20 determined to be necessary, I believe that Mr. Louis'
21 standard for certainty of costs related to necessary
22 expense categories is unreasonable. While the cost
23 magnitude of necessary expense categories that are yet to
24 be incurred may not be easily quantifiable, uncertainty
25 does not negate the necessity of those items as part of the

1 installation cost of the SCRs. Mr. Tom Harvey describes
2 each of the expense categories excluded by Mr. Louis in
3 more detail in his rebuttal testimony and explains why they
4 are necessary.

5 Q. What amount does the Company recommend the
6 Commission consider for preapproved ratemaking treatment?

7 A. The Company still requests the Commission
8 provide Idaho Power with authorization and binding
9 commitment to provide rate base treatment pursuant to *Idaho*
10 *Code* § 61-541, for the Company's capital investment in the
11 SCRs at Jim Bridger Units 3 and 4 in the amount of
12 \$129,837,393, which includes \$11,889,431 in Allowance for
13 Funds Used During Construction ("AFUDC"). However, if the
14 Commission were to consider another approach in determining
15 an appropriate amount for preapproval as suggested by Mr.
16 Louis, the Company would encourage the Commission to
17 consider an approach consistent with the way "uncertain"
18 expense categories were handled in Case No. IPC-E-09-03,
19 the Langley Gulch CPCN case. While some costs were
20 uncertain or not quantifiable at the time of the
21 application, Staff and the Commission recognized that those
22 cost categories were prudent and that some amount of
23 expense would be incurred. In Order No. 30892, the
24 Commission approved Staff's recommendation of an amount for
25 preapproved ratemaking which reflected 50 percent of the

1 costs that were known with reasonable certainty would
2 occur, but were not quantifiable at that time. This
3 approach seems more reasonable than to include no costs at
4 all for expense estimates in categories that are certain to
5 be incurred.

6 Q. Using this approach, what additional amounts
7 should be included in the Staff's recommendation for
8 preapproved ratemaking?

9 A. With the uncertainty of whether or not the
10 Low Temperature Economizer will be necessary at all, and
11 with the unknown nature of the estimates for the
12 Contingency category, it is understandable that Mr. Louis
13 would recommend excluding these two categories. However,
14 in providing treatment consistent with that used in the
15 Langley Gulch CPCN docket, the additional amounts that
16 should appropriately be included in the Staff's
17 recommendation for preapproved ratemaking would include
18 half of the amounts estimated for: the Boiler and Air Pre-
19 heater Reinforcement [REDACTED], the
20 Economizer Upgrade [REDACTED], the Flue Gas
21 Reinforcement [REDACTED], the Spare Parts
22 Allowance [REDACTED] and Other Costs (which
23 include lubricants and ammonia reagent, contracted site
24 construction management and inspection services, cost for
25 removal and disposal of existing hazardous waste materials

1 encountered, cost of supplementary plant security and
2 communication features, etc.) expense
3 [REDACTED]. Under this approach, the
4 Company also recommends including half of the AFUDC amount
5 in excess of the [REDACTED] of AFUDC calculated for the actual
6 costs incurred through May 31, 2013 [REDACTED]
7 [REDACTED]. The sum of these reduced amounts
8 [REDACTED] would be added to the Staff's recommendation,
9 resulting in an amount of [REDACTED] for preapproved
10 ratemaking treatment.

11 Q. Do you agree with Mr. Louis' assertion that
12 excluding uncertain amounts protects against recovery of a
13 full preapproved amount if actual costs are less?

14 A. No. The assertion Mr. Louis makes assumes
15 that just because an amount is preapproved for binding
16 ratemaking treatment, it is the amount that would then be
17 automatically included in rate base. Idaho Power does not
18 believe this is an accurate assumption. In fact, as Mr.
19 Louis later points out in the Company's application, Idaho
20 Power states that if the costs of the project are less than
21 the cost estimate, the savings would directly benefit the
22 customer through a lower amount in rate base. Only the
23 costs that are actually incurred will be included in rate
24 base, regardless of whether a higher amount was
25 preapproved.

