17466

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PETER J. RICHARDSON

Idaho Public Utilities Commission
Office of the Secretary
RECEIVED
NOV 9 - 1990
Boise, Idaho
R. Walters

November 9, 1990

Myrna J. Walters
Commission Secretary
Idaho Public Utilities Commission
472 W. Washington
Boise, ID 83702

Re: Direct Prepared Testimony of Don Reading
Case No. [redacted]
Case No. [redacted]

Dear Ms. Walters:

Enclosed are the originals and nine copies of the above referenced Direct Prepared Testimonies on behalf of the Industrial Customers of Idaho Power. Would you please file the same? The original testimony in each case is for the Reporter.

If you have any questions concerning this filing, please do not hesitate to contact me.

Sincerely,

DAVIS WRIGHT TREMAINE

Peter J. Richardson

PJR/np

Enclosures

FAX: (208) 336-8833

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Idaho Public Utilities Commission
Office of the Secretary
RECEIVED
NOV 9 - 1990
Boise, Idaho

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF IDAHO POWER COMPANY FOR A CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY FOR THE RATE BASING OF THE MILNER HYDROELECTRIC PROJECT OR IN THE ALTERNATIVE A DETERMINATION OF EXEMPT STATUS FOR THE MILNER HYDROELECTRIC PROJECT	CASE NO. IPC-E-90-8

DIRECT PREPARED TESTIMONY OF DON READING, PH.D.
ON BEHALF OF THE INDUSTRIAL CUSTOMERS OF IDAHO POWER

NOVEMBER 9, 1990

Q. WOULD YOU PLEASE STATE YOUR NAME AND ADDRESS?

A. Don Reading, 1311 North 18th Street, Boise, Idaho 83702.

Q. DO YOU HAVE AN APPENDIX THAT DESCRIBES YOUR EDUCATIONAL AND OCCUPATIONAL HISTORY AND YOUR QUALIFICATIONS IN REGULATORY AND UTILITY ECONOMICS?

A. Yes. Appendix I, attached to my testimony, was prepared for this purpose.

Q. DO YOU HAVE AN EXHIBIT WHICH SUPPORTS YOUR TESTIMONY?

A. Yes. I have an exhibit consisting of one schedule which was prepared under my supervision.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. Our firm was retained by the Industrial Customers of Idaho Power (ICIP) to ~examine the request of Idaho Power Company (the Company) for a Certificate of Public Convenience and Necessity (CPCN) concerning the Milner hydroelectric project. My testimony has five sections. First, I briefly describe my understanding of the Company's request. Second, I discuss the problems with the request and with the rate basing of the Milner project. Third, I address the Company's alternative proposal. Fourth, I suggest some methods of evaluating the project once it is completed and on line. Fifth, I state my recommendations and conclusions.

Q. LET'S TURN TO THE FIRST SECTION OF YOUR TESTIMONY. WOULD YOU PLEASE DESCRIBE THE COMPANY'S REQUEST?

A. Certainly. The Company's CPCN Application sets forth its rather unique request. Specifically, it asks to ... be issued a Certificate of Public Convenience and Necessity for the Rate Basing of the Milner Hydroelectric Generation Facilities ... and for recognition of the Milner royalty and debt service payments made to the Twin Falls Canal Company and the North Side Canal Company, Ltd. ... as revenue requirement expenses. [Application, p. 2.]

Q. IS THAT THE EXTENT OF THE COMPANY'S REQUEST?

A. No. In case the Commission denies the initial request, Idaho Power Company has an alternative proposal: that it be granted exempt status for the Milner project for a period of 20 years from the date of commercial operation to allow the Company to enter into a long-term sale of energy to another utility.

Q. LET'S TURN TO THE SECOND SECTION OF YOUR TESTIMONY. WHAT IS UNUSUAL ABOUT THE COMPANY'S PROPOSAL CONCERNING THE CPCN AND RATE BASING OF MILNER?

A. The Company's proposal departs from usual practice in asking for approval of rate base treatment at the time the CPCN is issued, rather than when the project has been completed or is nearing completion. It wants rate base approval for the Milner project prior to the start of construction. In return, the Company will agree to "cap" the capital cost of the project at $63,350,600, barring several uncertainties.

The key to Idaho Power's approach is its interpretation of the meaning of a CPCN, as described by Company witness Mr. Baggs:

The issuance of a Certificate of Public Convenience and Necessity is a determination by the Commission that the decision to construct the project is reasonable and prudent, and that such construction is in the public interest. If the Company utilizes reasonable and prudent construction practices, the issuance of the Certificate is recognition that the investment, upon completion of construction, is in the public interest and will be rate based for revenue requirement purposes. [Baggs Direct Testimony, p. 5.]

