

BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON

UE 213

IN THE MATTER OF THE APPLICATION)
OF IDAHO POWER COMPANY FOR)
AUTHORITY TO INCREASE ITS RATES)
AND CHARGES FOR ELECTRIC)
SERVICE IN THE STATE OF OREGON.)
_____)

IDAHO POWER COMPANY
SUPPLEMENTAL DIRECT TESTIMONY
OF
MICHAEL J. YOUNGBLOOD

October 9, 2009

1 **Q. Please state your name, business address, and present occupation?**

2 A. My name is Michael J. Youngblood and my business address is 1221 West
3 Idaho Street in Boise, Idaho.

4 **Q. By whom are you employed and in what capacity?**

5 A. I am employed by Idaho Power Company as the Manager of Rate Design in
6 the Pricing and Regulatory Services Department.

7 **Q. Are you the same Michael J. Youngblood who previously submitted**
8 **direct testimony in this docket, UE 213?**

9 A. Yes I am.

10 **Q. What is the purpose of the supplemental direct testimony you are now**
11 **providing?**

12 A. My supplemental direct testimony is prepared in response to Administrative
13 Law Judge Hardie's September 18, 2009, ruling which granted the request of the Citizens'
14 Utility Board of Oregon ("CUB") for additional testimony on behalf of the Company.
15 Specifically, CUB requested that Idaho Power produce the following information:

16 1. An elaboration of the Company's rationale in adopting a seasonal rate
17 structure for residential customers;

18 2. An elaboration and justification of the disparity between summer rate
19 level increases for residential and irrigation customers; and

20 3. An elaboration and justification of the relationship between the new
21 seasonal residential rate structure and residential equal-pay plans.

22 **Q. Would you please restate the Company's overall objectives with regard**
23 **to its rate design strategy?**

24 A. Yes. As I stated in my direct testimony, based upon conversations with Mr.
25 Said and Mr. Tatum, we developed three overall objectives with regard to rate spread and
26 rate design: (1) to establish prices that primarily reflect the costs of the services provided,

1 (2) to have cost-based rate proposals designed to align with and encourage energy
2 efficiency, and (3) to provide consistency and continuity throughout the Company's service
3 territory.

4 **Q. Does the Idaho Power rationale in adopting a seasonal rate structure for**
5 **residential customers reflect the Company's overall rate spread and rate design**
6 **objectives?**

7 A. Yes. First, the Company's proposed seasonal rate structure for residential
8 customers meets our primary objective for rate design, which is to establish prices that
9 primarily reflect the costs of the services provided. As shown in Mr. Tatum's Exhibit Idaho
10 Power/803, Tatum/2, line 24, columns D and E, the unit cost for Residential Service is
11 \$0.09377 per kWh and \$0.05576 per kWh for the summer and non-summer seasons,
12 respectively. It costs the Company more to serve the residential customer during the
13 summer months. A seasonal rate structure with higher prices for the summer months better
14 reflects the costs to serve this class during the summer months.

15 **Q. Does the proposed seasonal rate structure for Residential Service meet**
16 **other Company objectives with regard to rate design?**

17 A. Yes. Another major objective with regard to rate design is to have cost-based
18 rate proposals designed to align with and encourage energy efficiency. The Company's
19 proposed seasonal rate structure for the Residential Service, coupled with the tiered block
20 design proposal, does just that. With higher rates in the summer, along with higher rates for
21 all energy consumed over 800 kWh a month, customers are given the price signals to
22 encourage the efficient use of energy. Customers are encouraged to conserve and use less
23 energy during the summer months when it costs the Company the most to provide that
24 energy.

25 **Q. With the Company's proposal, are residential customers encouraged to**
26 **use energy efficiently during the non-summer months?**

1 A. Yes. The residential class' load during the summer months is a significant
2 component of the Company's overall system peak; however, the residential class *itself*
3 peaks during the winter months. While the Company's costs to serve that load are less
4 during the non-summer months, and are reflected in the lower seasonal rates, tiered block
5 rates for the non-summer months still provide the price signals to encourage customers to
6 use their energy efficiently. Consequently, the proposed residential rate design, with both a
7 seasonal and tiered rate structure, encourages customers to use energy efficiently all year-
8 round.

9 **Q. Is the Company's proposed residential rate structure consistent with**
10 **other rate structures throughout the Company's service territory?**

11 A. Yes. The Company has seasonal rates for all the other major customer
12 classes in Oregon, Schedules 7, 9, 19, and 24. In addition, all of the Company's major
13 customer classes in its Idaho jurisdiction have seasonal rates, including Schedule 1 –
14 Residential Service. By proposing a seasonal rate structure for Residential Service in
15 Oregon, the Company is meeting the third criteria of its overall objective with regard to rate
16 design, that of providing consistency and continuity throughout the Company's service
17 territory.

