BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UE 167

In the Matter of IDAHO POWER COMPANY, Application for general rate increase in the company's Oregon annual revenues.	)	OPENING TESTIMONY OF THE CITIZENS' UTILITY BOARD OF OREGON

OPENING TESTIMONY

OF THE

CITIZENS' UTILITY BOARD OF OREGON

March 15, 2005

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In the Matter of IDAHO POWER COMPANY, Application for general rate increase in the company's Oregon annual revenues.	)	OPENING TESTIMONY OF THE CITIZENS' UTILITY BOARD OF OREGON

Our names are Bob Jenks and Lowrey Brown, and our qualifications are listed in CUB Exhibits 101 and 102 respectively.

I. Introduction

CUB is pleased that most of the issues in this docket have been or are being settled. While the stipulation has not been finalized and signed, we have reached agreement in principle on most of the major points of contention in the docket, including ROE, rate base, labor costs, A&G expenses, pension costs, and energy efficiency programs.

In our testimony we will address three issues: The value of the Company's sales for resale, seasonal rate design, and energy efficiency programs. Though we expect to settle our energy efficiency concerns with Idaho Power, we have included a brief section

addressing this concern at the end of our testimony. Given that stipulation, there are two primary problems outstanding in this docket: 1) The value of Idaho Power's sales for resale, and 2) the Company's proposed seasonal rate design.

The first of these remaining issues is a major element in power costs and comes with a certain amount of controversy. Idaho Power's modeled electricity prices are unreasonably low, and significantly under-value the Company's excess generation. Power costs should be reduced by $66 million to reflect a more reasonable value of sales for resale.

Finally, the Company has proposed a seasonal rate design for residential customers, but failed to demonstrate any benefits of this design for its Oregon residential customers who are winter peaking. In the absence of any evidentiary support for this change, we recommend the Commission maintain residential customers on their traditional, annual cents per kWh rate plan.

II. The Value Of Idaho Power's Sales For Resale

Idaho Power is in an enviable position compared to most other utilities. It has both a large power supply of low-cost hydro and coal generation, and, under normal conditions, the Company has surplus power available to sell on the market. The value of this surplus power has increased tremendously in recent years, but Idaho Power's modeling fails to reflect the increased value of its surplus.

A. Spread Between Cost Of Idaho Power's Generation & The Market

Idaho Power has not filed an Oregon rate case since UE 92 in 1995. Over the past decade, though Idaho Power's overall load has declined slightly, the market within which Idaho Power operates has changed markedly. Idaho Power/12T/Said/2.

Today, a gas-fired combined-cycle combustion turbine is typically the marginal resource whose cost drives prices. While Idaho Power now uses a small amount of gas for peaking, the Company is in the unusual position of having no gas-fired base-load generation. This creates a growing spread between the Company's cost to produce power with hydro and coal and the market value of power based on gas. This spread is worth millions of dollars in revenue from sales for resale.

B. The Power Planning Council's Prices Are More Appropriate

Idaho Power's model projects that, on average, the Company will sell its excess power for around $21/MWh. This is not the 1990s. Power does not sell for $21/MWh. Idaho Power's excess generation is clearly worth a good deal more at modern prices. Unfortunately, this revenue is not reflected in the Company's filing, because the model's low forward price of electricity significantly under-values sales for resale. CUB Exhibit 103 shows the market prices of sales for resale from the Company's normalized power cost modeling.

CUB Exhibit 104 shows power prices projected by the Northwest Power and Conservation Council (the Council) for the Southern Idaho Region and the Eastern Washington, Eastern Oregon, and Northern Idaho Region. The Council projects average wholesale prices in the Southern Idaho region to be between $44/MWh and $58/MWh in 2006 and projects average prices to then decline over the next seven years to between $32/MWh and $47/MWh before rising again. The Council projects off-peak prices in Southern Idaho to bounce between $33/MWh and $52/MWh through 2008.

