BEFORE THE

IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF ROCKY MOUNTAIN POWER FOR APPROVAL OF AN ENERGY COST ADJUSTMENT MECHANISM (ECAM).	)))))	CASE NO. PAC-E-08-08

DIRECT TESTIMONY OF RANDY LOBB
IN SUPPORT OF STIPULATION

IDAHO PUBLIC UTILITIES COMMISSION

JULY 31, 2009

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 Stipulation (the Proposed Settlement) to establish an Energy Cost Adjustment Mechanism (ECAM) for PacifiCorp in Idaho and to explain the rationale for Staff's support.

Q. Please summarize your testimony.

A. Staff believes that the agreement to establish a PacifiCorp ECAM in Idaho is justified based on the volatility of power supply costs experienced by the Company in between rate cases and the current inability of the Company to adjust its rates in a timely manner to reflect that volatility. Staff believes the ECAM Settlement represents a reasonable compromise of the parties, is fair and reasonable and should be approved by the Commission. ¶3

Q. Would you please describe the terms agreed to in the Settlement?

A. Yes. The Settlement Stipulation establishes an annual Energy Cost Adjustment Mechanism to track deviations in variable power supply costs as they vary from normalized power supply costs embedded in base rates. ¶2 The parties agree that the ECAM will include a symmetrical 90%/10% sharing percentage. ¶5 The ECAM deferral period runs from December 1 to November 30 with an annual filing on February 1 for an effective date of April 1 of each year. ¶6

In addition to establishing an ECAM, the Stipulation specifies that energy benefits of renewable generation resources that are on line but not included in base rates will be tracked through the ECAM at a cost of $55/MWh (Renewable Resource Adder) until completion of the next general rate case. ¶8 In exchange for the Renewable Resource Adder with the ECAM, the Company has agreed not to file a general rate case prior to May 1, 2010. ¶13 The Company has also agreed to conduct a Risk Management hedging seminar to educate all parties on the Company's risk management practices and hedging strategies. ¶12

Further, the Company has agreed to work with the parties to develop ECAM rates that reflect line losses and distinguish between transmission, primary and secondary voltage service. ¶11 Finally, the Stipulation provides for the 90/10% sharing of SO2 proceeds through the ECAM as a revenue credit (¶14) and a write-off by the Company of three regulatory liabilities that currently reduce revenue requirement. ¶15 These liabilities include the West Valley lease, A&G expense merger commitment and the gain on the sale of Goose Creek transmission. The parties agree that the remaining $156,000 of unamortized liabilities will be credited to the ECAM deferral to benefit customers and will be written off upon approval by the Commission of the Stipulation.

All parties stipulate that the ECAM will be effective July 1, 2009, provided the Commission issues an order approving the ECAM consistent with the terms of the Stipulation. ¶4

Q. What are the terms of the ECAM?

A. The proposed ECAM is very similar to the Power Cost Adjustment (PCA) mechanisms approved by the Commission for Idaho Power and Avista. The mechanism tracks four primary power supply accounts. They are: 1) Generation fuel expense, 2) Market purchase power expense, 3) Surplus energy sales revenue and 4) Variable transmission expense.

Actual net power supply costs above or below normal costs established by the Commission in a general rate case are identified on a system basis and then jurisdictionally allocated to Idaho. They are then shared 90%/10% between the customers and the Company. In other words, the customers pay 90% of the above normal costs and the Company pays 10%. In credit situations, the customers receive 90% of the cost savings and the Company receives 10%. ¶5

The mechanism compares normal and actual costs on a cost per kWh basis and includes a load growth adjustment to assure that abnormal power supply costs are not over or under collected as growth related load changes occur. The Load Growth Adjustment Rate (LGAR) is set at $17.48 per Mwh to reflect the Commission approved production related costs embedded in rates. ¶7 The established LGAR reflects the fact that the ECAM mechanism compares normalized power supply costs to actual power supply costs on a per kWh basis, thus reducing the impact of growing load.

Q. What other features are included in the proposed ECAM?

A. The proposed ECAM includes a carrying charge on the deferral balance equal to the interest rate on customer deposits. ¶9 The mechanism also includes a provision for discussing in advance with interested parties, ECAM rate changes that exceed 7% in a single year. ¶10

Q. What was the process leading to the Stipulated Settlement on the ECAM in this case?

A. The process leading to the ECAM proposed in this case began several years ago with conversations between PacifiCorp and the Staff regarding the possibility of such a mechanism in Idaho. The Company believed it only fair that it should be able to track its volatile variable power supply costs in between rate cases just as Idaho Power and Avista has for years. Staff maintained that the Power Cost Adjustment (PCA) mechanisms in place for these companies were designed to track variations in power supply cost due to variability in hydro conditions. Staff also maintained that such a mechanism was not financially necessary for PacifiCorp in Idaho because Idaho represented such a small portion of PacifiCorp's total system. Given Staff opposition, PacifiCorp was not willing to formally request an Idaho ECAM.

