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IDAHO PUBLIC
UTILITIES COMMISSION

BEFORE THE

IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF APPLICATION OF PACIFICORP DBA UTAH POWER & LIGHT COMPANY FOR AUTHORITY TO INCREASE ITS RATES FOR ELECTRIC SERVICE TO ELECTRIC CUSTOMERS IN THE STATE OF IDAHO.	)	**CASE NO. PAC-E-05-1**

DIRECT TESTIMONY OF RANDY LOBB
IN SUPPORT OF STIPULATION

IDAHO PUBLIC UTILITIES COMMISSION

JULY 1, 2005

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

A. My name is Randy Lobb and my business address is 472 West Washington Street, Boise, Idaho.

Q. By whom are you employed?

A. I am employed by the Idaho Public Utilities Commission as Utilities Division Administrator.

Q. What is your educational and professional background?

A. I received a Bachelor of Science Degree in Agricultural Engineering from the University of Idaho in 1980 and worked for the Idaho Department of Water Resources from June of 1980 to November of 1987. I received my Idaho license as a registered professional Civil Engineer in 1985 and began work at the Idaho Public Utilities Commission in December of 1987. My duties at the Commission currently include case management and oversight of all technical staff assigned to Commission filings. I have conducted analysis of utility rate applications, rate design, tariff analysis and customer petitions. I have testified in numerous proceedings before the Commission including cases dealing with rate structure, cost of service, power supply, line extensions, regulatory policy and facility acquisitions.

Q. What is the purpose of your testimony in this case?

A. The purpose of my testimony is to describe the process leading to the filed Stipulation (Proposed Settlement) signed by all parties to this case except Monsanto and to explain the rationale for Staff's support.

Q. Please summarize your testimony.

A. My testimony reflects that the process used by Staff in arriving at the Proposed Settlement was much the same as that used to develop its case conventionally. Staff conducted an audit of the Company's test year results of operations, examined the jurisdictional allocation study used to assign costs to Idaho and evaluated class Cost of Service (COS) including that for Monsanto.

Based on Staff review, it became apparent that the test year incorporated by the Company in this case was relatively free of inappropriate rate base additions and expenses due to extensive review by other state jurisdictions. It also became apparent that a significant portion of the requested increase represented costs associated with service to Monsanto. While Staff recognized the use of Revised Protocol and situs treatment of the costs associated with the Monsanto contract in establishing the Idaho jurisdictional revenue requirement, it did not believe that costs of service deficiencies attributable to Monsanto and unrecoverable under its fixed price contract were recoverable from other Idaho customers. Staff also

recognized that various parties including Agrium and the Idaho Irrigation Pumpers Association (IIPA) disputed the Company's Cost of Service study raising questions regarding exactly how much cost would ultimately be allocated to the various customer classes, how much of the Company's costs would be unrecoverable in the short term due to Monsanto's fixed price contract and how large of an increase Monsanto could ultimately face when its service contract expires in December 2006.

Weighing the uncertainties Staff determined that a settlement implementing a modest rate increase for the Idaho customers of PacifiCorp, other than Monsanto, that is significantly below what the Company had requested represented a reasonable resolution of this case. The total increased revenue requirement, arrived at through negotiation, is within a range of reasonableness and well below what Staff believes could have been achieved by the Company through hearing. The proper allocation of the Idaho revenue requirement through cost of service and the viability of continued fixed price contracts, Staff notes, can be more thoroughly addressed next year when all parties including Monsanto, will be included in a general rate case and Monsanto's replacement service contract will be at issue.

Q. What was the overall increase proposed by

PacifiCorp in its original filing in this case?

A. The Company proposed to increase base Idaho revenue requirement by approximately $15.1 million annually or 12.6%. The net revenue impact with expiration of the tax surcharge, Schedule 93, would have been approximately $11.4 million or a 9.2% increase over current revenues. The revenue requirement increase requested by PacifiCorp is $1.84 million less than the Company-calculated revenue deficiency of $16.9 million to reflect the Company's application of the Rate Mitigation Measure included in Commission approval of the MSP Stipulation (Case No. PAC-E-02-3, Order No. 29708).

Q. Did the Company in its Application propose a uniform increase for all customer classes?

A. No. The Company recommended net increases ranging from 15.6% for Agrium to 10.4% for Irrigators to 9.6 % for residential service to 6% for General Service customers.