Q. DO YOU SEE ANY PROBLEMS WITH THE COMPANY'S PROPOSAL AND ITS UNDERSTANDING OF WHAT IS IMPLIED BY THE ISSUANCE OF A CPCN?

A. Yes. I see several serious problems. First, Mr. Baggs' interpretation of the CPCN's purposes runs counter to established usage. Second, the Company's <u>quid pro quo</u> of a "cap" of the construction expenditures is one-sided and has little value in determining the prudent cost of the plant or the amount that should be included in rate base. Third, the Company's proposal, if adopted, would shift most of the risks of construction onto ratepayers. Risk shifting, without some compensating factors, would be unfair to Idaho

Power's customers and is therefore not in the public interest.

Q. LET'S DISCUSS EACH OF THESE PROBLEMS SEPARATELY. WOULD YOU BEGIN BY ADDRESSING MR. BAGGS' INTERPRETATION OF THE MEANING AND PURPOSE OF A CPCN?

A. Yes. Mr. Baggs claims that issuance of a CPCN for construction of the Milner project will document the Commission's determination that construction is reasonable and prudent and in the public interest. He further claims that if a CPCN is issued and the Company uses reasonable and prudent construction practices, the project itself will be in the public interest and upon completion should be rate based for revenue requirement purposes.

Q. DO YOU AGREE WITH MR. BAGGS' ASSERTIONS?

A. No. Mr. Baggs' view of the implications of a Certificate is overly broad. First, as its decision concerning the Valmy plant makes clear, the Commission does not interpret the issuance of a CPNC as a requirement to proceed with construction and/or a guarantee that the completed project's costs will be included in rate base, regardless of the circumstances.

In the Valmy case the Company argued that because the Commission had granted Idaho Power a Certificate for Valmy I and II, the Company was compelled to build both units. Idaho Power argued that even though the plant's power production was excess capacity, this fact was irrelevant, because a Certificate had been issued. [Idaho Public Utilities Commission, Order No. 20610, p. 94.] Although the Commission did not speak directly to the issue of the Company's understanding of the meaning of a CPNC, it rejected Idaho Power's argument. The Commission found that "Idaho Power's share of the Valmy II generating plant is not used and useful in the service to Idaho ratepayers." [Ibid., p. 103.]

Q. WHAT DID THE COMMISSION CONCLUDE?

A. In determining the amount of Valmy II's costs to be recovered from ratepayers, the Commission concluded that a portion of those costs--specifically the equity return on the investment--should be absorbed by stockholders, not ratepayers, until the plant became used and useful. [Ibid., p. 107.] Clearly, if the Commission had viewed the issuance of a CPNC as a guarantee that a plant's construction costs would be included in rate base, assuming "reasonable and prudent construction practices," it would not have ordered the disallowance concerning Valmy, where the question of prudent construction practices was not at issue.

Q. WHAT IS YOUR NEXT CONCERN ABOUT MR. BAGGS' UNDERSTANDING OF THE MEANING OF ISSUANCE OF A CPNC?

A. Acceptance of Mr. Baggs' notion of a CPNC as a sweeping mandate would effectively free the Company from accountability to the Commission during construction, even though much could happen after the CPNC was issued and before the project was completed--events that would warrant that management alter its course of action. For example, changes in load growth might dictate slow-up, speed-up, or complete abandonment of construction, either to meet increased load or to avoid installing excess capacity. Or technological progress might call for canceling the Milner project and replacing it with a more cost-effective alternative. Or heightened environmental restrictions might impose an intolerable burden of added cost on the Milner project, destroying its economic feasibility.

Any of these events, as well as others, should invite the Company to reevaluate its initial construction decision and possibly reverse or modify it. Yet, under the Company's definition of a CPNC, such events would be irrelevant to the determination of the plant costs to be included in rate base and paid for by ratepayers. Instead, that issue would be judged solely according to whether or not the Company had used "prudent and reasonable construction practices." If Idaho Power was deemed to have done so, by its argument it would be allowed full recovery of the cost of the Milner project, regardless of any economic, financial, technological, environmental, or regulatory events that might otherwise call for alteration of the Company's initial decision.

Therefore, I reject Mr. Baggs' interpretation of the meaning of a CPNC. Instead, I agree with Staff's interpretation in case U-1006-265 that the issuance of a CPNC is an authorization by the Commission for the Company to begin construction, not a requirement that construction commence, nor a certification that the decision to start construction was prudent. [Ibid., p. 101.]

Q. WHO DECIDES THE MEANING OF A CERTIFICATE OF CONVENIENCE AND NECESSITY, AND WHAT FACTORS ARE SALIENT FOR DETERMINING THE RATE BASING OF A GENERATING FACILITY?