Q. How did conditions change to allow an agreement on an Idaho ECAM?

A. The Company continued to informally discuss with Staff various methods of timely cost recovery including fixed and variable annual costs trackers as well as forecasted rate case test years. The Company pointed to its increased exposure to market electricity purchase/sales prices and the addition of new gas fired base load generation plants that increased its exposure to volatile fuel prices. In addition, the Company pointed to increasing coal price volatility, its fuel price volatility associated with a generation base that included 30% hydro, increasing wind generation and the implementation of ECAMs in other state jurisdictions in which it operates.

Staff informally agreed that these factors warranted consideration of a PacifiCorp ECAM in Idaho. On October 23, 2008, PacifiCorp filed its Application for an Idaho ECAM. Since that time, Staff and interested parties have further evaluated the need for the ECAM, considered the most appropriate ECAM methodology and assessed the likely impact of an ECAM on Idaho customers.

Parties to the case met formally on February 26, 2009, May 11, 2009 and June 2, 2009, to conduct settlement negotiations regarding the merits of an Idaho ECAM and how such a mechanism, if any, should be implemented. Other discussions were held with various parties to the case on January 5, January 15, February 17, March 4, and June 1, 2009. The resulting Settlement Stipulation signed by all parties was filed with the Commission on June 29, 2009.

Q. Why does Staff support the Settlement establishing an ECAM mechanism for PacifiCorp in Idaho?

A. Staff supports the Settlement establishing the ECAM because it is now equitable to do so and as designed reasonably balances the interests of PacifiCorp (Rocky Mountain Power) shareholders and Idaho retail customers. As indicated earlier, PacifiCorp's resource portfolio has expanded to include a much larger portion of natural gas fired generation. The Company's portfolio also consists of 30% hydropower and increasing wind generation. Given the variability of hydro generation and wind generation along with the volatility in natural gas and electric market prices, Staff believes the Company's variable power supply cost exposure is similar to that of other electric utilities that have PCAs in Idaho.

Q. What do PacifiCorp's Idaho retail customers get in exchange for an Idaho ECAM?

A. The proposed ECAM is designed to be symmetrical so customers benefit when variable power supply costs are less than normalized costs included in base rates. However, the ECAM could have customer benefits even if variable power supply costs are above normal. For example, more timely recovery of variable power supply costs between rate cases may reduce the frequency of general rate cases. It may also reduce the need for a forecasted test year in general rate case filings. Finally, as more of the PacifiCorp state jurisdictions adopt ECAMs, borrowing costs should decline even in the face of increased infrastructure investment.

Q. Would you please expand on the potential for decreased borrowing costs?

A. Yes. The ECAM with the Renewable Resource Adder most importantly increases cash flows. Increased cash flow and increased earnings are a result of reflecting current operating conditions with a very timely ratemaking mechanism. For instance, the impact of the ECAM if in place for the 12-months ending December 31, 2008, would have been over 400 basis points or $18 million in Idaho on a system net power cost differential of $292 million.

This increased cash flow impact in Idaho combined with the impact from mechanisms in other states, improves financial ratios and will stabilize or possibly even improve rating reviews. Increased cash flows also results in lower borrowing requirements for capital additions. The adjustments for the Renewable Resource Adder and the regulatory liabilities will also be viewed as positive by rating agencies. The ECAM Settlement, if adopted, will continue to identify Idaho as a state with favorable regulatory environment while being responsive, fair, just and reasonable to the Company and its customers. All of this in turn could result in improved ratings and lower borrowing costs with the benefit flowing to customers.

Q. You indicated that the proposed ECAM is very similar to the existing PCA mechanisms of Avista and Idaho Power. Could you please explain the similarities and the differences?

A. Once Staff believed an ECAM was justified for PacifiCorp in Idaho, Staff maintained that the operation of the ECAM should mirror that of existing PCAs. The terms of existing PCAs have all been approved by the Commission and have been in place for many years. Many of the proposed ECAM terms are identical. For example, the mechanism compares base net power costs for the same expense and revenue accounts established in the last rate case to actual net power costs incurred on a monthly basis. Like Avista's PCA, the difference is then accumulated in a deferral account with interest at the customer deposit rate for true-up once a year.

The proposed ECAM also contains a load growth adjustment calculated in a manner similar to that of existing PCAs. Once the deferral amount is known, it is spread over the expected annual energy consumption for the next year. Any deferred amount over or under-recovered remains in the deferral account for subsequent true-up during the next ECAM period. Finally, the mechanism contains a 90%/10% sharing percentage as does the Avista PCA to align the interest of the Company and its customers and assure that power supply costs are as cost effective as possible.

