

BEFORE THE PUBLIC UTILITIES  
COMMISSION OF OREGON

IN THE MATTER OF THE  
APPLICATION OF IDAHO POWER )  
COMPANY FOR AUTHORITY TO )  
INCREASE ITS RATES AND ) UE-167  
CHARGES FOR ELECTRIC SERVICE )  
TO CUSTOMERS IN THE STATE OF )  
OREGON )

Surrebuttal Testimony of

Don C. Reading, Ph.D.

Ben Johnson Associates, Inc.

on behalf of

Oregon Industrial Customers of Idaho Power

April 29, 2005

1 **Q. Are you the same Don Reading who filed direct testimony in this Docket – UE 167 –**  
2 **for the Oregon Industrial Customers of Idaho Power?**

3 A. Yes.

4

5 **Q. What is the scope of your Surrebuttal Testimony?**

6 A. I have reviewed the rebuttal testimony and exhibits of Idaho Power witnesses Greg Said,  
7 Dennis Peseau, Pete Pengilly, and Keith Kolar. My comments address issues raised by  
8 all four of these witnesses.

9

10 **Q. Does your testimony include any attachments?**

11 A. Yes. I have attached my Exhibits Nos. 6 through 8, which are discussed below.

12

13 **Q. Would you please describe how your testimony is organized?**

14 A. I will address the Company witnesses in the following order. Dennis Peseau and Greg  
15 Said as their rebuttal testimony relates to net power supply cost, Dennis Peseau as to the  
16 review of the AURORA model outside the rate case, and Greg Said as to the issues of  
17 ratebase treatment of the Danskin generating facility. I will address Mr. Kolar's rebuttal  
18 testimony dealing with power quality in Idaho Power's Oregon service territory and  
19 finally will make comments on Mr. Pengilly's discussion of rate design.

20

21 **Q. Could you please comment on Mr. Said's and Dr. Peseau's discussion of net power**  
22 **supply costs?**

23 A. Yes. Both witnesses focus on Staff's calculation of a reduction of net power supply costs  
24 of \$63 million as proposed by the Staff of the Oregon Commission and state at this level  
25 the Company would not be able to charge rates that would allow it to recover its  
26 legitimate costs. The Company criticizes the prices used for surplus sales by the Staff  
27 and CUB as not being reflective of 'normal' conditions in that they reflect the impact of

1 the Northwest's current drought. The Company also discusses the asymmetrical nature  
2 of water years and therefore the serial correlation of net power supply costs. In addition  
3 the Company states that it plans to file another rate case in Oregon in October with a  
4 2005 test year. [Said Rebuttal, p. 18.] Dr. Peseau states that the parties agree on all  
5 power supply costs except those of surplus revenue. [Peseau Rebuttal, p. 5.]  
6

7 **Q. Do you agree with Dr. Peseau's characterization of agreement among the parties on**  
8 **all aspects of net power supply costs except surplus sales revenue?**

9 A. Not entirely. As I pointed out in my direct testimony there were significant differences  
10 between the Company's AURORA modeled results for the amounts of purchases and  
11 sales of power found in FERC Form 1 in the test year. [Reading direct testimony, p. 22]  
12 In rebuttal testimony, the Company presented data for actual purchases and sales from  
13 1993 through 2004. [Said Rebuttal Exhibit 203.] For the test year 2003 actual purchases  
14 were 440% higher than AURORA modeled – 2,729,368 MWH actual versus 619,991  
15 MWH actual. Actual sales volumes were 132% higher than modeled – 1,380,177 MWH  
16 actual versus 1,043,448 MWH modeled. Net power supply costs are derived from both  
17 the amount of sales and purchases and the prices for each. In order to determine if power  
18 supply costs are being properly modeled, an examination of both the amount and the  
19 price of power should be undertaken. If just the net values are examined it could cover up  
20 compensating errors – i.e., a high price combined with a low volume and visa-versa.  
21

22 **Q. Have you undertaken an examination of modeled versus actual sales and purchases**  
23 **and prices?**

24 A. Yes. Exhibits 6 through 8 show a comparison between actual purchases, sales, and prices  
25 found in company Rebuttal Exhibit 203 and modeled results found in Idaho Power's  
26 Direct Exhibit 13. My Exhibit 6 shows both the modeled and actual purchases for Idaho  
27 Power. Actual purchases are consistently higher than modeled for the ten year period. I

1 assume the spike in purchase volume for 1997 through 1999 is a function of trading  
2 activities undertaken by the marketing unit of the Company in those years. For the ten-  
3 year period 1993 through 2003 actual purchase prices are consistently lower than  
4 modeled except for the spike in rates that occurred during the energy crises in 2000 and  
5 2001.