A. Ultimately it is the Commission that must determine the precise meaning of the issuance of a CPNC. If it follows Staff's interpretation in Case U-1006-265, then no decision on rate basing is called for at this time. If it construes the issuance of a Certificate as an endorsement of the prudence of the decision to begin construction, then I believe that the Commission should reject the Company's application.

The Company has not provided evidence in its filing that would allow the Commission to determine the reasonableness or prudence of the Company decision to build Milner. For that the Commission would need a substantial amount of additional information concerning this plant and alternative forms of generation. For example, the Company should have provided information showing the Milner project to be the least costly alternative available to ratepayers. While I do not dispute the many advantages of hydro projects over other forms of generation, those benefits should not be the sole basis upon which the determination is made. The Company has presented no evidence that the construction of Milner is less costly than installation of demand-side management measures, nor has it presented any evidence concerning the need for this project.

Numerous other questions concerning the construction of this project remain unanswered that demand a thorough analysis on the part of Staff and intervenors as well as the Commission and should precede any determination of prudence. For example, the Company has not explained the rationale behind its 5% contingency factor, nor has it explained in any detail the other components of its "commitment estimate." The Company is equally uncommunicative as to how it determined that the estimated cost of this project is between 37.80 and 52.93 mills per kwh.

Q. ARE THERE OTHER UNCERTAINTIES ASSOCIATED WITH THE MILNER PROJECT THAT WOULD PRECLUDE THE COMMISSION FROM PREAPPROVING A RATE BASE CAP FOR MILNER?

A. Yes. In its decision concerning Valmy II the Commission stated that its statutory charge was to "establish 'just and reasonable' rates." [Ibid., p. 105.] For at least two reasons, the Commission will be unable to determine that adding this project to the Company's cost of service will produce just and reasonable rates. First, the "cap" set by the Company is contingent upon several favorable predictions. If inflation heats up or the scope of the project changes, then, under the Company's proposal, its "commitment estimate" would no longer hold as the cap for the capital cost of the project. (I discuss this in greater detail below.)

Second, the Company has estimated the project cost at between 37.80 and 52.93 mills per kwh. While it is unclear what costs and assumptions this estimate includes, presumably one of them is the Company's best estimate of the operating costs of the plant. Nevertheless, several of the latter are uncertain and could change, making the plant uneconomical.

For example, the Company has agreed to pay for one-half of the cost of reconstructing the Milner dam over the life of the FERC license. While it appears that $11,700,000 is the best estimate for the total cost to rehabilitate the dam, the estimate is uncertain. Indeed, the estimate has already apparently increased from an earlier estimate of $9,000,000. [Packwood Direct Testimony, p. 10; and Agreement Regarding the Ownership, Construction, Operation and Maintenance of the Milner Hydroelectric Project, p. 60.] The Company is also responsible for a portion of the annual mitigation expenses, which are likewise uncertain.

For these and other reasons, the Company cannot accurately estimate the cost per kwh of the Milner project. Thus, neither can the Commission. Nor can the Commission determine today that just and reasonable rates will result from inclusion of the future capital costs of the plant in a future rate base and preapproval of the royalty and debt service payments to be made to the canal companies for revenue requirement purposes.

Q. WOULD YOU PLEASE DISCUSS THE "CAP" ON THE CAPITAL COST OF MILNER THAT THE COMPANY HAS PROPOSED?

A. Certainly. The Company has offered to treat its "commitment estimate" of the capital cost of Milner as a cap on the amount to be preapproved for rate base. While the

Company's proposal has surface appeal, there are several arguments, in addition to those discussed above, against the Commission's adopting the Company's quid pro quo. First, the commitment estimate does not offer a guarantee that the proposed cap will in fact be the amount that the Company proposes for inclusion in rate base. Mr. Packwood notes that Idaho Power will commit to building the project for $63,350,600, "as it may be adjusted to account for documented changes in escalation rates or scope." [Packwood Direct Testimony, p. 13.] He goes on to explain what is meant by "documented changes":

> If major inflation occurs, resulting in higher cost indices, the Commitment Estimate would be adjusted to reflect these inflated cost indices. Examples of possible scope changes which could affect the project ceiling are Force Majeure or acts of God impacting the construction, design optimization for which increased energy more than offsets the increase in initial investment, and foundation or site conditions significantly more expensive than indicated by exploratory drilling. [Ibid.]

The Company's reservations with respect to the cap do not guarantee the commitment estimate will be the rate based amount. That is, little is left to affect the price of the plant that the Company has not already covered in its escalation and scope disclaimer.