For our proposed adjustment to power costs, we used the Council's 2006 projected prices for the Southern Idaho region in order to avoid prices influenced by

current and/or known hydro conditions. To be conservative, we applied the Council's on-peak power prices to the Company's market purchases, and the Council's off-peak power prices to the Company's sales for resale. The result is an increase in the cost of the Company's market purchases of $3.7 million, and an increase in the revenue from its surplus sales of $70 million. The net adjustment to Idaho Power's power costs should be $66 million to account for more realistic forward electricity prices.

Idaho Power may protest and argue that using better forward price projections yields a net variable power cost that is unreasonable given historic power costs. But today's power market is vastly different than it was a decade ago, and Idaho Power has produced no evidence suggesting regional price projections, such as the Council's, should not apply to it. Much of the change in the power market is due to the influence of gas prices, and while high gas prices significantly increase costs for most electric utilities, they simultaneously increase the value of Idaho Power's surplus generation.

C. Lack of Recent Baseline

Unfortunately, we have not seen what might be considered an average or normal weather year in the Pacific Northwest recently. As a consequence we do not have a current baseline by which to judge the overall performance of a power cost model. Without an approximate baseline since the energy crisis and the run-up in natural gas prices, it is difficult to asses Idaho Power's model and the likelihood that the costs the model calculates may resemble actual conditions as they unfold.

That being said, it seems reasonable to us that Idaho Power's power costs have declined due to the value of the Company's excess generation and its sales for resale. The Company's load has changed little, the Company has a long position so the cost of

serving that load has changed little, but the value of its excess generation has increased significantly. The Company has seen a slight decrease in the price of coal, and though the Company has had to turn to natural gas as a fuel, its use is limited to a single peaking plant which is primarily used to meet extreme mid-summer load conditions. Idaho Power/12T/Said/6-8. Given what we know about current market conditions and prices, combined with forecasts from the Council, the price at which Idaho Power sells its excess generation needs to be raised to more accurately reflect the current market value of that generation.

III. Seasonal Rates

The Company has failed to demonstrate, and we are not convinced intuitively, that higher summer electricity prices will provide a conservation incentive to winter-peaking residential customers. CUB Exhibit 105 is information from a data request demonstrating that Idaho Power's residential customers in Oregon were winter peaking from 2000 through 2003 (data from 2004 was not yet available), but Idaho Power is proposing seasonal rates for its residential customers in Oregon, because the Company's overall peak is in the summer.

In the absence of any definitive evidence that this is a good idea, would promote efficiency, or is desired by customers, we recommend that the Commission maintain residential customers' flat annual rate design.

A. Conservation Incentive Comes From The Bill Not From The Rate

First, our experience with residential customers suggests to us that it is the highest bill that gets a customer's attention; not the highest rate per unit consumed. If fact, we are concerned that, by raising summer rates in relation to winter rates and thereby shifting

customers' electricity expense toward their summer bills, the Company may actually decrease the conservation incentive because the relative magnitude of that eye-catching winter bill will be reduced.

B. Residential Customers Prefer Simplicity

In addition, our experience with residential customers, especially in regard to the WARM billing program and telecom billing programs, suggests that customers prefer simple billing plans that they understand and that don't leave them wondering what rate they are paying when they flick a switch. Our and the Commission's experience with NW Natural's WARM billing program is a good indication of customers' frustration at being surprised by their bill.

When telecom was first deregulated we heard all about the wonders of varied billing plans and how every customer could choose a plan that best met his or her needs. Now, years later, most billing plans have gravitated toward x minutes for y dollars or z cents per minute. Period. For the most part, residential customers have far too much on their plates, and do not want to spend their time calculating the optimum plan for their calling habits, the cheapest time of day to run the washing machine, how to minimize their gas bills on a plan that is constantly changing with the weather, and whether they would save money by waiting half an hour to turn on the heat.