1 Q. ICIP witness Dr. Reading testified that
2 there is no compelling reason for preapproved ratemaking
3 treatment at this time because a full vetting of contested
4 issues could equally occur at the time the Company requests
5 the investment be included in rates. Do you agree with
6 this conclusion?

7 A. No. The risks inherent in these
8 construction investments are compelling and the subject of
9 national and local debate. The Company understands that
10 absent its CPCN application, a full vetting of the
11 contested issues could have occurred post-construction when
12 the Company requested the investments be included in rate
13 base. However, because of the magnitude of the investment,
14 the uncertainty surrounding coal-fired generation in
15 today's political and social environment, and the amount of
16 interest expressed by stakeholders, the Company chose to
17 request a CPCN with binding ratemaking treatment prior to
18 incurring those expenses. This CPCN filing allows
19 interested parties to fully vet the controversial issues
20 *prior* to the Commission making a decision. It is important
21 to the Company that customers and stakeholders have an
22 opportunity to participate in the public process before the
23 Company undertakes a significant investment like that
24 required for these SCRs. It is also important for the
25 Company to receive assurance from the Commission that its

1 continued investment in coal-fired generation will obtain
2 rate base treatment prior to proceeding with such large
3 expenditures. By filing its application, the Company
4 intended to provide the Commission with the ability to
5 evaluate whether this investment is economically, socially,
6 and politically prudent, and in the best interest of the
7 Company and its customers, before the investment is made.

8 Q. Is the Company requesting a specified ROE
9 related to this filing?

10 A. As I stated in my direct testimony, the ROE
11 the Company expects to earn on this investment is the
12 authorized rate in effect at the time the project is placed
13 in service.

14 Q. Has the Commission typically addressed ROE
15 prior to completion of a capital project?

16 A. In the Commission's Order for the Langley
17 Gulch CPCN docket, Order No. 30892, the Commission found it
18 reasonable to authorize an ROE that would be the same ROE
19 authorized for the rest of the Company's rate base when the
20 project was placed in service and achieved commercial
21 operation. The ROE would change over the life of the plant
22 facilities with Commission-authorized changes to the
23 Company's ROE for other rate base items.

24

25

1 Q. Should the SCR investment and ROE be
2 determined in tandem as ICIP's witness Dr. Reading suggests
3 on page 8 of his direct testimony?

4 A. No. In a general rate case, the Commission
5 approves an overall rate of return that is applied to the
6 Company's rate base included in the rate case test year.
7 If approved, the SCRs should receive the same ROE
8 authorized for the rest of the Company's rate base at the
9 time the project is placed into service.

10 Q. What is the purpose of setting a reasonable
11 ROE?

12 A. The ROE compensates investors for the use of
13 their capital to finance the plant and equipment necessary
14 to provide utility service. A reasonable ROE allows the
15 Company to fairly compensate its investors, attract new
16 capital on reasonable terms, and maintain the Company's
17 financial standing.

18 Q. Do you agree with ICIP that an investment
19 with regulatory preapproval is less risky for the utility,
20 and therefore, should earn a lower return?

21 A. No, I do not. If the Company were to use
22 Dr. Reading's logic, all other investments, regardless of
23 size, without regulatory preapproval would be considered
24 "riskier" and the ROE should be adjusted upward. The truth
25 of the matter may be that, based upon the current

1 uncertainty surrounding coal-fired generation in today's
2 political and social environment and the amount of concern
3 expressed by stakeholders on this issue, the magnitude of
4 investment the Company anticipates making in the emission
5 controls at the Jim Bridger plant may provide more risk to
6 the Company. That would suggest the Company's ROE, or at
7 least, the return on this investment, should be higher.
8 The Company's request for binding ratemaking treatment for
9 this investment helps bring the risk associated with this
10 investment back in line with the Company's overall risk and
11 return.