Q. WHAT PROBLEMS DO YOU SEE WITH THE COMPANY'S CAP PROPOSAL?

A. There are several. First, the Company does not define "major" inflation. Conceivably, any inflation above what is included in the commitment estimate would be grounds for the Company adjusting its estimate and including these increased costs in rate base. Yet, the Company doesn't explain the projected escalation rate included in its commitment estimate. Hence, the Commission cannot know whether the Company is working from a tight budget or an ample one.

Second, the Company's expansive scope qualification can cover a multitude of factors. Suppose, for example, that the Company decides to increase the size of the project. Would it be fair to charge ratepayers for the additional costs without examining the Company's decision? But under the Company's proposal, such a change would presumably come within its definition of scope and hence not be subject to further review. (It is noteworthy that many utilities involved in the construction of large nuclear power plants cited changes in scope as the source of a significant percentage of their cost overruns.)

Third, the Company's cap proposal is one-sided. The Company wants to increase the cap if major inflation occurs, but it does not offer to reduce the cap if inflation subsides and falls significantly below the escalation allowance included in the Company's commitment estimate. I see no reason for the Commission to agree to such an unbalanced arrangement.

Finally, Idaho Power does not explain how its proposed 5% contingency fits in with its escalation and scope adjustors. Generally, a contingency of this nature is included in a cost estimate to cover precisely such factors as changes in scope and escalation. Hence the Company has not only covered its uncertainties with its disclaimers but added a substantial buffer by inclusion of a contingency in the commitment estimate. While I am not opposed to the use of a contingency, (it is common practice), I believe it is important for the Commission to realize how little risk the Company is proposing to take on. (I am surprised that the Company has not included a provision for increases in borrowing costs; but then again, this might be covered under the Company's escalation limitation.)

Q. YOUR NEXT CONCERN DEALT WITH THE RISKS INHERENT IN THE COMPANY'S PROPOSAL AND THE PROPOSAL'S IMPACT ON THE COMPANY'S RATEPAYERS. WOULD YOU PLEASE EXPLAIN?

A. Yes. The Company's proposal assigns most of the risks of constructing Milner to its ratepayers while eliminating most of the potential risks to its stockholders. Ratepayers would shoulder all the following: the risk of escalation of construction costs, the risk of increased scope, the risk of load growth changes, the risk of technological changes, the risk of poor management decision-making (other than strict construction prudence), the risk of environmental changes, the risk of regulatory changes, the risk that the project will not be used and useful, and the risk that the project will not be economical.

Idaho Power's stockholders, on the other hand, would face only the risk that the Company would not use reasonable and prudent construction practices and the risk that some costs of the plant might not be allowed in rate base if the Company exceeded its cap. The latter risk is practically eliminated by the broadly defined escalation and scope reservations that accompany the Company's proposal.

Clearly, while ratepayers would bear a great deal of risk, the stockholders would incur very little.

Even though the Company's request shifts most of the risks associated with construction of the Milner project to ratepayers, the Company has not offered to simultaneous reduce its cost of equity. In my opinion if the Commission adopts the Company's proposal, which I strongly recommend against, it should also at a minimum reduce the Company's cost of equity below the Commission's last authorized return of 12.25%. [Idaho Public Utilities Commission, Order No. 20924, p. 62.]

Q. WHY WOULD ADOPTION OF THE COMPANY'S PROPOSAL CALL FOR A REDUCTION IN IDAHO POWER'S COST OF EQUITY?

A. It is a basic financial principle that the greater a security's risk, the higher the investor's required return, and vise versa. If the Commission significantly reduces stockholder risk by adopting the Company's proposal, then it should reduce the Company's cost of equity. In Idaho Power's last rate proceeding, the Company's witness Mr. Bowers acknowledged this principle, testifying that "the greater a security's risk the higher the required return for that risk." [Bowers Di, Case No. U-1006-265, p. 31.] Mr. Bowers also testified that a risk-free rate of return can be approximated by using the interest rate on long-term government bonds. [Ibid., p. 30.] Recently, long-term (30-year) U.S. Treasury Bonds have been carrying an interest rate of about 9.0%, which is significantly below the Company's authorized return on equity. Under the Company's proposal, the equity risk supporting the Company's investment in the Milner project would more closely approximate that of a government bond than of a security yielding 12.25%, the Commission's last authorized return.

Q. WOULD YOU ILLUSTRATE THE IMPACT OF EQUITABLE RATEPAYER TREATMENT, ASSUMING ACCEPTANCE OF THE COMPANY'S PROPOSAL?

A. Certainly. Let us assume that the Company's investment in Milner (and in the Swan Falls project) is financed in the same proportion as the Company's capital structure, and that the investor's return requirement on the equity portion of this investment is approximately 10% (one percentage point above the measure of a risk-free rate), this would indicate that the Company's cost of equity should be reduced by about a quarter of one percent (0.25%) to 12.0%, using the Commission's last authorized return. I have depicted these calculations on my Schedule 1. The Company earned 13.86% on average equity during 1989. I would therefore recommend that if the Commission accepts Idaho Power's recommendations in this case, it investigate the Company's earnings situation and authorize a rate decrease, if one is seen to be warranted. Indeed, it appears that, absent such a decrease, an earnings investigation is currently warranted.