Q. Was Monsanto included in the Company's Cost of Service analysis?

A. No. While the cost of serving Monsanto and the revenues generated under the Monsanto contract were used to establish the Idaho revenue deficiency, the additional revenue requirement was allocated to customers other than Monsanto.

Q. How did the parties in this case arrive at a

Stipulated Settlement?

A. The filed Stipulation is the result of intense negotiation by the parties that focused on three important factors: 1) an approved jurisdictional allocation methodology that establishes an Idaho revenue requirement with Monsanto as an Idaho situs customer; 2) a fixed price contract for Monsanto extending through 2006 that subject to the public interest contract standard prohibits rate changes during the term of the contract; and 3) a disputed class COS study that allocates much of the identified revenue deficiency to Monsanto.

Q. What are the primary provisions of the Proposed Settlement?

A. The primary provision of the Settlement is an annual base revenue requirement increase of $5.75 million representing an aggregate base rate increase of 4.8%. Cost of Service issues pursuant to the understanding of the parties will be deferred until 2006 when a rate case will be filed to coincide with expiration of the existing Monsanto fixed price contract.

Q. Are there any other issues addressed in the Settlement?

A. Yes. The Settlement contains a variety of other provisions designed to meet the needs of the various parties to the Stipulation. The provisions include implementation

and support for future use of the Revised Protocol jurisdictional allocation methodology, a statement of Staff support for future use of a tariff standard for PacifiCorp's Idaho customers, a Staff agreement to discuss with the Company the possibility of developing an alternative rate recovery mechanism, a Company commitment to meet with interested parties to discuss the calculation of credits provided under the Company's Schedule 72, Irrigation Load Control Credit Rider and a commitment by the Company to file revisions to its Schedule 21 Low Income Weatherization Program.

Q. What is the rate impact of the Settlement?

A. The Settlement specifies that Idaho's jurisdictional revenue requirement will increase by $5.75 million annually when combined with expiration of Schedule 93, the Power Cost/Tax Surcharge, a net increase of 1.7% over current revenues will result. The net increase of 1.7% will be spread uniformly among all Idaho customers and rate components beginning September 16, 2005. Monsanto, a non-tariff special contract customer, is not affected by the increase.

Q. How does the revenue requirement increase set forth in the Proposed Settlement compare to the increase originally requested by PacifiCorp?

A. The Proposed Stipulation's increase represents

about 38% of the $15.1 million increase originally requested by the Company.

Q. What process did the Commission Staff undertake to evaluate PacifiCorp's filing?

A. As part of its investigation in this case Staff audited the Company's test year results of operations, evaluated the jurisdictional allocation methodology employed by the Company to allocate costs to the Idaho jurisdiction and reviewed the Company's class Cost of Service study. The Staff also conducted two customer workshops in PacifiCorp's service territory to explain the Company's filing, discuss the potential for settlement and solicit comment and opinion from its customers.

Based on its audit, Staff determined that the adjusted test year employed by the Company had been refined through extensive review in rate cases by at least three other state jurisdictions and was relatively free of inappropriate plant additions or expenses. Notwithstanding, Staff identified $4 to $6 million in test year adjustments that Staff believed could reasonably be approved by the Commission leaving an incremental revenue requirement increase for Idaho in the $9 to $11 million range. The Staff adjustments were not associated with regulatory assets and liabilities. Therefore all regulatory assets and liabilities are unadjusted and recognized for purposes of

this settlement.

Staff also verified that the Company utilized the Revised Protocol jurisdictional allocation methodology with a Rate Mitigation Measure of $1.84 million to establish the $15.1 million proposed increase in Idaho revenue requirement. The Revised Protocol Methodology treats Monsanto as an Idaho situs customer for the purposes of allocating system costs and revenues.

Finally Staff noted that the Company's class Cost of Service study did not include any allocation to Monsanto even though Monsanto is included as an Idaho customer for the purpose of allocating system cost to Idaho. Consequently, Staff requested that the Company modify its Cost of Service to include Monsanto. The results of the modified study showed that as much as two thirds of the proposed revenue requirement increase was the responsibility of Monsanto.

Q. Did PacifiCorp in its Application propose to recover any of the identified Idaho revenue requirement deficiency from Monsanto?

A. No. Due to Monsanto's current fixed price contract, the Company proposed to collect the entire identified deficiency from its other Idaho customers.

Q. Did Staff agree with the Company's proposal?

A. No. Staff did not believe that service cost

deficiencies attributable to Monsanto were recoverable from other Idaho customers.

