GIVENS PURSLEY LLP

LAW OFFICES
601 W. Bannock Street
PO Box 2720, Boise, Idaho 83701
TELEPHONE: 208 388-1200
FACSIMILE: 208 388-1300
WEBSITE: www.givenspursley.com

September 27, 2007

Via Hand Delivery

Jean Jewell
Idaho Public Utilities Commission
472 W. Washington
P.O. Box 83720
Boise, ID 83720-0074

Re: In the Matter of the Application of Pacificorp DBA Rocky Mountain Power for Approval of Changes to its Electric Service Schedules – Case No.: PAC-E-07-05

Our File: 6170-3

Dear Jean:

Enclosed for filing please find an original and eight (8) copies of Dennis Peseau's Testimony in the above entitled matter. One copy has been designated as the reporter's copy, and a disk containing the testimony in ASCII format is also enclosed.

Thank you for your assistance in this matter.

Sincerely,

Conley Ward

Conley Ward

CEW/tma
cc: Service List (w/enclosures)
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Conley E. Ward [ISB No. 1683]
GIVENS PURSLEY LLP
601 W. Bannock Street
P.O. Box 2720
Boise, ID 83701-2720
Telephone No. (208) 388-1200
Fax No. (208) 388-1300
cew@givenspursley.com

Attorneys for Agrium, Inc.
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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF PACIFICORP DBA ROCKY MOUNTAIN POWER FOR APPROVAL OF CHANGES TO ITS ELECTRIC SERVICE SCHEDULES	Case No. PAC-E-07-05

DIRECT TESTIMONY

OF

DENNIS E. PESEAU

ON BEHALF OF

AGRIUM, INC.

September 28, 2007

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Dennis E. Peseau. My business address is Suite 250, 1500 Liberty Street, S.E., Salem, Oregon 97302.

Q. BY WHOM AND IN WHAT CAPACITY ARE YOU EMPLOYED?

A. I am the President of Utility Resources, Inc. ("URI"). URI has consulted on a number of economic, financial and engineering matters for various private and public entities for more than twenty five years.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND WORK EXPERIENCE.

A. My resume is attached as Exhibit No. 401.

Q. WERE EXHIBIT NUMBERS 401-409 PREPARED BY YOU OR UNDER YOUR DIRECTION AND CONTROL?

A. Yes.

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION?

A. Yes, on many occasions over nearly three decades.

Q. FOR WHOM ARE YOU APPEARING IN THIS CASE?

A. I am appearing on behalf of Agrium, Inc ("Agrium").

Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?

A. My testimony addresses two broad areas: (1) Rocky Mountain Power's requested revenue requirement, and (2) its proposed cost-of-service/rate design to collect the revenue requirement.

Specifically, I show that Rocky Mountain's requested 10.3% net increase in revenues is significantly inflated due to a mismatch of revenues and expenses.

With respect to Rocky Mountain's proposed cost of service/rate design I show that its cost study and resulting customer class rates are contradictory to the ratemaking principles this Commission has consistently endorsed and utilized at least since the early 1980s when I began participating in Idaho PUC cases. Rocky Mountain's proposed cost allocations are both inequitable, because they require some customer classes to pay costs they did not cause, and economically inefficient, because they are likely to exacerbate the very spikes in summer peak demands of which Rocky Mountain complains.

Q. LET'S DEAL WITH THE REVENUE REQUIREMENT MATTER FIRST. WHAT IS THE ISSUE WITH RESPECT TO THE COMPANY'S 2007 ESTIMATES OF COSTS AND REVENUES?

A. As discussed in the testimony of company witness Mr. McDougal, Page 4, Lines 11-14, Rocky Mountain is requesting approval of a year end December 31, 2006 test year, but adjusted for "known and measurable" events through December 31, 2007.

The Company classifies its adjustments in three distinct ways, as summarized by Mr. McDougal, Page 9, Lines 18-23:

> " ... Rocky Mountain Power summarizes adjustments into three different types. Type 1 adjustments represent base period accounting or Commission-ordered adjustments (i.e. reversing one-time write-offs). Type II adjustments typically annualize events that occurred during the base year (i.e. contract change or wage increases). Type III adjustments reflect known and measurable events occurring in the twelve months following the base period."