Q. LET'S TURN TO THE THIRD SECTION OF YOUR TESTIMONY. WOULD YOU ADDRESS THE COMPANY'S ALTERNATIVE PROPOSAL AND ANY PROBLEMS WITH IT?

A. Yes. In the case that the Commission does not grant the Company's request for a Certificate of Public Convenience and Necessity and the rate basing of the Milner project, Idaho Power wants the Commission to deregulate the Milner facility for a period of 20 years. I find the Company's alternative proposal troublesome.

Q. PLEASE EXPLAIN.

A. I question the integrity of the Company's proposal, especially when one examines the cost of this project relative to Swan Falls, which the Company is not proposing be deregulated.

The estimated cost per kw of the Milner project is $1,086. Adding in the Company's share of the cost of repairing the dam increases this figure to $1,187. Compared to Swan Falls at $3,244 per kw, Milner may be a bargain, and much more profitable. It is easy to see why the Company has framed its proposal in this way. Idaho Power and its stockholders would benefit from the economies associated with the deregulated Milner, while ratepayers would defray the relatively high costs of the regulated Swan Falls. That may be good private business, but it's not good public policy.

Q. HAVE YOU IDENTIFIED ANY OTHER PROBLEMS WITH THE COMPANY'S ALTERNATIVE PROPOSAL?

A. Yes. The proposed deregulation could place an additional future burden on ratepayers. According to the Company's plan, after 20 years either the plant would continue to operate under its exempt status, or the Commission would issue the Company a CPNC and allow it to rate base the plant at that time. In the latter case, the Company proposes, the value of the plant for revenue requirement purposes would be based upon the then current cost of replication (reproduction cost less depreciation). Once again the benefits of the Company's proposal would be retained by stockholders. Adoption by the Commission of the Company's proposal would be tantamount to guaranteeing the Company's shareholders a substantial gain on the project at the expense of ratepayers, due to the replication provision. The Commission should reject the Company's alternative request as proposed. However, if the Commission is inclined to adopt the Company's proposal, it should set the buy-back rate at the lesser of the original cost less depreciation and the fair market value.

Q. LET'S TURN TO THE FOURTH SECTION OF YOUR TESTIMONY. WOULD YOU BRIEFLY DISCUSS WHAT THE

COMMISSION MIGHT WANT TO CONSIDER WHEN DETERMINING THE VALUE OF THE MILNER PROJECT ONCE IT IS COMPLETED AND IN SERVICE?

A. Certainly. Let me emphasize that the following suggestions apply only to a completed project that is ready for consideration for inclusion in rate base. I do not believe it is appropriate or in the public interest to predetermine the investment value of the Milner project at this time. Numerous events could intervene before the project enters commercial operation- -events that could render any such determination today erroneous or unnecessary.

In evaluating a plant to enter rate base, the Commission should study a variety of factors of two kinds: those related to the prudence of management's decision-making, and those related to the economics of the situation. The former include such things as the reasonableness of the Company's decision to begin construction of the project, the reasonableness of the construction practices, the reasonableness of feasibility studies undertaken, etc. The latter include the used-and-useful issue and the economic value of the plant.

In determining a plant's economic value, the Commission should of course consider an assortment of factors, but one particularly useful method of validating total cost is to compare the cost per kwh of the project to the Company's avoided cost rate. The latter should provide a upper limit on the economic value of the project.

When evaluating the cost per kwh of Milner versus avoided costs, the Commission needs to ensure that the basis of the measurement is consistent. Only then can an appropriate evaluation be made as to the least-cost path of resource acquisition for the Company. For example, since avoided costs are determined over just a 20-year period, they are not consistent with the cost per kwh of Milner, which is determined over a period of approximately 50-years. All else being equal, a 20-year avoided cost rate would be significantly less than a 50-year avoided cost rate. In addition, for comparison purposes, a 20-year amortization of Milner will produce a significantly more expensive plant than Idaho Power's current estimate for Milner.

Other methods might also be used. These would include the amount of plant costs reasonably incurred during construction of Milner, the fair market value, and the cost of alternative forms of reliable power.

Regardless of what method will eventually be used, now is not the time to make this decision. Determining whether the plant should be included in rate base, and the portion so included, can be done only after the project is completed and on line.