Without any evidence either that seasonal rates would produce the desired result or that customers would somehow benefit from them, we recommend keeping residential customers on a traditional, annual cents per kWh rate structure.

IV. Energy Efficiency

CUB is pleased that we have worked out an agreement in principle on energy efficiency programs. While some of the details have yet to be nailed down, we expect to file a stipulation with the Commission that will significantly increase energy efficiency programs in Idaho Power's Oregon service territory. Because the stipulation has not been finalized, we want to describe the problem and what we believe is an appropriate solution. If a stipulation is not filed with the Commission, we recommend that the Commission require the Company to implement a program consistent with our testimony.

Idaho Power is not covered by SB 1149 which requires other Oregon Investor-Owned Utilities to collect a 3% public purposes charge to fund energy efficiency, renewable power development, and low income weatherization among other programs. Consequently, energy efficiency investment in Idaho Power's Oregon service territory has lagged well behind the investment being made in PGE and Pacific Power's territory. CUB Exhibit 106 shows that Idaho Power spent between 0.14% and 0.3% of retail revenues on energy efficiency programs in Oregon. These programs reached their peak in 2003 when the Company spent $76,000, but this investment level is projected to decline considerably in 2004 and 2005.

CUB Exhibit 106 also shows the spending level on these programs in Idaho Power's Idaho service territory. In 2000 when the Company spent 0.16% of retail revenues on energy efficiency programs in Oregon, the Company spent one-quarter of that amount 0.04% in Idaho. By 2004, however, Idaho Power had increased its spending in Idaho 10-fold, from $226,004 to an estimated $2,758744 in 2004, and the company projects doubling that amount in 2005 to $7,204,932. This 2005 amount represents 1.5%

of retail revenues. So, while Oregon investment has been kept at minimal levels, energy efficiency investment in Idaho is projected to increase dramatically.

Though this projected increase in energy efficiency investment for Idaho Power's Oregon customers is still considerably less than the investment required from PGE and PacifiCorp in Oregon under SB 1149, it represents a very real and significant improvement in energy efficiency program development. Idaho Power's programs in Idaho are consistent with the Company's latest IRP and were widely supported before the Idaho PUC.

At this point, the Company is expecting an order from the Idaho Commission establishing a 1.5% rider on rates to fund these programs while allowing large industrial customers to self-direct their own programs. Therefore CUB has proposed, and the Company has agreed to in principle, the following: if the program is approved by the Idaho PUC as expected, Idaho Power would implement a similar program in Oregon. The details would be:

- A 1.5% rider added to bills to fund energy efficiency programs, such as the ones listed in CUB Exhibit 106.
- Industrial customers would be allowed to self-direct their funds under the Oregon Department of Energy's self-direction program that currently applies to PGE, PacifiCorp, and Emerald PUD.
- If the Idaho Commission increases this amount – 2.4% in 2007 is being considered – that increase would be also be applied to Oregon.

We are pleased to have come to conceptual agreement with the Company on this issue which is of critical importance in reducing power costs and maintaining system reliability. Though the proposed level of energy efficiency investment is below other Oregon IOUs, Idaho Power is not subject to SB 1149, and this increase would be a significant step towards bringing Idaho Power's service territory into parity with PGE

and Pacificorp's, and giving the Company's Oregon customers access to expanding energy efficiency and weatherization resources. In the event that we do not reach settlement with the Company, we recommend the Commission adopt an energy efficiency requirement as laid out above for Idaho Power's Oregon customers.

V. Conclusion

Though most matters in this docket have been settled, the two remaining issues are of significance and magnitude. It is not reasonable for Idaho Power to claim it will be selling its excess generation at $21/MWh. That simply does not jibe with current market conditions, the Northwest Power and Conservation Council's price projections, or, incidentally, any forward price curve that we have seen recently. We strongly urge the Commission to update Idaho Power's market electricity prices when valuing the Company's sales for resale.