Q. Are there any significant differences between existing PCAs and the proposed ECAM?

A. Yes there are a few. For example, the comparison between base power supply costs and actual power supply costs is made on a cost per kWh basis. Staff believes that comparing power supply costs on a kWh basis reduces the effect of load growth and limits the necessary size of the load growth adjustment.

The proposed ECAM also contains two elements of a temporary nature. The first element is that the ECAM will only apply to Idaho tariffed customers because Nu West and Monsanto are served under special contract approved by the Commission through 2010. (Duvall Direct pp 8, 9) Staff supports the exclusion noting that any Idaho jurisdictional power supply costs subject to recovery (or disbursement) through the ECAM will be prorated to remove power supply costs associated with special contract load.

The other temporary provision is the Renewable Resource Adder. ¶8 This adjustment will be made to actual ECAM power supply costs until completion of the next general rate case. I will describe this provision in greater detail later in my testimony.

Q. Have you performed an analysis to estimate the effect of the ECAM on the Company's Idaho rates?

A. Yes. With the assistance of the Company, a back cast for the period January through May of 2009 was prepared. The period was analyzed to see what the effects of the ECAM would have been had it been in place.

Q. What observations would you make based on the results of the back cast?

A. The back cast showed the components of the ECAM and the amounts that accumulated over the five month period. It showed that the single largest deferral component, at approximately $708,000, was the Renewable Resource Adder.

Q. What is the Renewable Resource Adder?

A. The Renewable Resource Adder is a temporary ECAM component that allows the Company to recover the fixed cost of new wind generation until those costs are included in base rates in the Company's next general rate case. The Renewable Resource Adder is an appropriate ECAM cost because the power supply cost benefits of new wind generation are automatically captured in the ECAM. New wind generation reduces fuel costs and purchased power costs and increases secondary sales revenues. Requiring the Shareholders to pay the fixed costs while passing nearly all the benefits on to customers is an inequitable ratemaking practice. The Renewable Resource Adder is easily quantified in the ECAM at \$55/MWh and works to increase the deferral balance. The impact on Net Power Costs of these new wind resources is not easily quantified but is substantial and works to reduce the deferral balance. In fact it may entirely offset the \$55/MWh cost.

The second largest ECAM component is the Net Power Cost deferral at approximately \$373,000 after the load growth adjustment and 90/10 sharing. (583,000 - 168,000 x .90 = 373,000) This amount increases the deferral balance in the five month review period in spite of the fact that new wind generation reduced these costs from what they otherwise would have been. Some possible explanations for this increase might be: higher fuel costs, higher market prices coupled with above normal market purchases and/or lower secondary sales volumes at lower market prices.

The other two ECAM components, SO2 credits and interest, amount to a few thousand dollars each. The total five month deferral would have been approximately \$1,072,000 had the ECAM been in place during the first five months of

2009.

Q. What rate impact would the continuation of this ECAM deferral trend have on Idaho's tariffed customers?

A. If the back cast level of deferral continued for 12 months the deferral amount would be approximately $2.6 million. The Company's current approved annual revenue requirement for tariffed customers is $147.8 million. The rate increase would be about 1.8%.

Q. Could ECAM customer impacts vary significantly from your estimate?

A. Yes. The Company's actual power supply costs vary dramatically from year to year based on many factors.

Q. You have previously described several other issues identified in the Settlement document including ECAM start date, voltage level rate design, write off of remaining regulatory liabilities and a Company provided hedging seminar for interested parties. Why did the Staff agree to these terms?

A. Staff agreed to these terms as part of the overall negotiation process. The hedging seminar for interested parties will provide valuable information regarding the Company's hedging strategy and how it reduces risk. The agreement to write off three existing regulatory liabilities simply includes a $156,000 credit in the ECAM now rather than continued amortization of these costs in base rates after completion of the next general rate case.

An evaluation of voltage level rate design was an issue important to the large industrial customers that were parties to the case. Staff believes that an ECAM rate design that recognizes reduced line losses at high service voltages has merit and warrants consideration.

The ECAM start date of July 1, 2009 was an accommodation to show good faith in support of the Settlement. At the same time, it recognized Staff time constraints in filing supporting testimony. The only significance of the July 1 date is the recording of power supply cost deferrals. The recorded deferrals will not be subject to recovery should the Commission reject the ECAM Settlement.

Q. Does this conclude your testimony in this proceeding?

A. Yes, it does.

CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 31ST DAY OF JULY 2009, SERVED THE FOREGOING **DIRECT TESTIMONY OF RANDY LOBB IN SUPPORT OF STIPULATION,** IN CASE NO. PAC-E-08-08, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

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