Q. WOULD YOU PLEASE SUMMARIZE YOUR RECOMMENDATIONS AND CONCLUSIONS?

A. Certainly. I believe the Commission should reject the Company's proposal for simultaneous issuance of a CPNC and approval of rate basing of the Milner project. In addition, I believe the Commission should reject the Company's alternative proposal to deregulate the Milner project for a minimum period of 20 years.

More particularly, I do not believe it would be appropriate or in the public interest for the Commission now to determine the rate base treatment or regulatory status of a project on which construction has not yet even begun. The Company's request has several serious flaws.

First, I reject the Company's interpretation of the import of a Certificate of Public Convenience and Necessity. Unlike Mr. Baggs, I don't consider that the Commission's issuance to Idaho Power of a CPNC for Milner means that the Company's decision to construct the project is reasonable and prudent and in the public interest. Nor do I presume that the Company's mere use of "reasonable and prudent construction practices," once granted a CPNC, then guarantees inclusion of the project in the Company's rate base. The Company's overly broad assessment should not be endorsed by the Commission. It is inconsistent with the Commission's decision concerning Valmy II. In the Valmy case, although Idaho Power had been issued a CPNC, the Commission disallowed recovery of a portion of the cost, because the plant was not used and useful.

Similarly, the Company's interpretation should be rejected because it would require the Commission to ignore many relevant circumstances that would otherwise force the Company to alter its initial course of action. The Commission would be barred from addressing the prudence of the Company's management decision-making process during the construction period.

If the Commission does adopt the Company's definition of a CPNC, then it should reject the Company's application on the grounds that it is deficient. Many factors relevant to a decision of this magnitude remain unaddressed by the Company, which has not shown that the project is economical, nor that it is the least-cost alternative, nor that it is even needed.

Second, the Commission should not be lulled into thinking the Company's offer to cap the cost of the project is an adequate consideration for preapproval for rate base. The escalation and scope reservations attached to the Company's cap do not guarantee the final cost of the project will be at or below the commitment estimate. Rather, they give the Company considerable leeway in justifying cost increases beyond that estimate. Moreover, the Company's cap proposal is one-sided. While the Company wants the Commission to agree to cost increases if the scope of the project enlarges or if escalation occurs, it has not proposed that the cap be adjusted downward under the converse circumstances.

Third, the Company's proposal saddles ratepayers with most of the risks of construction while eliminating most of the risks to shareholders. Despite this, the Company has not offered to lower its cost of equity. In my opinion, if the Commission adopts the Company's proposal to preapprove the rate base treatment of the Milner project, it should adjust the Company's cost of equity to be consistent with its reduced risk.

I also believe that the Commission should reject the Company's alternative deregulation proposal, which the Company has not shown to be the public interest, since the capital cost of the Company's companion Swan Falls project (not included in the deregulation request) is almost three times higher. Furthermore, the Company's unfair buy-back proposal almost guarantees stockholders a windfall gain at the expense of ratepayers. If the Commission is inclined to adopt the Company's proposal, then it should set the buy-back rate at the lesser of original cost less depreciation or fair market value.

Finally, I have offered some suggestions concerning the factors the Commission should consider once the Milner rebuild is completed and its costs are considered for rate base treatment. Among them is a comparison of the cost per kwh of the project with the Company's avoided cost, establishing a reasonable upper limit on the economic value of the project. Other relevant data are the amount of plant costs reasonably incurred in the construction of the Milner project, the fair market value of the plant and the energy it produces, and the cost of alternative forms of reliable power.

Q. DOES THIS COMPLETE YOUR TESTIMONY PREFILED ON NOVEMBER 9, 1990?

A. Yes, it does.

INDUSTRIAL CUSTOMERS OF IDAHO POWER
CASE NO. IPC-E-90-8

SCHEDULE 1

IDAHO POWER COMPANY
CHANGE IN COST OF EQUITY
(000)

	Amount	Ratio
Common Equity	$ 589,462	48.9%
Preferred Stock	58,923	4.9
Long-term Debt	557,851	46.2
	$1,206,236	100.0%

Investment in Swan Falls and Milner	$ 150,290
Equity Ratio	48.9%
Swan Falls and Milner financed by Equity	$ 73,492

	Amount		Rate		Cost
Swan Falls and Milner financed by Equity	$ 73,492	x	10.00%	=	$ 7,349
1989 Common Equity	589,462	x	12.25%	=	72,209
	$662,954				$79,558

Cost of Equity: $79,558 / $662,954 = 12.00%

Source: Idaho Power Company, 1989 Annual Report; Exhibit 3, Case No. IPC-E-90-8; Attachment 3, Supplemental Application, Case No. IPC-E-90-2; and Idaho Public Utilities Commission, Order No. 20924.