Q. WHICH OF THESE CLASSES OF ADJUSTMENTS BOTHERS YOU?

A. I am concerned about the Type III adjustments to both costs and revenues. Although the Company repeatedly refers to these adjustments as "known and measurable," they are neither. Many of the adjustments are for events still in the future, and even the costs and revenues estimated from January 1, 2007 until now are not officially recorded or audited. These adjustments could more properly be labeled "anticipated and estimated" rather than "known and measurable."

Q. WHAT PROBLEMS DO YOU SEE WITH ROCKY MOUNTAIN'S PROPOSAL TO EXTEND ITS TEST YEAR TO DECEMBER 31, 2007?

A. The purpose of constructing a test year is to form a systematic and balanced record of the Company's costs and revenues in order to set rates that are fair to customers and provide a fair and reasonable rate of return to the utility. The problem with forecasting or estimating anticipated, rather than known and recorded, costs and revenues is that the temptation is great to overestimate costs and underestimate revenues. The temptation is all the greater because future costs and revenues are not subject to formal auditing, as they are not known. There is a huge difference between auditing recorded results of operations and reviewing a forecast of future results of operations. The first is a matter of verifiable facts, the latter is matter of predictions and opinions.

Q. HAS THE COMMISSION DEALT WITH SIMILAR ISSUES IN PRIOR CASES?

A. Yes. In Idaho Power's last litigated general rate case (IPUC Case No. IPC-E-03-13) Idaho Power requested similar out-of-test year adjustments. In response, I expressed deep concerns about the ability of other parties to thoroughly test the Company's forecasted upward adjustments. I have the same concerns in this case. Rather than repeating the comments I provided in the Idaho Power case, I attach as Exhibit No. 402

my testimony from that case discussing the problems inherent in mismatching test year costs and revenues under proposals such as Rocky Mountain is submitting here. I also attach, as Exhibit No. 403, Section 6 of Commission Order No. 29505, which addressed the mismatch issue and ordered a reduction of Idaho Power's revenue requirement request as a result of criticisms from both Staff and myself.

Q. HOW DO YOU PROPOSE TO ADJUST THE COMPANY'S TYPE III ADJUSTMENTS?

A. In a perfect world, I would back out all the Type III adjustments that are not in fact "known and measurable." But this would be a huge task that is far beyond the capabilities of an intervenor like Agrium, due to the vast scope of the Company's cost and rate base adjustments. But, at the very least, I propose that, if the Company's 2007 rate base and cost projections are accepted, they should be properly matched by similar 2007 revenue adjustments.

Q. DIDN'T ROCKY MOUNTAIN MAKE AN ADJUSTMENT TO REFLECT 2007 REVENUE GROWTH?

A. No, it didn't. My Exhibit No. 404 is a copy of two summary tables contained in the Company's exhibits. Page 1 of my Exhibit No. 404 provides all the revenue adjustments that the Company makes for each customer class for the year 2007. As indicated by footnote no. 4 on Page 1, the Type III adjustments (Column 6) made by Rocky Mountain are for contract price changes only for irrigators and Monsanto. None of the other customer classes's revenues have been increased to account for the significant load growth in the residential, commercial and irrigation classes. This is inconsistent and a mismatch, because the Company certainly includes, <u>on the cost side,</u>

the increased costs of meeting the increase in 2007 loads. By inflating its 2007 costs, but ignoring its 2007 revenues from increased sales, the Company exaggerates its need for a rate increase.