6 My Exhibit 7 displays MWH sales and sales revenue of the same ten-year period.  
7 Except for the spike in volume for 1997 through 1999, and the price spike during the  
8 electric crises period, both volume and prices are somewhat similar. However, for the  
9 test year 2003, the average actual sales rate for power is 66% higher than modeled –  
10 \$43.17 per MWH actual versus \$26.01 per MWH modeled.

11 My Exhibit 8 shows the net effect of a purchase costs and sales revenue  
12 comparison for actual and modeled power supply data. Both charts show a double spike  
13 of actual purchase costs and sales revenue relative to the modeled. The first spike is a  
14 function of the high sales and purchase volumes in 1997 through 2000. The other spike  
15 is a function of the energy crises power rates.

16  
17 **Q. Idaho Power Rebuttal Exhibit 302 displays actual and modeled normalized net**  
18 **power supply costs. What does Dr. Peseau say about this relationship?**

19 A. He states that modeled new power supply costs ‘track well’ with actual net power supply  
20 costs. [Peseau Rebuttal Testimony, p. 8.] This implies the model is working well. As  
21 shown above when sales and purchase amounts and rates are disaggregated the  
22 AURORA modeled values do diverge significantly from that actually experienced by the  
23 Company. The additional data that Idaho Power provided in rebuttal reinforces the  
24 conclusions reached in my direct testimony that the AURORA model results presented  
25 here are not sufficiently robust to be relied upon for ratemaking in this docket.

1 **Q. Do you have any additional comments that relate to Exhibit 302?**

2 A. Yes. Dr. Peseau uses 21 years of actual net power supply costs of the Company to show  
3 the AURORA modeled net power supply costs offered by Idaho Power are reasonable  
4 and valid to use in this Docket. As pointed out in the Company's direct testimony, the  
5 nature of normalized system loads on the system have changed significantly since the last  
6 rate case in Oregon ten years ago. [Said, direct testimony, pp. 2-4.] In addition to the  
7 change in the nature of the Company's load shape, the total system loads have increase  
8 more than 40% between 1983 and 2001. [Idaho Power Company, 2002 IRP, Sales and  
9 Load Forecast.] Also the system generation resources have increase by 277 MW of  
10 capacity. [Idaho Power Company, 2004 IRP, Table 2, p. 9.] With these changes,  
11 comparisons between the modeled net power supply costs based on current loads and  
12 resources and actual net power supply costs 20 years ago are meaningless. Company  
13 Exhibit 302 should not be considered a validation of the modeled AURORA results  
14 presented to the Commission in this case.

15  
16 **Q. Dr. Peseau suggests that the parties and stakeholders in this case not be “burdened**  
17 **with the press of other general rate case ‘obligations’ in conducting a detailed**  
18 **review of the AURORA model assumptions and inputs.” [Peseau, Rebuttal**  
19 **Testimony, p. 20.] Do you agree?**

20 A. No. The outputs of the AURORA model are what are being contested at this phase of  
21 Docket UE-167. As we know, the results of any model are a function of the inputs and  
22 algorithms used by the model to produce results. As indicated in my direct testimony, the  
23 Company has made refinements and enhancements within the model that have not been  
24 used to determine net power supply costs in this docket. A thorough review of the  
25 AURORA model used by the Company is the obligation of the parties in this rate case.  
26 As pointed out in my direct testimony, Idaho Power is asking the Commission to set rates  
27 based on a flawed model. Only after a detailed review of the AURORA model should its

1 outputs be accepted for ratemaking purposes.

2  
3 **Q. Company witness Said rebuts your recommendation that the Danskin generation**  
4 **facility be disallowed from ratebase. What comments do you have?**

5 A. Mr. Said states that because Danskin is a peaking unit its costs per megawatt-hour should  
6 be expected to be greater than a base load plant. [Said Rebuttal Testimony, p. 20.] I  
7 agree. He goes on to show that Danskin operated 481 hours in July of 2002 and 567  
8 hours in July of 2003, and indicates the Company expects Danskin to run 650 hours this  
9 summer. This will probably occur. He also states my direct testimony focuses on the  
10 high cost of the Danskin Power Plant. He is correct, and that is the basis of my  
11 recommendation to exclude the plant from ratebase.