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that I have this 9th day of November, 1990, served the foregoing DIRECT PREPARED TESTIMONY OF DON READING ON BEHALF OF THE INDUSTRIAL CUSTOMERS OF IDAHO POWER, Case No. IPC-E-90-8, on all parties of record by hand delivering a copy thereof, to the following:

Michael S. Gilmore
Brad M. Purdy
Idaho Public Utilities Commission
472 W. Washington
Boise, ID 83720

and by mailing a copy thereof, postage prepaid, to the following:

Larry D. Ripley, Esq.
Legal Department
Idaho Power Company
P.O. Box 70
Boise, ID 83707

Steven L. Herndon, Esq.
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1087 W. River St., Suite 230
Boise, ID 83702-7035

By Peter J Richardson
Peter J. Richardson

APPENDIX I

QUALIFICATIONS

Present Occupation

Q. WHAT IS YOUR PRESENT OCCUPATION?

A. I am a consulting economist with Ben Johnson Associates, Inc., a firm of economic and analytic consultants specializing in the area of public utility regulation.

Educational Background

Q. WHAT IS YOUR EDUCATIONAL BACKGROUND?

A. I graduated from Utah State University in 1962 with a Bachelor of Science degree in economics. I earned the Master of Science degree in economics at the University of Oregon in 1964. Finally, I received a Ph.D. in economics from Utah State University in 1972. The title of my doctoral dissertation was New Deal Expenditures in the 48 States, 1933-1939.

Q. HAVE YOU RECEIVED ANY ACADEMIC HONORS OR AWARDS?

A. Yes. I am a member of Omicron Delta Epsilon, the national economics honorary, and was awarded a National Science Foundation Fellowship in 1967.

Clients

Q. WHAT TYPES OF CLIENTS EMPLOY YOUR FIRM?

A. Much of our work is performed on behalf of public agencies at every level of government involved in utility regulation. These agencies include state regulatory commissions, public counsels, attorneys general, and local governments, among others. We are also employed by various private organizations and firms, both regulated and unregulated. The diversity of our clientele is illustrated below.

Regulatory Commissions

Alabama Public Service Commission - Public Staff for Utility Consumer Protection
Alaska Public Utilities Commission
Arizona Corporation Commission
Arkansas Public Service Commission
District of Columbia Public Service Commission
Idaho Public Utilities Commission
Idaho State Tax Commission
Kansas State Corporation Commission
Maine Public Utilities Commission
Missouri Public Service Commission
North Carolina Utilities Commission - Public Staff
Oklahoma Corporation Commission
Ontario Ministry of Culture and Communications
Texas Public Utilities Commission
Virginia Corporation Commission
Washington Utilities and Transportation Commission
West Virginia Public Service Commission - Division of Consumer Advocate
Wisconsin Public Service Commission

Public Counsels

Arizona Residential Utility Consumers Office
Colorado Office of Consumer Services
Connecticut Consumer Counsel
District of Columbia Office of People's Counsel
Florida Public Counsel
Georgia Consumers' Utility Counsel
Illinois Small Business Utility Advocate Office
Indiana Office of the Utility Consumer Counselor
Maryland Office of People's Counsel
Minnesota Office of Consumer Services
Missouri Public Counsel
New Hampshire Consumer Counsel
Ohio Consumer Counsel
Pennsylvania Office of Consumer Advocate
Utah Department of Business Regulation - Committee of Consumer Services

Attorneys General

Arkansas Attorney General
Florida Attorney General - Antitrust Division
Idaho Attorney General
Kentucky Attorney General
Michigan Attorney General
Minnesota Attorney General
Nevada Attorney General's Office of Advocate for Customers of Public Utilities
South Carolina Attorney General
Virginia Attorney General
Washington Attorney General

Local Governments

City of Austin, TX
City of Corpus Christi, TX
City of Dallas, TX
City of El Paso, TX
City of Fort Worth, TX
City of Galveston, TX
City of Houston, TX
City of Lubbock, TX
City of Norfolk, VA
City of Phoenix, AZ
City of Richmond, VA
City of San Antonio, TX
City of Suffolk, VA
City of Tucson, AZ
County of Augusta, VA
County of Henrico, VA
County of York, VA
Town of Ashland, VA
Town of Blacksburg, VA
Town of Pecos City, TX

Other Government Agencies

Canada - Department of Communications
United States Department of Justice - Antitrust Division
State of Florida - Department of General Services
Provincial Governments of Canada

Regulated Firms

Americall LDC, Inc.
E. Ritter Telephone Company
Florida Association of Concerned Telephone Companies, Inc.
Holywell, Inc.
Louisiana/Mississippi Resellers Association
Madison County Telephone Company
Mountain View Telephone Company
Nevada Power Company
Network I, Inc.
North American Telephone Company
North Carolina Long Distance Association
Pan-Alberta Gas, Ltd.
Peninsula Communications, Inc.
RDM Telephone Systems
South Carolina Long Distance Association
Stanton Telephone
Teleconnect Company
Transamericall, Inc.
Yelcot Telephone Company, Inc.