Q. HOW DID YOU ADJUST ROCKY MOUNTAIN'S MWH SALES TO ACCOUNT FOR 2007 SALES?

A. My adjustments are shown on my Exhibit No. 405. In order to estimate 2007 load growth, I referred to the Company's 2007 Integrated Resource Plan and noted the Company's forecast load growth for the various customer classes. As noted on Exhibit No. 405, the projected customer class growth rates are 2.2%, 3.1% and 0.6% for the residential, commercial and irrigation classes, respectively. To reach 2007 MWH sales, I multiplied each of these growth rates times the 2006 normalized MWH loads of each respective customer class. Once I had 2007 MWHs I multiplied these 2007 year sales by the class rate (revenue per MWH) to get gross incremental sales for each class. As I assume that the Company has not already inflated its 2007 year power costs as necessary to meet these additional sales, I also computed the net power costs the Company would incur to meet the 2007 load growth.

Q. WHAT RESULTING REVENUE ADJUSTMENT DO YOU ESTIMATE?

A. As shown in the bottom, right-most column of my Exhibit No. 405, the revenue adjustment necessary to reflect 2007 load growth is $1,630,500. I propose that the Commission reduce the Company's requested $18.5 million increase by this amount.

Q. TURNING TO COST OF SERVICE/RATE DESIGN ISSUES, WHAT ARE YOUR CONCLUSIONS REGARDING ROCKY MOUNTAIN'S PROPSAL?

A. My testimony demonstrates that Rocky Mountain's cost of service proposal suffers from the following defects:

1. Rocky Mountain's cost study errs in assuming that only certain generation resources are used to meet its summer season peak loads, when in fact, baseload, intermediate and peak resources are required at periods of maximum demand;

2. Rocky Mountain's cost allocations and eventual rate design are dramatically changed if its cost study is modified to more "peak-sensitive" allocators that reflect its summer peak characteristics;

3. The Company's cost allocation methods discriminate against residential and higher load factor customers by producing rates that are in excess of the cost of service.

4. Rocky Mountain's cost allocation procedures are likely to promote on-peak demand by customers, which is driving its need for new generation resources;

5. In addition to the poor peak-period price signals stemming from Rocky Mountain's proposed cost study and rate design, basing rates on such a study will inappropriately damage the competitive position of Idaho industry, including Agrium, by charging higher rates than economically justified.

Q. THE COMMON THEME OF THESE CRITICISMS OF ROCKY MOUNTAIN'S COST OF SERVICE STUDY IS THAT IT FAILS TO PROPERLY ALLOCATE PEAK DEMAND COSTS. WHY IS THIS IMPORTANT?

A. In general, utilities incur higher costs to serve both demand (capacity) and energy during their peak load periods. This is true for Rocky Mountain as well. Consumers are best served by pricing both demand and energy at rates that reflect these higher costs during peak seasons, and correspondingly lower rates during lower cost off-peak seasons. The reason is that each consumer's welfare is served by him or her recognizing the seasonal cost differences and, to the extent possible, shifting consumption to lower cost periods. This natural usage adjustment is further beneficial in that these shifts tend to level out demand over the year, allowing more efficient utilization of generating and transmission plant (by increasing system load factor).

Q. DOES THE COST OF SERVICE STUDY OFFERED BY ROCKY MOUNTAIN ALLOCATE DEMAND-RELATED COSTS IN A NORMAL MANNER?

A. No. Rocky Mountain allocates the vast majority of its generation resource costs equally to all months of the year. The Company's equal twelve month allocation essentially suggests that its monthly resource availability, monthly loads and costs are equal in all months of the year. This is clearly not the case.

This cost of service proposed by Rocky Mountain is not only illogical, it is also quite different from any cost of service studies recently offered in other proceedings before this Commission, and also very different from the cost of service studies originally developed by PacifiCorp in the 1970s-1990.

Since 1990, PacifiCorp had not filed a class cost of service study of any kind until the PAC-E-02-1 case, which was settled by stipulation. The most recent PAC-E-05-01 general rate case was also settled, with all customer class rates receiving a uniform 1.7% rate increase. Thus, the Commission did not review or approve a cost of service methodology in either case.