12 Idaho Power is asking Oregon ratepayers to pay \$13.65 per kWh (not MWh) for  
13 the plant. Under normal water conditions it will operate only 8.9 hours per year. [Idaho  
14 Power Exhibit 13, p. 1 of 77.] This is an exorbitant rate to pay for power for less than 10  
15 hours of output per year. At a rate this high it can be reasonably expected that power  
16 could be found from other sources such as conservation or distributive generation as  
17 suggested in my direct testimony. The Company implies the plant will really operate  
18 more than 10 hours per year. However, as pointed out above, the Company also expects  
19 the Commission to accept its estimate of net power supply costs. Danskin is part of the  
20 net power supply cost estimates offered for ratemaking by Idaho Power. The Company  
21 cannot have it both ways. If net power supply costs are reasonably expected to be \$47.7  
22 million then Danskin's costs at \$13.65 per kWh must be accepted as a valid estimate. At  
23 a cost this high and output this low, the facility should be excluded from ratebase because  
24 it is reasonable to assume alternative sources could be found at a more reasonable cost to  
25 Oregon ratepayers.

1 **Q. Have you reviewed Mr. Kolar’s rebuttal testimony regarding power supply quality**  
2 **issues in Idaho Power’s Oregon service territory?**

3 A. Yes I have and I find his rebuttal testimony falls short of goals needed by business  
4 customers in today’s competitive marketplace. In addition, data presented in Mr. Kolar’s  
5 rebuttal testimony is at odds with that provided to me by one of our clients, Ore-Ida.

6  
7 **Q. Please explain.**

8 A. First, Mr.Kolar reported that the Oregon Schedule 19 customers experienced 235  
9 momentary outages and 83 extended outages over the five year period from 2000 to  
10 2005. He observed that “I view these outage figures as indicative of generally reliable  
11 service.” [Kolar rebuttal, page 2, line 2-3]. I must respectfully take issue with both Mr.  
12 Kolar’s qualitative statement and the accuracy of his quantitative statement relative to the  
13 number of outages.

14  
15 **Q. What issue do you have with Mr. Kolar’s qualitative statement?**

16 A. It appears that Idaho Power is satisfied with a “good enough” approach to utility power  
17 supply reliability. A general indication of reliable service is simply not good enough in  
18 today’s high tech world. Although getting by using a “good enough” standard may have  
19 been acceptable in the past, it is simply not possible to competitively function in the high  
20 tech electronic world with electric service that - in the words of the electric utility’s own  
21 expert – is merely “generally reliable service.” Idaho Power’s customers require better  
22 quality service than just good enough.

23  
24 **Q. You also stated that you disagree with the quantitative analysis of the number of**  
25 **outages. What do you base that disagreement on?**

26 A. I don’t doubt that Mr. Kolar believes in the accuracy of the figures he used in his  
27 testimony, but for those on the ground in the front lines, the actual utility caused outages

1 are much more problematic (and much more frequent) than Mr. Kolar's numbers suggest.

2  
3 **Q. Do you have any examples to support your assertion?**

4 A. Yes, Mr. Kolar's Exhibit 502 purports to show that Ore-Ida experienced only 18 outages  
5 during the last five years for a total duration of 18 hours and 23 minutes – for the entire  
6 five year period. The actual numbers are dramatically different, as reported to me by  
7 Ore-Ida.

8  
9 **Q. What are those actual numbers?**

10 A. Ore-Ida keeps records of all outages and identifies whether the outage is utility-caused or  
11 internal. Although Ore-Ida keeps a log of all outages and identifies whether each outage  
12 is utility-caused or internal, it has the most detailed information for the year 2000. For  
13 that year, I understand that Ore-Ida personnel actually called Idaho Power  
14 contemporaneously with each outage to inquire as to the exact cause. In order to explore  
15 the accuracy of Mr. Kolar's numbers overall, I conducted a detailed comparison of Ore-  
16 Ida's records for the year 2000 with Mr. Kolar's Exhibit 502.

