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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 A CER-  
TIFICATE OF PUBLIC CONVENIENCE AND  
NECESSITY FOR THE RATEBASING OF  
THE MILNER HYDROELECTRIC PROJECT  
OR IN THE ALTERNATIVE A DETERMIN-  
ATION OF EXEMPT STATUS FOR THE  
MILNER HYDROELECTRIC PROJECT.**

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) **CASE NO. IPC-E-90-8**  
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**DIRECT TESTIMONY OF BILL EASTLAKE  
IDAHO PUBLIC UTILITIES COMMISSION  
NOVEMBER 9, 1990**

1 Q. Please state your name and business  
2 address for the record.

3 A. My name is Bill Eastlake. My business  
4 address is 472 W. Washington Street, Boise, Idaho.

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

7 A. I am employed by the Idaho Public  
8 Utilities Commission as an Economist.

9 Q. Please describe your educational  
10 background and work experience.

11 A. I received an H.A.B. (Honors Bachelor of  
12 Arts) with emphasis in classics and economics from  
13 Xavier University in 1965 and completed graduate  
14 course work and general examinations in the Ph.D.  
15 program in economics at Ohio State University in 1969.

16 I taught undergraduate economics  
17 full-time at Boise State University from 1969 through  
18 1976, with two years on leave as a Fulbright Exchange  
19 Professor at Cuttington College, Liberia, West Africa.  
20 I have also taught part-time at Boise State University,  
21 College of Idaho, and Ohio State University.

22 I was a part-time Taxpayer Service  
23 Representative for the Internal Revenue Service during  
24 1977 and 1978. In 1978, I took a position with the  
25 Idaho Office of Energy as an energy economist, with

1 responsibility for energy conservation planning and  
2 then for economic feasibility analysis of geothermal  
3 and other alternative energy proposals. When the  
4 office became a division of the Idaho Department of  
5 Water Resources in 1981, I became responsible for the  
6 Idaho Water Resource Board's financial programs, loans  
7 and grants as well as industrial revenue bonds for  
8 water projects. With the demise of the bond program,  
9 I assumed responsibility for the design and imple-  
10 mentation of a statewide energy conservation loan  
11 program. In addition, I provided economic analysis in  
12 support of policy decisions concerning water rights,  
13 water planning, and agricultural water uses.

14 Q. What is the purpose of your testimony?

15 A. To suggest policy considerations relating  
16 to the addition of hydroelectric power to an existing  
17 dam like Milner for the Commission to use in reaching  
18 a decision in this case.

19 Q. What is the importance of these policy  
20 issues?

21 A. They provide a broader environment in  
22 which decisions are made about how much hydroelectric  
23 generation is to be procured and at what cost. The  
24 main point is that the decision to provide even pre-  
25 liminary approval for construction (or a certificate

1 of convenience and necessity) for the Milner project  
2 is not as simple as merely asking whether its projected  
3 cost is greater or less than the published avoided  
4 cost.

5 Q. Why do you say that?

6 A. Ratepayers are not buying a simple undif-  
7 ferentiated product (electrical generation), the sort  
8 of purchase where the product is so standard, the only  
9 important factor in the purchase decision is price.

10 There are subsidiary considerations that  
11 are important to the decision as to whether the  
12 resources available from the Milner project are  
13 preferable to other possible resources. How the  
14 projected cost of power from these resources compares  
15 to the cost of other potential resources is indeed  
16 important, but is not the sole decision factor. Some  
17 discretion must be allowed the Commission to consider  
18 other factors in making its decision, except in the  
19 case where the cost of the proposed resource is radi-  
20 cally different from that of competing resources.

21 Q. Are projected costs from these plants  
22 significantly different from avoided cost rates?

23 A. No, they appear to be approximately the  
24 same.

25

1                   Even when adjustments are made to put  
2                   avoided costs in the same 50 year time frame, the  
3                   Milner project actually comes in slightly below  
4                   avoided cost. Mr. Faull's testimony provides more  
5                   insight into the specific relationship between the  
6                   projected cost of electricity from this plant and the  
7                   newly published avoided cost rates. When the dif-  
8                   ference is small, as it is here, there are other  
9                   factors that should enter into the decision process.