Q. WHY DO YOU HIGHLIGHT THIS HISTORY OF A LACK OF PACIFICORP COST OF SERVICE STUDIES REVIEWED IN IDAHO?

A. The cost of service study offered by PacifiCorp in this proceeding, in my opinion, is so methodologically different from other cost of service studies and costing principles adopted by this Commission for rate design purposes that it should not be relied upon. At the very least, it should be assessed in a separate cost of service proceeding. In the interim, the Commission should either continue with principles of weighting costs as it has done in the past, or again order a uniform rate increase across classes as it did in the last general rate case PAC-E-05-01.

Q. HOW SHOULD COSTS BE PROPERLY WEIGHTED?

A. In order to reflect the actual cost of service, a cost allocation method must reflect the differences in costs among seasons, as this Commission has recognized in the past. As shown in my Exhibit No. 406, Rocky Mountain has historically been a summer-peaking system. This same exhibit shows that, according to the Company's own forecast, it expects to remain a summer-peaking utility well into the future.

Q. WHAT DOES THIS IMPLY FOR THE COST ALLOCATIONS USED IN THE COST OF SERVICE STUDY?

A. As recognized by Commission orders dating back at least a couple of decades, the cost of service allocators used to design rates should, in some fashion, weight demand and energy costs back to the peak months because these months cause higher costs.

Q. HOW IS SEASONAL COST DIFFERENTIATION TYPICALLY HANDLED IN A COST OF SERVICE STUDY?

A. Typically, monthly demands are compared and higher demand months are allocated the higher costs that the utility has to pay for serving demand in these higher load months.

Q. HOW ARE THESE HIGHER DEMAND MONTHS WEIGHTED RELATIVE TO LOWER COST OFF-PEAK SEASONS?

A. There have been a number of weighting methods developed and used in Idaho. In some Idaho rate cases, monthly marginal costs have been used to weight monthly peak loads to develop the capacity allocators used in the various cost of service studies.

More recently in Idaho, these demand-related costs have been allocated on the risk of outages ("loss of load probability") that the months of high loads place on the system. Whatever method is used, a proper cost of service study must assign or allocate relatively higher costs to the peak season months because these are the months for which capacity or generating resources are built.

Q. SPECIFICALLY, HOW SHOULD DEMAND-RELATED COSTS BE ALLOCATED IN THIS CASE?

A. Below I produce three distinct cost of service studies intended to be consistent with proper weighting of demand-related costs. Each method, although different, reflects seasonal differences in the weighting of demand costs typically used or endorsed by Idaho Power, the PUC Staff, and myself, in cases dating from the 1980s to the present.

Q. HAVE THESE WEIGHTING METHODS BECOME DATED?

A. No. The methods and principles were and continue to be well grounded in economic theory, in that they attempt to allocate more costs to higher-cost seasons.

Q. PLEASE DESCRIBE THE ALTERNATIVE COST OF SERVICE STUDIES YOU ARE PRESENTING.

The first cost of service study I present uses all of the basic input data, assumptions and functionalization and classification methods used in Rocky Mountain's study. The only modification I make is in the weighting of demand related costs on the basis of the peak demand months identified in Rocky Mountain's study. The Company's study identifies its forecast peak load months for each of the years 2007-2016 as the summer months June, July and August, and the winter month of December. These are the principal months for which its peaking resources are purchased and to which related costs should be allocated.

This alternative study therefore proposes to allocate the demand-related costs of Rocky Mountain generation to these peak months. Other utility systems in this region, for example Idaho Power and Sierra Pacific Power, normally have similar peak month allocations.

A comparison of my four month allocation cost study is shown under column E, entitled "3 Sum-1Win" in the following table.