17  
18 **Q. Please proceed.**

19 A. Exhibit 502 purports to show that Ore-Ida only experienced three outages in 2000. The  
20 first of the three outages noted by Idaho Power occurred on February 6, 2000 and lasted  
21 for one hour and eleven minutes. The second and third outages occurred on June 23 and  
22 September 5, for durations of 43 minutes and 5 seconds respectively. While Ore-Ida's  
23 records do not capture the three events listed in Exhibit 502, they do show the following  
24 seven additional outages and the source of the outage as reported at the time by Idaho  
25 Power's personnel:

- 26 1. January 7 – distribution disturbance in New Plymouth
- 27 2. February 11 – problem with the Emmett line

- 1 3. April 9 – more problems with Emmett line
- 2 4. May 6 – lost power at Emmett and reclosure problems
- 3 5. June 5 – Emmett line reclosures
- 4 6. September 28 – reclosure problems Ontario to Emmett and Nyssa to Ontario
- 5 7. October 6 – reclosure problems Ontario to Vale

6 Ore-Ida’s records do not include the three outages reported by Idaho Power for this same  
7 time period, so it is safe to conclude that this is only a partial record of the total number  
8 of outages experienced by Ore-Ida for this time period.

9  
10 **Q. What does Ore-Ida report to you regarding actual outages over the last five years?**

11 A. According to Ore-Ida, it experienced the following utility caused outages for the last five  
12 years.

13 2000 – 3,330 minutes

14 2001 – 2,165 minutes

15 2002 – 3,555 minutes

16 2003 – 4,100 minutes

17 2004 – 2,795 minutes

18  
19 **Q. Is that the amount of time that Idaho Power’s system was not delivering power to**  
20 **Ore-Ida?**

21 A. No. That is the amount of time Ore-Ida’s facility was down because of an Idaho Power  
22 caused outage. When Idaho Power stops delivering power, causing Ore-Ida’s facility to  
23 go down, once power deliveries are resumed, Ore-Ida is not able to simply pick up from  
24 where they were when the power went off. Ore-Ida’s product is perishable; and they  
25 need to engage in a significant sanitization process after all unplanned outages and they  
26 may actually have to discard entire lines of product due to spoilage.

27

- 1 **Q. What do you conclude from the fact that Idaho Power’s records and Ore-Ida’s**  
2 **records do not reveal the same data relative to frequency of outages?**
- 3 A. It underscores the original recommendation that I made in my direct testimony, to the  
4 effect that “It is important for the Commission to order Idaho Power to address this issue  
5 over the coming rate period and to work proactively with their customers to resolve these  
6 power quality issues.” [Reading Direct page 25 line 10-11].  
7
- 8 **Q. Have you reviewed Mr. Pengilly’s testimony regarding time of use rates for the**  
9 **industrial class?**
- 10 A. Yes, I have, and I do not find Mr. Pengilly’s reasoning any more compelling the second  
11 time than I did when I read his direct testimony on this issue.  
12
- 13 **Q. Why is that?**
- 14 A. Mr. Pengilly essentially back tracks in his rebuttal testimony by asserting that the purpose  
15 of time-of-use rates is actually NOT to encourage customers to use less energy during  
16 relatively expensive on-peak periods. At page 3 line 6 of his Rebuttal Testimony he is  
17 asked if he agrees with the statement that “the purpose of time-of-use rates is to cause  
18 customers to curtail power consumption during the relatively expensive on-peak  
19 periods.” He answers by saying “No. While a change in customers’ consumptive  
20 patterns may result from time-of-use pricing, time-of-use rates are primarily intended to  
21 more closely match the rate for energy that customers pay with the Company’s cost of  
22 providing that energy... [Emphasis provided.]  
23
- 24 **Q. How, then, is the customer benefited from the company’s goal of matching the rate**  
25 **for energy with the cost to Idaho Power of providing that energy?**
- 26 A. According to Mr. Pengilly, the customer benefits by paying a price that is “reflective of  
27 the cost of the energy they consume.” [Pengilly at page 3 line 14].

1 **Q. Is that the ultimate goal?**

2 A. No. It is merely a step in a misguided attempt to get the industrial customers to change  
3 the time and manner in which they use electricity away from expensive on-peak  
4 consumption.

5  
6 **Q. Why do you call it a misguided attempt?**

7 A. As I testified in my direct testimony, the industrial class of customers is typically not in a  
8 position to take advantage of time-of-use rates and the imposition of such rates on them  
9 in Idaho has not resulted in any meaningful change in their pattern of electrical use. This  
10 should not be surprising.