Q. Did the other parties to the case support Staff's position?

A. Yes, the other parties agreed with Staff's position with respect to the inappropriateness of other customers absorbing an identified Monsanto revenue deficiency. However, several parties had questions regarding the validity of the Company's Cost of Service study. Agrium believed that the study was biased against high load factor customers such as Agrium and Monsanto and would be modified to show lower cost of service if addressed at hearing. Irrigators also believed the Company's study was flawed. The Company, while believing its Cost of Service study was correct, simply maintained that under Revised Protocol it was entitled to recover prudently incurred costs properly allocated to Idaho. If costs could not be recovered from Monsanto, then the Company believed they were appropriately recovered from other customers.

Q. What was Staff's understanding of Monsanto's position regarding cost of service and recovery of Idaho revenue requirement deficiency?

A. Monsanto maintained that it had a firm fixed price contract through 2006 and was not subject to the outcome of this rate case. It also maintained that other Idaho

customers should not be held responsible for cost of service deficiencies attributable to Monsanto. It maintained that any identified deficiency in Monsanto's cost of service during the term of the contract should be unrecoverable by the Company.

Q. How does the Stipulated Settlement resolve the cost of service and revenue requirement recovery disputes identified in this case?

A. The Settlement essentially shares the disputed revenue requirement deficiency associated with serving Monsanto between other Idaho customers and Company shareholders in the short term until the Monsanto contract expires next year. The Settlement reflects PacifiCorp's stated intention to file an Idaho rate case next year to coincide with renegotiation of the Monsanto contract. This will bring Monsanto in synch with other customer classes regarding determination of cost of service responsibility and will enable an appropriate revenue requirement to be established for all of PacifiCorp's Idaho tariff and special contract customers.

Q. How is the disputed Monsanto revenue deficiency shared in the short term?

A. Generally, Staff has identified a $9 to $11 million-revenue deficiency that it believes could result from proceeding without settlement. Based on the Company's

modified Cost of Service study that includes Monsanto, some $7 to $9 million of the deficiency is the responsibility of Monsanto. The $5.75 million revenue increase proposed for other PacifiCorp customers under the Settlement leaves approximately $3.25 to $5.25 million left to be recovered from PacifiCorp shareholders ($9-$5.75 million to $11-$5.75 million). If Monsanto's cost of service responsibility were found to be less than that shown in the Company's study, then other Idaho customers may ultimately be required to pay more than the agreed to amount. If the Company's Cost of Service study were found to be correct in this case, then Monsanto could ultimately be required to move to full cost of service as determined in this proceeding when its contract is renewed. This Settlement balances the interests of the various Idaho customer classes with those of Company shareholders.

Q. Why was a commitment by Staff to support a tariff standard for customers seeking special contracts in the future included as part of the Settlement?

A. Including the Staff commitment in the Stipulated Settlement was the result of negotiations with the Company. While Staff recognized that Monsanto would likely not sign the Settlement with such a commitment included, Staff also recognized the merits of the Settlement for other parties and the potential problems created by continued use of a

contract standard for Monsanto in the future.

Q. What does Staff see as the potential problems of continuing a contract standard contract for Monsanto in the future?

A. The primary problem includes the risk that PacifiCorp's Idaho customers will be asked to cover cost of service deficiencies that occur during the term of the fixed price contract. This possibility appears more likely given the approval of the Revised Protocol allocation methodology that treats Monsanto as an Idaho situs customer. Monsanto represents approximately 40% of PacifiCorp's Idaho load and approximately 25% of PacifiCorp's Idaho revenues. If prudently incurred Idaho revenue requirement cannot be recovered from Monsanto or any other Idaho customer during the term of a fixed price contract, then PacifiCorp shareholders would bear the unrecovered costs.

Staff does not believe this is a sustainable or viable approach to cost allocation and cost recovery for the future. Therefore, Staff believes a tariff standard contract under the control of the Commission is a more appropriate approach. Staff has verbally articulated this position to all parties in this case and consequently, did not oppose supporting the tariff standard language as part of the Settlement.

Q. Does the Commission have to decide the tariff vs.

contract standard issue in this case?

A. No. The Commission's approval of the Settlement does not commit the Commission to employ a tariff standard for Monsanto in the future. The Commission does not need to make a decision on tariff standard in this case nor does the Staff suggest it do so. Staff recommends that this issue be addressed in conjunction with the Company's next rate case or the next Monsanto contract case. At that time Monsanto can make its case for contract standard service.