Agrium
Alternative Rate Indexes By Rate Schedule
State of Idaho
12 Months Ending December 2006

Alternative Monthly Weights for Demand-Related Costs

A		B	C	D	E	F	G
Line No.	Schedule No.	Description	Annual Revenue	Rocky Mtn Return Index	3 Sum-1Win Return Index	1 CP Return Index	3 CP Return Index
1	01	Residential	29,653,369	1.16	1.40	1.30	1.72
2	36	Residential - TOD	21,362,235	1.25	1.67	2.12	2.10
3	06	General Service-Large	18,609,425	1.86	2.42	3.09	2.69
4	08	General Service - Med	130,255	1.78	2.50	2.53	2.74
5	09	General Service - High	5,061,143	2.31	2.74	2.56	2.84
6	10	Irrigation	39,404,679	1.05	0.27	(0.06)	(0.18)
7	07,11,12	Street & Area Lighting	326,298	(3.12)	(3.12)	(3.14)	(3.14)
8	12	Traffic Signals	15,526	2.53	2.78	3.31	2.98
9	19	Space Heating	635,620	2.14	3.26	3.52	3.78
10	23	General Service-Small	10,711,252	2.07	2.58	3.03	2.77
11	SPC	Contract 1	3,998,852	0.69	0.98	1.09	1.07
12	SPC	Contract 2	48,668,727	0.21	0.41	0.57	0.66
13	Total	State of Idaho -	178,577,381	1.00	1.00	1.00	1.00

The column immediately to the left, titled "Rocky Mtn," is the Company's proposed cost study. These columns each show the so-called "rate of return" index of each customer class under each study. These indexes average "one" or "unity." Any customer class ratio that is greater (less) than unity is, according to the particular study, paying higher (lower) that its cost of service.

For example, Rocky Mountain's study produces an index of 1.16 for Schedule No. 1, the residential class. My modified 4 months study produces an index of 1.4 for the residential class. Thus under my study, the residential class should receive a lower rate increase (3.81%) instead of the Company's proposed 7.83% rate increase. My client Agrium, which is class "Contract 1," is shown under the Company's study to have an index of only .69, from which the Company concludes that Agrium should receive a rate increase well above the overall average increase of 10.34%. Under my modified four peak month study, however, the index for Agrium is increased to nearly unity (.98) indicating an average rate increase.

Q. WHAT DO THE NEXT TWO COLUMNS OF THE TABLE SHOW?

A. The column titled "1 CP " again uses all the data and costing methods contained in Rocky Mountain's study except that the demand-related costs are allocated to the single peak month of July.

The last column, titled "3 CP" allocated demand-related costs to the three summer season peak months.

Q. HAVE YOU INCLUDED SUMMARIES OF THE COST OF SERVICE STUDIES DESCRIBED IN THE TABLE ABOVE AND IN YOUR TESTIMONY?

A. Yes. The summary cost of service studies are attached as Exhibit Nos. 407-409. The voluminous model information can be provided separately on disk upon request.

Q. IS THERE A GENERAL CONCLUSION THAT YOU REACH COMPARING THE COMPANY'S STUDY WITH ANY OR ALL OF YOUR PEAK-RESPONSIBILITY STUDIES?

A. Yes, there is a very clear conclusion. In any of the three cost studies that allocate demand-related costs to peak demand periods, the residential class, Agrium and other higher load factor classes should receive lower rate increases than proposed by Rocky Mountain.

This good news for these classes is counterbalanced by bad news for Schedule No. 10, the irrigation class. Rocky Mountain's cost study produces a rate of return index of 1.05 for the irrigators, resulting in its proposed 9.84% increase. Under each of my three demand-related allocator methods, the irrigators are shown to be well under the average rate of return. The irrigators have indexes of .27, -0.06 and -0.18 in the four month, single month peak and three summer month peak allocator studies I performed. It is clear that the only way that Rocky Mountain could have produced its result for the irrigation class is by allocating the high summer season demand-related costs to the spring and the fall low demand months through the use of an equal twelve month allocation.

Unfortunately, there is a great cost to the Company's residential and higher load factor customers from its shifting of allocated costs out of the peak season months.

Q. PLEASE EXPLAIN WHAT YOU MEAN BY THAT STATEMENT?

A. A harsh economic fact is that over time markets and consumer preferences change in a manner that helps or hurts various industries. At times it is tempting "for the sake of the economy" to attempt to subsidize, by various means, certain sectors of the economy. This happened in the 1970s in the automotive industry, and has for decades been true for passenger rail transportation. But when the ratemaking process is used to subsidize a particular class, other classes are inevitably harmed because the ratemaking process is a zero sum game. Moreover, economic efficiency suffers, to the long run detriment of all.