11  
12 **Q. Why are you not surprised that time-of-use rates has not worked in Idaho?**

13 A. Because most industrial concerns operate when their particular processes dictate, not  
14 whether the cost of electricity is marginally higher or lower. For example, Ore-Ida  
15 processes potatoes. They operate twenty-four hours a day. There is simply little room  
16 for them to shift production to take advantage of a rate differential between the afternoon  
17 and late at night. The same is true for Ash Grove Cement Company. In addition, I doubt  
18 that the hospital will have much flexibility relative to when its facilities are in demand.  
19 So, as you can see, both from having run this misguided experiment in Idaho, and from a  
20 common sense view, time-of-use rates are not a particularly effective rate design tool for  
21 accomplishing Idaho Power's ostensible goals for the industrial class. The same may, in  
22 fact, not be true for the residential class.

23  
24 **Q. Does this conclude your surrebuttal testimony?**

25 A. Yes, it does.

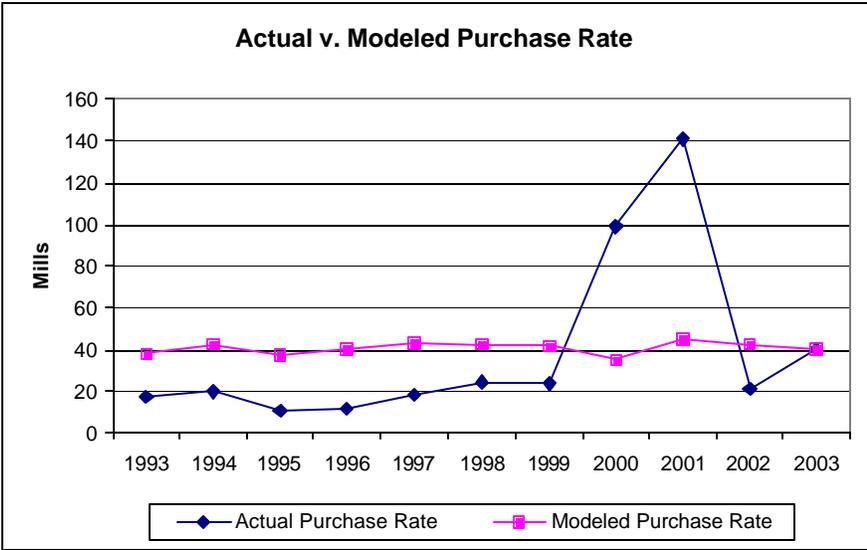
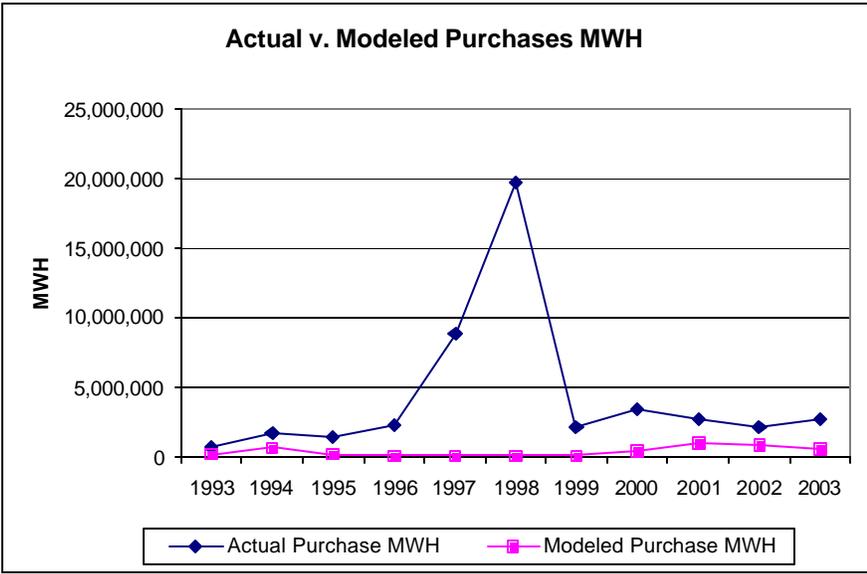
CASE: UE 167  
WITNESS: Don Reading