A seasonal, summer-peaking rate design for winter-peaking residential customers does not make intuitive sense, is contrary to the simplicity most customers desire in their bills, and may even discourage conservation. Until Idaho Power produces substantial evidence that shifting residential customers' electricity bills towards summer will encourage conservation or otherwise benefit customers, we recommend the Commission keep residential customers on a flat, annual cents per kWh rate schedule.

In the absence of a settlement on energy efficiency programs for Idaho Power's Oregon service territory, the Commission should implement a 1.5% rider as described above.

WITNESS QUALIFICATION STATEMENT

NAME: Bob Jenks

EMPLOYER: Citizens' Utility Board of Oregon

TITLE: Executive Director

ADDRESS: 610 SW Broadway, Suite 308
Portland, OR 97205

EDUCATION: Bachelor of Science, Economics
Willamette University, Salem, OR

PREVIOUS EXPERIENCE: Provided testimony or comments in a variety of OPUC dockets, including UE 88, UE 92, UM 903, UM 918, UE 102, UP 168, UT 125, UT 141, UE 115, UE 116, UE 137, UE 139, UE 161, UE 165, UG 152, UM 995, UM 1050, UM 1071, UM 1147, and UM 1121. Participated in the development of a variety of Least Cost Plans and PUC Settlement Conferences. Provided testimony to Oregon Legislative Committees on consumer issues relating to energy and telecommunications. Lobbied the Oregon Congressional delegation on behalf of CUB and the National Association of State Utility Consumer Advocates.

Between 1982 and 1991, worked for the Oregon State Public Interest Research Group, the Massachusetts Public Interest Research Group, and the Fund for Public Interest Research on a variety of public policy issues.

MEMBERSHIP: National Association of State Utility Consumer Advocates
Board of Directors, OSPIRG Citizen Lobby
Telecommunications Policy Committee, Consumer Federation of America
Electricity Policy Committee, Consumer Federation of America

WITNESS QUALIFICATION STATEMENT

NAME: Lowrey R. Brown

EMPLOYER: Citizens' Utility Board of Oregon

TITLE: Utility Analyst

ADDRESS: 610 SW Broadway, Suite 308
Portland, OR 97205

EDUCATION: Master of Science, Engineering
Bachelor of Science, Civil Engineering
Stanford University, Stanford, CA

PREVIOUS EXPERIENCE: Provided comments and participated in settlement discussions in OPUC dockets UE 161, UM 1014, UM 1147, UM 1158, and UM 1169. Presented testimony and engaged in settlement proceedings in UM 1121. Participated in technical subcommittees for the Governor's Advisory Group on Global Warming, and in the Regional Representatives Group for Grid West. Currently involved in the development of PacifiCorp and NW Natural's Integrated Resource Plans.

Prior to this, worked as a consultant with KEMA-Xenergy in Portland from 2002 to 2003 on energy and energy efficiency issues. Between 1997 and 2001, freelanced in Colorado for The Valley Journal, Solar Energy International, Energy Systems Engineering, and Resource Engineering providing writing and technical assistance.

CUB Adjustment to Surplus Sales and Puchased Power

Surplus Sales	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Energy (MWh)	275,833.0	393,058.0	386,996.0	477,141.2	339,313.2	244,417.9	105,904.1	123,223.1	229,492.0	215,052.0	71,826.3	162,439.0
Idaho Power Price ($/MWh)[3]	$21.07	$19.54	$20.87	$19.26	$19.35	$18.65	$22.52	$27.36	$24.85	$23.17	$19.70	$20.67
Revenue at Idaho Price ($x1000)[1]	$5,811.6	$7,681.8	$8,074.9	$9,187.5	$6,566.8	$4,558.9	$2,385.4	$3,371.0	$5,702.3	$4,982.5	$1,414.7	$3,357.3
NPCC Off-Peak Price ($/MWh)[2]	$50.31	$48.58	$45.38	$41.20	$38.56	$37.67	$39.27	$42.43	$44.81	$41.86	$47.30	$52.07
Revenue at NPCC Price ($x1000)	$13,877.1	$19,095.8	$17,560.6	$19,659.6	$13,084.2	$9,208.4	$4,159.4	$5,228.8	$10,283.6	$9,002.5	$3,397.6	$8,458.6
Difference ($x1000)	$8,065.5	$11,414.0	$9,485.7	$10,472.1	$6,517.4	$4,649.5	$1,774.0	$1,857.8	$4,581.3	$4,020.0	$1,982.9	$5,101.3