Consequently, it has been my experience that the Idaho Commission has, over many years, attempted to first ascertain, as accurately as possible, the nature of cost causation of various customer classes, and then move class rates in the direction of these costs. This has not always been easy, but the Commission has repeatedly recognized that any established subsidy to rate classes causes equal economic dislocations to other rate classes.

In the present proceeding, I conclude that Rocky Mountain's proposed cost of service and rate design study does not capture and identify the essential seasonal time differentiation of the Company's system costs. And, as the study moves large amounts of dollars out of the summer season, the rate design it proposes significantly harms the Company's residential and higher load factor industrial customers. In the interest of economic neutrality, and to protect the longer-term economic viability of its other customers, the Commission should reject Rocky Mountain's cost of service study.

Q. ARE YOU SUGGESTING THERE IS A SINGLE, CLEARLY OPTIMUM AND UNCHANGING COST METHOD THAT SHOULD BE USED IN THIS CASE?

A. I wish that I could say that there is such a single costing method, but, of course, this Commission has heard many such "superiority" arguments over the years. And I too am making similar arguments. There are, however, clear principles we must follow, and allocating demand-related or capacity costs disproportionately to off peak seasons is not one of them.

Q. ARE THERE ALTERNATIVES AVAILABLE IN THESE PROCEEDINGS TO FAIRLY DESIGN CUSTOMER CLASS RATES?

A. I believe there are. When faced with the need to gradually move class rates in the right direction in relation to costs, this Commission has often ordered a uniform or equal percentage increase in rates for those classes relatively close to cost of service, while raising a particular class' rates that was well under cost of service by a higher percentage. In this case, Schedule No. 10, the irrigation class, stands out as the candidate for a larger than average rate increase.

Q. BASED ON ROCKY MOUNTAIN'S REQUESTED 10.3% REVENUE INCREASE, DO YOU HAVE A PROPOSAL IN THIS REGARD?

A. Yes. My own testimony, and doubtless the testimonies of other parties argue for a lower overall rate increase, but regardless of how that issue turns out, the Commission should use one or more of the cost of service alternatives I have suggested as the basis for its rate design.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that on this 27th day of September, 2007, I caused to be served a true and correct copy of the foregoing by the method indicated below, and addressed to the following:

Jean Jewell Idaho Public Utilities Commission 472 W. Washington Street P.O. Box 83720 Boise, ID 83720-0074	____ U.S. Mail X Hand Delivered ____ Overnight Mail ____ Facsimile ____ E-Mail
Brian Dickman Rocky Mountain Power 201 South Main, Suite 2300 Salt Lake City, Utah 84111 email: brian.dickman@pacificorp.com	X U.S. Mail ____ Hand Delivered ____ Overnight Mail ____ Facsimile ____ E-Mail
Dean Brockbank Justin Brown Rocky Mountain Power 201 South Main, Suite 2300 Salt Lake City, Utah 84111 email: dean.brockbank@pacificorp.com Justin.brown@parificorp.com	X U.S. Mail ____ Hand Delivered ____ Overnight Mail ____ Facsimile ____ E-Mail
Randall C. Budge Racine, Olson, Nye, Budge & Bailey 201 East Center, Suite A2 P.O. Box 1391 Pocatello, ID 83204-1391 email: rcb@racinelaw.net	X U.S. Mail ____ Hand Delivered ____ Overnight Mail ____ Facsimile ____ E-Mail
James R. Smith Monsanto Company P.O. Box 816 Soda Springs, ID 83276 email: jim.r.smith@monsanto.com	X U.S. Mail ____ Hand Delivered ____ Overnight Mail ____ Facsimile ____ E-Mail
Maurice Brubaker Katie Iverson Brubaker & Associates 1215 Fern Ridge Parkway, Suite 208 St. Louis, MI 63141 email: mbrubaker@consultbai.com kiverson@consultbai.com	X U.S. Mail ____ Hand Delivered ____ Overnight Mail ____ Facsimile ____ E-Mail