18 **Q. Please provide an elaboration and justification of the disparity between**
19 **summer rate level increases for residential and irrigation customers.**

20 A. The summer rate level increases proposed by the Company for each
21 customer class are driven by the revenue requirement allocation process detailed by Mr.
22 Tatum in his testimony. In his testimony, Mr. Tatum describes how marginal costs are used
23 to apportion the Company's revenue requirement to each customer class. At Idaho
24 Power/800, Tatum/8, Mr. Tatum describes specifically how marginal costs are used in his
25 analysis:

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1 Marginal unit costs are developed for the purpose of
2 determining the total marginal costs by functional category
3 by customer class. In this study, the total marginal costs
4 by customer class were determined by multiplying the
5 marginal unit costs for each functional category by the
6 appropriate allocation basis for each customer class; i.e.,
7 energy, demand, or number of customers. For example,
8 the total generation and transmission capacity marginal
9 costs for each class were determined by multiplying each
10 class' 12 monthly coincident peak demand values by the
11 corresponding monthly marginal unit cost. Similarly, the
12 total energy-related generation marginal costs for each
13 class were determined by multiplying each class' monthly
14 energy values by the corresponding monthly marginal unit
15 cost. The marginal unit costs for the generation and
16 transmission functional categories are prepared as monthly
17 values to recognize that those cost categories vary by
18 month and, to a greater extent, seasonally.

11 In other words, each customer class is assigned a share of the total marginal cost in
12 proportion to its respective monthly demand and energy values applied to the corresponding
13 monthly marginal unit cost values. The seasonality of the marginal unit costs is shown on
14 Mr. Tatum's Exhibit No. 802, page 30. As can be seen on Exhibit No. 802, page 30, the
15 marginal unit costs of generation and transmission are significantly higher during the
16 summer months. This seasonal difference is ultimately reflected in the rate increases
17 proposed for each customer class.

18 Mr. Tatum goes on to describe how the resulting "total marginal costs by customer
19 class" were used to apportion the Company's revenue requirement to each customer class
20 at Idaho Power/800, Tatum/11 with the supporting detail provided on Exhibit No. 803:

21 As can be seen on page 1 of Exhibit No. 803, the total
22 functionalized revenue requirement from Exhibit No. 801
23 has been allocated to each customer class in proportion to
24 the marginal cost by class for each functional category.
25 This allocation represents the Company's quantification of
26 the cost of providing service to each customer class or
"cost-of-service." The total marginal costs exceed the
Oregon jurisdictional revenue requirement and are not the
basis of recovery from classes, but rather are utilized to
determine each class's responsibility or share of the total
Oregon jurisdictional revenue requirement.

1 Pages 2 through 5 of Exhibit No. 803 present the class-
2 specific unit costs. The class-specific unit costs represent
3 the revenue requirement by billing unit for each customer
4 class. The unit costs ultimately help guide the rate design
5 process by providing a cost-of-service basis for each rate
6 component.

7 Exhibit No. 803, page 2, presents the class-specific unit costs for Residential Service
8 resulting from Mr. Tatum's analysis. The information contained on page 2 of Exhibit No. 803
9 provided the basis for the Company's rate design proposal for Residential Service. A
10 comparison of the unit cost per kWh for Residential Service during the summer months
11 (column D, row 24) to the unit cost per kWh for Residential Service during the non-summer
12 months (column E, row 24) would show that the unit cost per kWh is approximately 68
13 percent higher during the summer than the non-summer period. A similar comparison can
14 be made for Irrigation Service on page 5 of Exhibit No. 803. However, the seasonal
15 definition for irrigation service differs slightly from the other customer classes. That is, the
16 irrigation "In-Season" includes June through September, which impacts the seasonality of
17 the resulting cost assignment.

18 The disparity between the summer rate level increases for residential and irrigation
19 customers is driven in large part by the fact that the vast majority of the irrigation class
20 demand and energy consumption occurs during the summer months when the costs of
21 service are the highest. While the cost assignment to the residential class is impacted by
22 the higher summer costs as a result of that class' summer loads, the magnitude of the
23 increase is lower when compared to the irrigation class because a larger proportion of the
24 residential class annual usage occurs during the non-summer months. The disparity
25 between the rate level increases for the irrigation and residential class is also the result of
26 the fact that irrigation customers' rates historically have been below the cost of service.

Q. Please elaborate on the relationship between the new seasonal residential rate structure and residential equal-pay plans.

1 A. As I stated above, the proposed seasonal residential rate structure is
2 designed to meet the Company's overall objectives with regard to rate spread and rate
3 design: (1) to establish prices that primarily reflect the costs of the services provided, (2) to
4 have cost-based rate proposals designed to align with and encourage energy efficiency, and
5 (3) to provide consistency and continuity throughout the Company's service territory. The
6 proposed seasonal and tiered-block rate design for the residential class meets all three
7 objectives. The Company's proposal for Residential Service is the rate structure that
8 determines how electric service is priced. The Company's equal-pay plan, called Budget
9 Pay, is a payment option for customers to help them predict and budget utility payments.
10 The Commission adopted the equal pay plan rule, OAR 860-021-0414, in 1990 as part of a
11 comprehensive rulemaking addressing the Commission's consumer protection rules. The
12 goal was to help reduce late payments and defaults by customers. Seasonal rates do not
13 undermine these goals because the equal pay plan only addresses the payment schedule,
14 not the underlying rates.

15 **Q. Will a residential customer who participates in the Company's Budget**
16 **Pay plan still receive the same price signal encouraging the efficient use of energy?**

17 A. Yes. Budget Pay customers' bills look just like all other residential customers'
18 bills, with the additional line items of "Budget Pay" and "Budget Balance" included. The
19 monthly usage and the determination of the monthly charges will still be shown on the
20 customer's bill; however, the monthly payment amount will be the same month to month. It
21 is incumbent on the customer to monitor their monthly usage and use energy efficiently so
22 that a large annual adjustment in their Budget Pay plan will not be necessary.

23 **Q. Does this conclude your supplemental direct testimony?**

24 A. Yes, it does.

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