12 Regulatory preapproval under *Idaho Code* § 61-541
13 does not reduce the overall risk for the Company. By
14 issuing a CPCN under *Idaho Code* § 61-526 and authorization
15 for preapproved binding ratemaking treatment under *Idaho*
16 *Code* § 61-541, the Commission has determined that the
17 investment is prudent and in the best interest of Idaho
18 Power's customers. The Company may then proceed with the
19 emissions project; however, it does not give the Company a
20 free pass to act in an imprudent manner simply because it
21 has regulatory preapproval. The Company must still
22 initiate a regulatory proceeding with the Commission to
23 place the SCR investments into rates once they are
24 completed. At that time, the Commission will conduct a
25 thorough review and audit of all actual expenses incurred,

1 and will determine the actual amount to be added to rate
2 base and recoverable through rates.

3 Q. Do you believe that preapproved ratemaking
4 treatment for the SCRs at Jim Bridger Units 3 and 4 sets a
5 precedent for Units 1 and 2 at a later point in time?

6 A. Despite Dr. Reading's suggestion to the
7 contrary, I do not believe preapproved ratemaking treatment
8 at Jim Bridger Units 3 and 4 will establish a precedent for
9 future investments in SCRs at Units 1 and 2. The Company
10 will have to go through the same analysis to determine if
11 those investments, at that time, are the least cost and
12 lowest risk alternative for compliance with environmental
13 laws and regulations. The Company would have to decide on
14 an appropriate course of action based on the existing
15 political and regulatory environment at that future time.

16 Q. Does the Company need assurance of binding
17 ratemaking treatment for financing the SCRs?

18 A. Yes. A Commission order providing assurance
19 of recovery and binding ratemaking treatment demonstrates
20 ongoing regulatory support to the rating agencies and to
21 the external financial community, thereby reducing the risk
22 of unfavorable financing costs not only for the SCR
23 controls, but also for Idaho Power's total construction
24 program. In this manner, Idaho Power and its customers
25 both benefit. But financing risk is not the primary reason

1 the Company seeks preapproved ratemaking treatment - the
2 current social and regulatory risk associated with coal-
3 fired investments is.

4 Q. Does this conclude your testimony?

5 A. Yes, it does.

6

7

8

9

10

11

12

13

14

15

16

17

18

19

20

21

22

23

24

25

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that on this 29th day of October 2013 I served a true and correct copy of the within and foregoing Rebuttal Testimony of Michael J. Youngblood, upon the following named parties by the method indicated below, and addressed to the following:

Commission Staff

Kristine A. Sasser
Deputy Attorney General
Idaho Public Utilities Commission
472 West Washington (83702)
P.O. Box 83720
Boise, Idaho 83720-0074

Hand Delivered
 U.S. Mail
 Overnight Mail
 FAX
 Email kris.sasser@puc.idaho.gov

Industrial Customers of Idaho Power

Peter J. Richardson
Gregory M. Adams
RICHARDSON ADAMS, PLLC
515 North 27th Street (83702)
P.O. Box 7218
Boise, Idaho 83707

Hand Delivered
 U.S. Mail
 Overnight Mail
 FAX
 Email peter@richardsonadams.com
greg@richardsonadams.com

Dr. Don Reading
6070 Hill Road
Boise, Idaho 83703

Hand Delivered
 U.S. Mail
 Overnight Mail
 FAX
 Email dreading@mindspring.com

Idaho Conservation League

Benjamin J. Otto
Idaho Conservation League
710 North Sixth Street
Boise, Idaho 83702

Hand Delivered
 U.S. Mail
 Overnight Mail
 FAX
 Email botto@idahoconservation.org

Snake River Alliance

Dean J. Miller
McDEVITT & MILLER LLP
420 West Bannock Street (83702)
P.O. Box 2564
Boise, Idaho 83701

Hand Delivered
 U.S. Mail
 Overnight Mail
 FAX
 Email joe@mcdevitt-miller.com

Ken Miller, Clean Energy Program Director
Snake River Alliance
P.O. Box 1731
Boise, Idaho 83701

Hand Delivered
 U.S. Mail
 Overnight Mail
 FAX
 Email kmiller@snakeriveralliance.org



Elizabeth Paynter, Legal Assistant