Scott D. Woodbury
Idaho Public Utilities Commission
472 W. Washington Street
P.O. Box 83720
Boise, ID 83720-0074
email: swoodbu@puc.state.id.us

X U.S. Mail
___ Hand Delivered
___ Overnight Mail
___ Facsimile
___ E-Mail

Eric L. Olsen
Racine, Olson, Nye, Budge, Bailey, Chtd.
201 E. Center
P.O. Box 1391
Pocatello, ID 83204-1391
email: elo@racinelaw.net

X U.S. Mail
___ Hand Delivered
___ Overnight Mail
___ Facsimile
___ E-Mail

Anthony J. Yankel
29814 Lake Road
Bay Village, OH 44140
email: yankel@attbi.com

X U.S. Mail
___ Hand Delivered
___ Overnight Mail
___ Facsimile
___ E-Mail

Dennis E. Peseau, Ph.D.
Utility Resources, Inc.
1500 Liberty Street SE, Ste. 250
Salem, OR 97302
email: dpeseau@excite.com

X U.S. Mail
___ Hand Delivered
___ Overnight Mail
___ Facsimile
___ E-Mail

Brad M. Purdy
Attorney at Law
2019 N. 17th Street
Boise, ID 83702
email: bmpurdy@hotmail.com

X U.S. Mail
___ Hand Delivered
___ Overnight Mail
___ Facsimile
___ E-Mail

Timothy J. Shurtz
411 S. Main
Firth, ID 83236
email: tim@idahosupreme.com

X U.S. Mail
___ Hand Delivered
___ Overnight Mail
___ Facsimile
___ E-Mail

Conley E. Ward

STATEMENT OF OCCUPATIONAL AND
EDUCATIONAL HISTORY AND QUALIFICATIONS
DENNIS E. PESEAU

Dr. Peseau has conducted economic and financial studies for regulated industries for the past thirty-five years. In 1972, he was employed by Southern California Edison Company as Associate Economic Analyst, and later as Economic Analyst. His responsibilities included review of financial testimony, incremental cost studies, rate design, econometric estimation of demand elasticities and various areas in the field of energy and economic growth. Also, he was asked by Edison Electrical Institute to study and evaluate several prominent energy models as part of the Ad Hoc Committee on Economic Growth and Energy Pricing.

From 1974 to 1978, Dr. Peseau was employed by the Public Utility Commissioner of Oregon as Senior Economist. There he conducted a number of economic and financial studies and prepared testimony pertaining to public utilities.

In 1978 Dr. Peseau established the Northwest office of Zinder Companies, Inc. He has since submitted testimony on economic and financial matters before state regulatory commissions in Alaska, California, Idaho, Maryland, Minnesota, Montana, Nevada, Washington, Wyoming, the District of Columbia, the Bonneville Power Administration and the Public Utilities Board of Alberta on over one hundred occasions. He has conducted marginal cost and rate design studies and prepared testimony on these matters in Alaska, California, Idaho, Maryland, Minnesota, Nevada, Oregon, Washington and in the District of Columbia. He has also conducted cost and rate studies regarding PURPA issues in the states of Alaska, California, Idaho, Montana, Nevada, New York, Washington, and Washington, D.C.

Dr. Peseau holds the B.A., M.A. and Ph.D. degrees in economics.

He has co-authored a book in the field of industrial organization entitled, Size, Profits and Executive Compensation in the Large Corporation, which devotes a chapter to regulated industries.

Dr. Peseau has published articles in the following professional journals: Review of Economics and Statistics, Atlantic Economic Journal, Journal of Financial Management, and Journal of Regional Science. His articles have been read before the Econometric Society, the Western Economic Association, the Financial Management Association, the Regional Science Association and universities in the United Kingdom as well as in the United States.

He has guest lectured on marginal costing methods in seminars in New Jersey and California for the Center of Professional Advancement. He has also guest lectured on cost of capital for the public utility industry before the Pacific Coast Gas and Electric Association, and for the Executive Seminar at the Colgate Darden Graduate School of Business, University of Virginia.