10                   Q.    What are some of these other factors  
11                   which should allow the Commission some discretion.

12                   A.    There are several. Historical experience  
13                   with prior hydroelectric installations has some rele-  
14                   vance. The probable future course of environmental  
15                   constraints through federal legislation is important.  
16                   The policy stance of the State of Idaho as evidenced  
17                   in prior energy and water matters is also important.

18                   Q.    Is hydroelectric power the state's most  
19                   important native energy resource?

20                   A.    In the past Idaho relied solely on hydro-  
21                   electric power for its electric energy needs. As the  
22                   state has grown there has been the need to supplement  
23                   hydro with some thermal generation located outside the  
24                   state. But it remains the fact that Idaho's hydro-  
25                   electric base is what has allowed power rates to

1 remain at or near the lowest in the country. Making  
2 optimum use of that hydro, which is essentially  
3 Idaho's only significant energy resource, remains a  
4 sensible policy to protect the legacy of past low  
5 rates.

6 Where possible it makes sense to keep  
7 local control of that resource, so that the real bene-  
8 fits of low cost hydropower are reaped by utilities  
9 and ratepayers in Idaho rather than out-of-state.

10 Q. What has been the relevant policy stance  
11 of the State with respect to the sort of hydro projects  
12 proposed here?

13 A. The most comprehensive policy statement  
14 in this regard comes from the Idaho State Energy Plan,  
15 a study commissioned by the Governor in 1980. The  
16 Idaho Energy Resource Policy Board, a diverse group of  
17 fifteen persons representing a cross-section of inter-  
18 ests within the state, heard testimony from various  
19 energy experts and held public hearings over an  
20 eighteen month period. The Energy Plan, which came  
21 out in February of 1982, was an outline of how the  
22 state could assist in supplying adequate energy for  
23 the future.

24 Q. What sorts of policy direction were  
25 contained in this plan?

1           A.    The plan stated generally that there was  
2           to be a high priority placed on conservation and  
3           renewables, with an emphasis on improving existing  
4           resources.

5                        With respect to renewables, it stated  
6           that "the state should give a high priority to hydro-  
7           electric projects, in particular the upgrading of  
8           current facilities within the state."

9                        In its formal policy implementation  
10          guidelines, the plan stated that "priority should be  
11          given to the review of sites and approval of projects  
12          related to hydroelectric generation and existing  
13          hydroelectric upgrades."

14                      In the section on hydro, the plan notes  
15          the presence of many non-power dams with the capa-  
16          bility to accept generation equipment and some  
17          existing power projects which can provide increased  
18          capacity through upgrading of generation facilities.  
19          The plan even has a range of anticipated costs, from  
20          50 mills in 1985 to 75-100 mills in 2000, which seems  
21          commensurate with the projected costs contained in the  
22          company's applications.

23                      Q.    Does this Plan have force of law?

24                      A.    No.   The only purpose of citing it here  
25          is to indicate that the upgrades proposed by the

1 company seem quite consistent with the policy guidance  
2 provided on this issue by a formal board convened to  
3 look to Idaho's energy future.

4 Simply put, the Resource Policy Board  
5 recognized that hydro has been very good for the state  
6 and recommended continuing to exploit that known  
7 resource where possible.

8 While it recognized the potential for  
9 some new small hydro development (and, in retrospect,  
10 understated the difficulty of getting new projects  
11 permitted) the Board rather clearly indicated a pre-  
12 ference for getting more of the hydropower potential  
13 available at existing dams.

14 The proposed project, since it makes use  
15 of an existing dam with generation facilities, is  
16 aligned with that preference.