Other Private Organizations

Arizona Center for Law in the Public Interest
Casco Bank and Trust
Citizens' Utility Board of Wisconsin
Colorado Energy Advocacy Office
East Maine Medical Center
Georgia Legal Services Program
Harris Corporation
Interstate Securities Corporation
J.R. Simplot Company
Merrill Trust Company
PenBay Memorial Hospital

Prior Experience

Q. BEFORE BECOMING A CONSULTANT, WHERE WERE YOU PROFESSIONALLY EMPLOYED, AND IN WHAT CAPACITIES?

A. From 1981 to 1986 I was Economist and Director of Policy and Administration for the Idaho Public Utilities Commission. My duties at the IPUC included, in addition to my testimony, the preparation of special reports in the areas of forecasting, demand studies, and economic analysis. As Staff Director I was charged with overseeing the personnel and budget functions, and with representing the Commission before the state legislature, at the governor's office, before the utility commissions of other states and before such federal and regional entities as the Bonneville Power Administration, the Northwest Power Planning Council, and the Public Power Council.

Before that time I taught economics at Middle Tennessee State University (Assistant Professor, 1968-70), Idaho State University (Assistant and Associate Professor, 1970-80), and the University of Hawaii at Hilo (Associate Professor, 1980-81). Subjects taught included economic theory and history, quantitative analysis, econometrics, statistics, labor economics, financial institutions, and international economics.

In addition, between 1970 and 1986 I prepared reports and expert testimony on loss of earnings in a number of legal actions respecting wrongful injury and wrongful death. Although many of these cases were settled without trial, I gave expert testimony in court on numerous occasions.

Q. HAVE YOU TESTIFIED PREVIOUSLY AS AN EXPERT WITNESS IN THE AREA OF PUBLIC UTILITY REGULATION?

A. Yes. I have provided or am preparing expert testimony on 19 occasions in proceedings before regulatory commissions in Alaska, California, Colorado, District of Columbia, Idaho, Nevada, Texas, Utah, and Washington, and before the Interstate Commerce Commission. In addition, I have served as a hearing examiner in Idaho.

My testimony in these proceedings dealt with electric power planning and forecasting, power supply models, avoided costs, demand elasticity models, regional economic conditions affecting public utilities, and cost of service.

Q. DO YOU HAVE ANY PROFESSIONAL PUBLICATIONS?

A. Yes. I have authored or co-authored more than 15 books and articles, including the following:

"Post-PURPA views," Proceedings of the NARUC Biennial Regulatory Conference, September 1982.

An Input-Output Analysis of the Impact from Proposed Mining in the Challis Area (with R. Davies), Public Policy Research Center, Idaho State University, February 1980.

"The Paradox of Voting," Reason 10 (April 1979): 39- 41

"Index of Prices Received by Idaho Farmers," Idaho Economic Indicators, July 1978 (also continuing series published monthly).

"Income Distribution in Idaho Counties," Idaho Business and Economics Review.

Future-Gram, 'C' Series: Current Trends and Forecasts, 'C' Series (with R. Foster, et al.), Government Research Institute of Idaho State University and the Southeast Idaho Council of Governments, Pocatello, Idaho, June 1977.

An Empirical Analysis of Predictors of Income Distribution Effects of Water Quality Controls (with J. Keith, et al.), Utah Water Research Laboratory, Utah State University, Logan, Utah, September 1976.

Regional Growth and Fiscal Impact in Southeast Idaho (with V. Hjelm et al.), Government Research Institute of Idaho State University and the Southeast Idaho Council of Governments, Pocatello, Idaho, January 1976.

Phosphate and Southeast: A Socio Economic Analysis (with J. Eyre et al.), Government Research Institute of Idaho State University and the Southeast Idaho Council of Governments, Pocatello, Idaho, August 1975.

Estimating General Fund Revenues of the State of Idaho (with S. Ghazanfar and D. Holley), Center for Business and Economic Research, Boise State University, June 1975.

"Pocatello/Bannock County Economic Impact through 1978" (with R. R. Johnson), funded by the City of Pocatello (A Regional Input-Output Model), December 1975.

"A Note on the Distribution of Federal Expenditures: An Interstate Comparison, 1933-1939 and 1961-1965," American Economist 18, no. 2 (Fall 1974): 125-128.

"New Deal Activity and the States, 1933-1939," Journal of Economic History 33 (December 1973): 792-810.

"Utah's Steel Industry" (with Reid R. Durtschi and Bartell Jensen), Utah State University Research Paper, 1965.