Dr. Peseau and his firm have participated with and been members of the American Economic Association, the American Financial Association, the Western Economic Association, the Atlantic Economic Association and the Financial

Management Association. He was formerly a member of the Staff Subcommittee on Economics of the National Association of Regulatory Utility Commissioners.

Dr. Peseau has been President of Utility Resources, Inc. since 1985.

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Conley E. Ward [ISB No. 1683]
GIVENS PURSLEY LLP
601 W. Bannock Street
P.O. Box 2720
Boise, ID 83701-2720
Telephone No. (208) 388-1200
Fax No. (208) 388-1300
cew@givenspursley.com

Attorneys for Micron Technology, Inc.
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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF IDAHO POWER COMPANY FOR AUTHORITY TO INCREASE ITS INTERIM AND BASE RATES AND CHARGES FOR ELECTRIC SERVCE	Case No. IPC-E-03-13

DIRECT TESTIMONY

OF

DENNIS E. PESEAU

ON BEHALF OF

MICRON TECHNOLOGY, INC.

ORIG

"trust, but verify" exercise, so it obviously increases the burden on the Staff, as well as all parties' reliance on their diligence.

The second complicating factor is that some of the adjustments proposed by the Staff and Intervenors cannot be quantified with precision because the "base case" that we are working with will presumably change when all the final numbers are in. This is apt to create some confusion during the hearings, and the Commission may want to give some thought to how to incorporate into the evidentiary record the true-up revisions to both the Company's base case and the Staff and Intervenors' adjustments.

Revenue Requirement Issues

Q. LET'S TURN NOW TO THE MERITS OF THE CASE. YOU EARLIER STATED THAT IDAHO POWER'S CASE IN CHIEF CONTAINS A MISMATCH OF REVENUES AND EXPENSES. PLEASE EXPLAIN WHAT YOU MEAN BY THE WORD "MISMATCH."

A. Idaho Power calculates its test year revenues in a straightforward manner. For the first six months of the test year, actual data is used. Projections are employed for the last six months. These projections will ultimately be replaced by actual figures before the close of the proceedings. Thus, by the end of the proceedings, test year revenues will consist of 2003 actual figures, "normalized" for weather and other standard adjustments.

On the other side of the ledger, expenses and rate base are treated in a much different manner. Again the Company uses six months of actual data and six months of projections. But it then goes on to annualize operating and maintenance expenses and rate base to year-end levels. In effect, this annualization treats these costs as if year-end levels had been in effect throughout the test year. This is a clear mismatch of revenues and expenses because revenues are "centered" on June 30, 2003, while rate base and expenses are centered on December 31, 2003.

To make this mismatch worse, Idaho Power further adds allegedly "known and measurable changes" in rate base and expenses that it forecasts for the period from January 1, 2004 through May 31, 2004. These adjustments include rate base additions of $18,165,002, operating and maintenance increases of $9,907,923, associated depreciation increases of $447.375, and an adjustment for a 2004 increase in depreciation rates totaling $5,976,270.

The net effect looks very much like a partially projected test year ending on May 31, 2004 for rate base and expenses, matched against revenues centered on June 30, 2003. The resulting mismatch overstates Idaho Power's revenue requirement and is not defensible.

Q. HOW SHOULD THIS MISMATCH BE CORRECTED?

A. There are basically two alternative remedies available. The first would be to reverse the annualizing entries and properly match test year averages on both sides of the ledger. The second alternative is to annualize revenues in the same manner as rate base and expenses.

Q. DO YOU HAVE A PREFERENCE BETWEEN THESE TWO ALTERNATIVES?

A. On the whole, I think annualizing revenues to 2003 year-end levels is the preferable course for two reasons. First, it is much simpler to annualize revenues than to back out Idaho Power's annualizing adjustments from numerous cost and rate base categories. Moreover, annualizing revenues produces a more forward-looking result than reversing the expense and rate base annualizations.