17 Q. What was the reason the Board seemed to  
18 prefer hydro from existing structures?

19 A. From my recollection of staff work (as  
20 an employee of the Energy Bureau of the Idaho  
21 Department of Water Resources) for the Board, there  
22 was reason to believe that power from existing dams  
23 would be less costly than that from new dams. These  
24 were large old infrastructure projects that would have  
25 been inordinately expensive to replicate in current

1 dollars. With the water diversion works already in  
2 place the only cost was the additional cost of adding  
3 generation.

4 Q. Does the same reason to prefer old hydro  
5 still hold today?

6 A. I believe the rationale for preferring  
7 existing sites would be somewhat different, but the  
8 preference would remain.

9 Q. Why would the rationale be different?

10 A. The rationale would still emphasize the  
11 lower cost to be expected from upgrading of existing  
12 facilities, but it would not be based so much on an  
13 expected difference in the physical cost of construc-  
14 tion and equipment. The lower cost expectations would  
15 today probably focus more on the lack of institutional  
16 barriers that face an already existing dam. New dams  
17 and diversions face extraordinary obstacles in the way  
18 of permitting requirements, especially environmental  
19 considerations.

20 The Board's initial deliberations took  
21 place in an era when it appeared that there were lots  
22 of viable small hydro projects available. As time has  
23 passed there has been an increase in the number of  
24 regulations and in the stringency with which they are  
25 enforced. What looked like a flood of easily available

1 small hydro has become more of a trickle as one after  
2 another has failed to clear the institutional obstacles  
3 associated with permitting.

4 Q. Does the current legislative climate  
5 seem likely to become less restrictive?

6 A. Just the opposite. Growing concern for  
7 endangered species, recreational, and fish and wildlife  
8 values associated with the use of the water resource  
9 by hydroelectric projects makes it ever more difficult  
10 for a new project to be approved. Though in some cases  
11 mitigation is now being required of older projects  
12 permitted in an era when there was less concern for  
13 these values, in any case the environmental obstacles  
14 facing upgrade of existing facilities are substantially  
15 less than that facing a new project. These trends  
16 translate into lower projected costs for pre-existing  
17 projects, or the absolute inability to even get a new  
18 project permitted.

19 Q. How is hydropower considered in the  
20 State Water Plan?

21 A. The State Water Plan was created in 1976  
22 to help formulate and implement the optimum develop-  
23 ment of water resources in the public interest.  
24 Adopted by the Idaho Water Resource Board, it is  
25 periodically updated and reviewed by the Legislature.

1 The first State Water Plan was in 1976, with revisions  
2 in 1982 and 1986. The Plan was altered in its most  
3 recent revision to account for changes needed to  
4 reconcile it with the agreement entered into between  
5 the State and Idaho Power Company concerning water  
6 rights at Swan Falls Dam.

7 Policy 1C of the Water Plan lists various  
8 non-consumptive uses of water considered to be "bene-  
9 ficial uses" of water recognized under Idaho law.  
10 More specifically, Policy 5E recognizes hydro genera-  
11 tion as beneficial and acknowledges a public interest  
12 in maintaining minimum river flows at Swan Falls.  
13 This is a striking change from the earlier narrow  
14 conception of "beneficial use" which emphasized  
15 removal of water from the river, usually for  
16 irrigation.

17 Policy 5A actually raised the minimum  
18 flows to 3900 cfs (April-October) and 5600 cfs  
19 (November-March) at the Murphy gauge in recognition  
20 of the importance of those flows to hydrogeneration.  
21 Amounts between those flows and the 8400 cfs originally  
22 claimed by Idaho Power are now held in trust by the  
23 state for allocation according to the more extensive  
24 set of public interest criteria set out by revision to  
25 the *Idaho Code*, partly in recognition of the fact that

1 hydrogeneration was a valuable use of water, foregone  
2 by its withdrawal from the river for other purposes.

3 Q. Is there anything about the existing  
4 structure of water rights that appears to favor the  
5 use of pre-existing facilities for hydrogeneration?