Q. How does Staff view the other provisions of the Settlement?

A. While Staff does not support a Power Cost Adjustment (PCA) or an Alternative Form of Regulation (AFOR) mechanism for PacifiCorp at this time, we have no objection to meeting with the Company to discuss these issues. Staff supports and plans to participate in discussions regarding calculation of credits under the Company's Schedule 72, Irrigation Load Control Program. Staff agrees with the specified action dates for establishing appropriate credit levels for implementation in time for the 2006 irrigation season.

Finally, Staff does not object to the Company's plan to propose revisions to its Low Income Weatherization Program Tariff Schedule 21. Staff looks forward to participating in the Company's filing to increase annual

Community Action Agency incentives, to increase the annual per dwelling rebate levels and to expand its cost reimbursement and promote installation of a wide variety of energy efficiency measures.

Q. Could you please summarize Staff's position on the Settlement?

A. Yes. Staff fully supports the Stipulated Settlement and believes the Settlement to be just, fair and reasonable and in the public interest. The Settlement represents a compromise by all parties in this case. Staff believes the Settlement provides a reasonably modest overall increase in Idaho revenue requirement and equitably shares cost responsibility in the interim among the Company and its customers. More importantly, it defers the highly controversial issue of cost allocation to a period when all customers including Monsanto, the Company's largest Idaho customer, are active participants in the case and subject to the outcome.

Q. Does this conclude your testimony in this proceeding?

A. Yes, it does.

CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 1ST DAY OF JULY 2005, SERVED THE FOREGOING **DIRECT TESTIMONY OF RANDY LOBB IN SUPPORT OF STIPULATION** IN CASE NO. PAC-E-05-01, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO
THE FOLLOWING:

JEFF LARSEN
PACIFICORP
201 S MAIN ST., SUITE 2300
SALT LAKE CITY, UT 84140
E-MAIL: jeff.larsen@pacificorp.com

DATA REQUEST RESPONSE CENTER
PACIFICORP
825 NE MULTNOMAH SUITE 800
PORTLAND OR 97232
E-MAIL: datarequest@pacificorp.com

ANTHONY YANKEL
29814 LAKE ROAD
BAY VILLAGE OH 44140
E-MAIL: tony@yankel.com

JAMES R SMITH
MONSANTO COMPANY
PO BOX 816
SODA SPRINGS ID 83276
E-MAIL: jim.r.smith@monsanto.com

DENNIS E PESEAU
UTILITY RESOURCES INC
1500 LIBERTY ST SE
SUITE 250
SALEM OR 97302
E-MAIL: dpeseau@excite.com

JAMES M. VAN NOSTRAND
STOEL RIVES LLP
900 SW FIFTH AVE SUITE 2600
PORTLAND OR 97204
E-MAIL: jmvannostrand@stoel.com

ERIC L OLSEN
RACINE OLSON NYE BUDGE
& BAILEY, CHARTERED
PO BOX 1391
POCATELLO ID 83204-1391
E-MAIL: elo@racinelaw.net

RANDALL C. BUDGE
RACINE OLSON NYE BUDGE
& BAILEY, CHARTERED
PO BOX 1391
POCATELLO ID 83204-1391
E-MAIL: rcb@racinelaw.net

CONLEY E WARD
GIVENS PURSLEY LLP
601 W BANNOCK ST
PO BOX 2720
BOISE ID 83701-2720
E-MAIL: cew@givenspursley.com

BRAD M. PURDY
ATTORNEY AT LAW
2019 N 17TH STREET
BOISE ID 83702
E-MAIL: bmpurdy@hotmail.com

R. SCOTT PASLEY
ASSISTANT GENERAL COUNSEL
J R SIMPLOT COMPANY
999 MAIN ST (83702)
PO BOX 27
BOISE ID 83707
E-MAIL: spasley@simplot.com

DAVID HAWK, DIRECTOR
ENERGY NATURAL RESOURCES
J R SIMPLOT COMPANY
999 MAIN ST (83702)
PO BOX 27
BOISE ID 83707
E-MAIL: dhawk@simplot.com

TIMOTHY J SHURTZ
411 S MAIN
FIRTH ID 83236
E-MAIL: tim@idahosupreme.com

SECRETARY

CERTIFICATE OF SERVICE