1. Average sale price calculated from annual revenue by annual energy ($63,094,800 / 3,024,696 MWh)
2.Revenue Excluding Transmission Costs

Total = $69,921.3

3. 2006 Projected Prices for Idaho South

Purchased Power	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Market Energy (MWh)	10,978.3	2,425.5	2,126.6	976.7	18,390.4	40,600.1	44,999.7	31,717.5	12,398.6	1,019.0	19,820.4	25,362.5
Idaho Power Price ($/MWh)	$36.24	$36.57	$36.54	$28.67	$36.11	$37.71	$40.78	$42.34	$38.78	$35.03	$30.82	$34.86
Market Cost at Idaho Price ($x1000)	$397.9	$88.7	$77.7	$28.0	$664.1	$1,531.0	$1,835.1	$1,342.9	$480.8	$35.7	$610.9	$884.1
NPCC On-Peak Price ($/MWh)[4]	$63.62	$59.00	$54.39	$50.56	$48.08	$53.15	$53.11	$56.89	$54.92	$54.53	$58.42	$62.55
Cost at NPCC Price ($x1000)	$698.4	$143.1	$115.7	$49.4	$884.2	$2,157.8	$2,389.7	$1,804.5	$680.9	$55.6	$1,158.0	$1,586.5
Difference ($x1000)	$300.5	$54.4	$38.0	$21.4	$220.1	$626.8	$554.6	$461.6	$200.1	$19.9	$547.1	$702.4

4. 2006 Projected Prices for Idaho South

Total = $3,746.9

Net Adjustment to Power Cost ($1,000) = $66,174

CUB/103
Jenks-Brown/1

Idaho Power DSM Programs

Oregon Only

Expenditures (dollars)	Actual								Projected*	
Program	2000	2000 % of Total Revenue	2001	2001 % of Total Revenue	2002	2002 % of Total Revenue	2003	2003 % of Total Revenue	2004	2005
Low Income Weatherization Assistance Oregon	23,079	0.0914%	23,678	0.0919%	24,773	0.0998%	22,255	0.0882%	23091	45000
Oregon Residential Weatherization (Schedule 78)	6,739	0.0267%	4,790	0.0186%	6,800	0.0274%	5,200	0.0206%	6000	
Oregon Commercial Audits (Schedule 82)	9,375	0.0371%	7,200	0.0279%	4,040	0.0163%	6,776	0.0269%	6000	
Agricultural Choices									0	
Energy Efficiency Packets					900	0.0036%			0	
Energy Efficient Manufactured Home Incentive							5,126	0.0203%	2133	3532
Manufactured Home Energy Check-Ups							36,689	0.1454%	25000	2760
Total	39,193	0.1552%	35,668	0.1384%	36,513	0.1471%	76,046	0.3014%	62,224	51,292

*Note: expenditures have not been projected for all programs for 2004 or 2005.