PUBLIC UTILITIES COMMISSION  
OF  
OREGON

OICIP EXHIBIT 6

ACTUAL v. MODELED PURCHASE  
MWH AND RATE

April 29, 2005



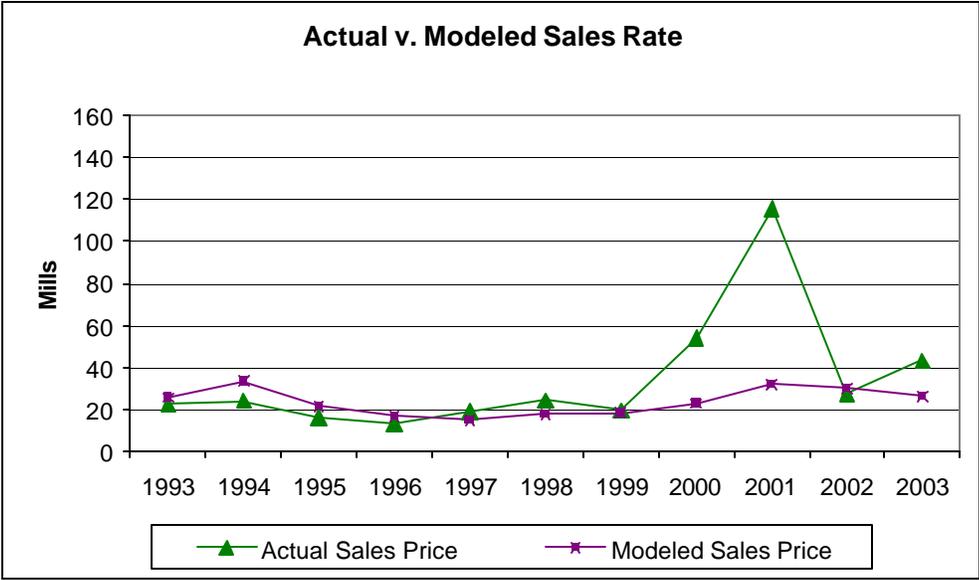
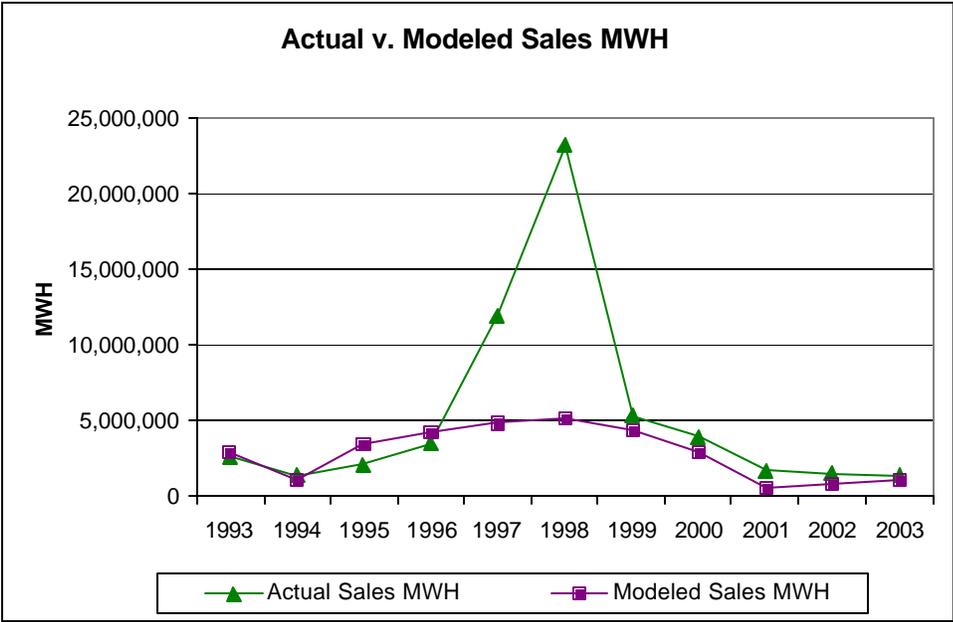
CASE: UE 167  
WITNESS: Don Reading

PUBLIC UTILITIES COMMISSION  
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OICIP EXHIBIT 7

ACTUAL v. MODELED SALES  
MWH AND RATE

April 29, 2005



CASE: UE 167  
WITNESS: Don Reading

PUBLIC UTILITIES COMMISSION  
OF  
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OICIP EXHIBIT 8

ACTUAL v. MODELED  
PURCHASE COSTS AND  
SALES REVENUE

April 29, 2005