6 A. The whole Swan Falls controversy arose  
7 because a group of individuals sued Idaho Power to  
8 force the company to assert its water right for power  
9 generation vis-a-vis the claims of irrigators. Though  
10 this is neither the time nor the place to revisit that  
11 controversy, with existing dams there is already a  
12 water right in place, with particular rights and  
13 responsibilities. New hydropower facilities face a  
14 more stringent set of requirements and a general  
15 climate in which most of the available water is  
16 already allocated.

17 New facilities bear the burden of proof  
18 that their use of water, in this case for the purpose  
19 of hydroelectric generation, will create no adverse  
20 impact on prior appropriators of water. That burden,  
21 of proving that new uses of water are in the public  
22 interest, of adhering to the expanded set of criteria  
23 established in *Idaho Code* Section 42-203C to implement  
24 the Swan Falls Agreement, creates a formidable and  
25 costly process for new hydro developers.

1 Q. Will Idaho Power Company's use of flows  
2 from the existing Milner Dam have the kind of adverse  
3 impacts predicted for newly-placed hydroelectric  
4 projects?

5 A. No. Idaho Power Company's actual  
6 generation will depend on water conditions and on the  
7 dam owner's pattern of water use for irrigation.  
8 Generation will be subsidiary to irrigation needs and  
9 will have little impact on the existing flow regime.  
10 The proposed project makes use of surplus water which  
11 is currently passed through the spillway. The plant  
12 will operate basically as run-of-the-river with no  
13 additional storage capacity.

14 Q. What has been the stance of prior Com-  
15 missions in their deliberations concerning certificates  
16 of public convenience and necessity for other hydro-  
17 electric projects contemplated by the Company?

18 A. Several cases seem to give evidence of a  
19 general leaning toward hydroelectric projects as being  
20 in the public interest.

21 In U-1006-70, a request for a rate in-  
22 crease in anticipation of the Company's participation  
23 in the Jim Bridger Plant, in Order No. 10049, there is  
24 notation that "... it is evident that the power gen-  
25 erated by hydropower projects will become increasingly

1 more valuable." The quotation is vis-a-vis the pro-  
2 posed steam generation plant but nevertheless indicates  
3 a belief that hydropower seems to improve with age.

4 In U-1006-107, requesting a certificate  
5 of convenience for a new powerhouse at American Falls  
6 in connection with rebuild of the dam, the Commission  
7 used Order No. 12631 to summarily approve this pro-  
8 posed plant that "will permit greater utilization of  
9 waters being released" to meet existing and future  
10 loads.

11 In U-1006-154, issuing a preliminary  
12 certificate for the addition of generation to the  
13 existing Cascade Dam, the Commission noted in Order  
14 No. 15296 that after installation the economics of  
15 hydroelectricity generally improve significantly in  
16 comparison with thermal and that the environmental  
17 impact will likely be very slight since the proposed  
18 development will merely replace an existing structure.

19 Q. Was the decision to grant or refuse a  
20 certificate to any of these proposed facilities a  
21 simple one of comparing the proposed cost to the cost  
22 of alternative resources?

23 A. No. The Commission is charged with  
24 considering the need for additional power to serve the  
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utility's load and with the cost of alternative means of serving such need.

In U-1006-136, requesting a certificate for South Fork of the Payette projects which were ultimately turned down, in Order No. 15580 the Commission noted the "process necessarily required the weighing and balancing of numerous (and often competing) considerations, many of which cannot be quantified." In other words, it took judgment, not mere following of a rule.

In U-1006-154, the order cited above, there was explicit recognition that thermal generation would cost approximately the same per installed KW as the proposed hydro project, but that consideration of issues beyond first cost of construction were more important in determining what was the best resource decision.

Q. Does this conclude your testimony?

A. Yes, it does.

**CERTIFICATE OF SERVICE**

I HEREBY CERTIFY THAT I HAVE THIS 9th DAY OF NOVEMBER, 1990, SERVED THE FOREGOING **DIRECT TESTIMONY OF BILL EASTLAKE**, CASE NO. IPC-E-90-8, ON ALL PARTIES OF RECORD BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

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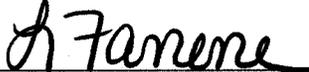
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