CUB/106
Jenks-Brown/1

Idaho Power DSM Programs

Idaho Only

Expenditures (dollars)	Actual								Projected*	
Program	2000	2000 % of Total Revenue	2001	2001 % of Total Revenue	2002	2002 % of Total Revenue	2003	2003 % of Total Revenue	2004	2005
Air Conditioning Cycling Pilot							275,645	0.0563%	287,500	639,600
CFL Lighting Coupon Program					243,054	0.0507%	314,641	0.0642%	0	
Energy Efficiency Packets			87,175	0.0420%	4,010	0.0008%			0	
Energy Efficient Manufactured Home Incentive							32,193	0.0066%	60,867	67,118
ENERGY STAR Homes Northwest							13,597	0.0028%	249,000	502,400
Trade In, Trade Up to ENERGY STAR							6,687	0.0014%	0	
Manufactured Home Energy Check-Ups					26,135	0.0055%	146,964	0.0300%	596,000	372,240
Low Income Weatherization Assistance Idaho	211,273	0.0413%	331,126	0.1595%	231,352	0.0483%	228,134	0.0466%	424,305	1,212,534
BPA Supplemental LIWA					55,966	0.0117%	49,895	0.0102%	50,000	
Air Care Plus Pilot							5,764	0.0012%	72	
Industrial Efficiency Program							1,303	0.0003%	420,000	1,635,500
Agricultural Choices, Idaho	14,731	0.0029%							0	
Irrigation Efficiency Program							11,190	0.0023%	224,000	1,003,200
School Building Operator Training					36,084	0.0075%	48,853	0.0100%	64,000	
Small Project/ Education Funds							5,100	0.0010%	70,500	50,000
Commercial New Construction										300,000
Irrigation Peak Clipping Program									312,500	1,422,340
Total	226,004	0.0441%	418,301	0.2014%	596,601	0.1244%	1,139,966	0.2327%	2,758,744	7,204,932

*Note: expenditures have not been projected for all program for 2004 or 2005.

CUB/106
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Idaho Power's Oregon System Coincident Demand at Generation Level (kW)

	Jul-03	Dec-03	Jul-02	Jan-02	Jul-01*	Feb-05	Aug-00	Nov-00
Large Power Service	14,549	15,864	9,485	2,169	13,378	8,985	13,955	14,570
Large General Service	2,671	3,363	2,414	3,146	1,775	2,359	1,118	1,705
Large Power Service	24,223	24,262	24,075	21,870	23,683	21,842	24,618	24,443
Residential Service	39,003	44,708	37,016	49,854	38,389	48,201	34,271	42,255
Small General Service	3,787	2,923	3,462	3,767	2,478	3,710	3,516	3,091
Large General Service	19,948	21,912	19,647	22,907	17,336	22,732	24,583	21,166
Irrigation Service	16,199	63	18,138	35	18,596	26	17,560	168
Total Oregon Retail	120,391	113,105	114,255	103,765	115,653	107,876	119,639	107,416

(*) Irrigation coincident peaks include an adjustment 4,916kW for the irrigation buyback program that was in place in the summer of 2001.

Idaho Power DSM Programs

Oregon Only

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Jenks-Brown/1

Idaho Power DSM Programs

Idaho Only

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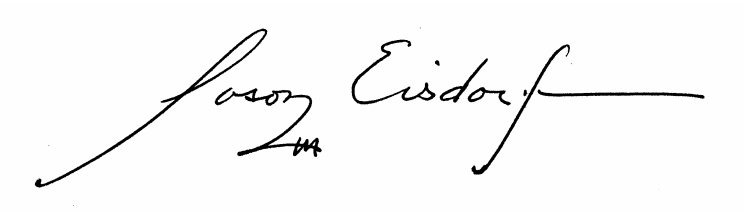
CUB/106
Jenks-Brown/2

CERTIFICATE OF SERVICE

I hereby certify that on this 15th day of March, 2005, I served the foregoing Testimony of the Citizens' Utility Board of Oregon in docket UE 167 upon each party listed below, by email and U.S. mail, postage prepaid, and upon the Commission by email and by sending 6 copies by U.S. mail, postage prepaid, to the Commission's Salem offices.

Respectfully submitted,



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Jason Eisdorfer #92292
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