

BEFORE THE PUBLIC UTILITY COMMISSION  
OF OREGON

IDAHO POWER COMPANY

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DIRECT TESTIMONY  
OF  
MICHAEL J. YOUNGBLOOD

April 2007

1 **Q. Please state your name, business address and present position with Idaho**  
2 **Power Company (alternatively, the "Company").**

3 A. My name is Michael J. Youngblood. I am employed by Idaho Power Company as a  
4 Senior Pricing Analyst in the Pricing and Regulatory Services Department. My  
5 business address is 1221 West Idaho Street, Boise, Idaho 83702.

6 **Q. Please describe your educational background.**

7 A. In May of 1977, I received a Bachelor of Science Degree in Mathematics and  
8 Computer Science from the University of Idaho. From 1994 through 1996, I was a  
9 graduate student in the MBA program of Colorado State University.

10 **Q. Please describe your work experience with Idaho Power Company.**

11 A. I became employed by Idaho Power Company in 1977. During my career, I have  
12 worked in several departments and subsidiaries of the Company, including Systems  
13 Development, Demand Planning, Strategic Planning and IDACORP Solutions. Most  
14 relevant to this testimony though, is my experience within the Pricing and Regulatory  
15 Department. From 1981 to 1988 I worked as a Rate Analyst in the Rates and  
16 Planning Department where I was responsible for the preparation of electric rate  
17 design studies and bill frequency analyses. I was also responsible for the validation  
18 and analysis of the load research data used for cost of service allocations.

19 From 1988 through 1991 I worked in Demand Planning and was responsible  
20 for the load research and load forecasting functions of the Company including  
21 sample design, implementation, data retrieval, analysis, and reporting. I was  
22 responsible for the preparation of the five-year and twenty-year load forecasts used  
23 in revenue projections and resource plans as well as the presentation of these  
24 forecasts to the public and regulatory commissions.

25 In 2001, I returned to the Pricing and Regulatory Department and have  
26 worked on special projects related to deregulation, the Company's Integrated

1 Resource Plan, and filings with this Commission regarding the Company's avoided  
2 cost rates.

3 I have testimony and joint testimony to the Oregon Public Utility Commission  
4 in the following dockets or stipulation: Docket UE 123/UE 131, adopted in Order No.  
5 02-584 on August 26, 2002; Docket UM 1198, adopted in Order No. 07-119 on April  
6 2, 2007; and Docket UM 1261, which is currently in settlement discussions.

7 **Q. What is the purpose of your testimony?**

8 A. My testimony is in support of Idaho Power's Application for an accounting order to  
9 defer for future rate recovery excess net power supply expenses necessarily incurred  
10 as a result of extraordinarily low streamflow conditions.

11 **Q. Why does Idaho Power feel that a deferral accounting order is needed at this  
12 time?**

13 A. In the State of Oregon, a deferral accounting order is required in order to "start the  
14 clock" for measurement of extraordinary expenses or revenues. As Idaho Power  
15 continues into 2007, the existing and forecasted streamflow conditions in the  
16 watersheds that affect Idaho Power's hydroelectric generation continue to worsen,  
17 and are among the lowest levels in recorded history. Idaho Power generates most of  
18 its electricity through hydro generation. As a result, extraordinarily low streamflow  
19 conditions means that Idaho Power's cost of producing or acquiring power through  
20 other means, rises. The Company's forecasted net power supply expenses for  
21 2007-2008 are at extremely high levels.

22 **Q. What are the extreme streamflow conditions that exist today?**

23 A. The streamflow conditions within Idaho Power's service territory are at close to  
24 record lows. The Northwest River Forecast Center issued its April 6, 2007 final  
25 forecast which predicted 3.30 maf (million acre feet) for the Snake River entering  
26 Brownlee Reservoir for the April through July runoff timeframe. This was the

1 forecast used in Idaho Power's 2007 Power Cost Adjustment (PCA) filing with the  
2 Idaho Public Utilities Commission. Since that final forecast, the Northwest River  
3 Forecast Center has made additional forecasts for the upcoming water year. The  
4 most recent forecast for April 26, 2007, shows additional decline, now predicting 3.17  
5 maf for the Snake River entering Brownlee Reservoir for the April through July runoff  
6 timeframe. Since the Brownlee Dam and Reservoir were constructed, 3.17 maf  
7 ranks in the lowest quartile of all inflow volumes on record, which range from 1.80  
8 maf in 1992 to 12.8 maf in 1984. Brownlee Dam and Reservoir are the Company's  
9 largest hydro facilities and are a part of the three-dam Hells Canyon Complex.

10 **Q. How do the forecasted annual streamflow conditions compare with annual**  
11 **streamflow conditions the Company has experienced historically?**

12 A. The forecast for 2007 annual inflows is 8.1 maf, the sixth lowest in the Company's  
13 history, the lowest being 6.5 maf in 1992. The 47-year average annual inflows into  
14 Brownlee (since the construction of Brownlee Dam and Reservoir) are 14.0 maf.

15 **Q. How do extremely low streamflow conditions affect Idaho Power Company?**

16 A. Idaho Power typically generates more than half of its power through hydro  
17 generation. When streamflow conditions are low, and as is the case for this year,  
18 extremely low, then the Company must rely upon other means to make up this  
19 reduction in generated power. The Company will be forced to generate more power  
20 through its five thermal generating plants with resulting higher fuel costs. The  
21 Company will also need to purchase more power on the open market in order to  
22 supply its customers. The cost of these power purchases will be more expensive  
23 than would occur under normal streamflow conditions. The Company has already  
24 made substantial forward purchases of energy in anticipation of seasonal  
25 deficiencies and these purchases demonstrate that power supply expenses will be  
26 materially higher than the normal power supply expenses. Lastly, the Company will

1 not have as much excess power to sell on the open market. These sales would  
2 normally reduce its overall net power supply expenses. The combination of these  
3 three factors means that Idaho Power's 2007-2008 net power supply expenses will  
4 be materially higher than normal.

5 **Q. Does the Company's recent PCA filing in Idaho (Case No. IPC-E-07-10) present**  
6 **a good proxy for the net power supply expenses expected for the May 2007**  
7 **through April 2008 period?**

8 A. Yes, I believe the recent PCA filing in Idaho may provide sufficient information for a  
9 conservative estimate of net power supply expenses for the twelve months, May 1,  
10 2007 through April 30, 2008 ("Oregon 2007 Deferral").

11 **Q. Why do you consider it to be a conservative estimate?**

12 A. The PCA forecast year runs from April 2007 through March 2008. For the Oregon  
13 2007 Deferral, the period begins one month later, running from May 2007 through  
14 April 2008. As stated before, the Idaho PCA filing used the final stream forecast  
15 from the Northwest River Forecast Center issued on April 6, 2007, which predicted  
16 inflows into Brownlee Reservoir of 3.30 maf. The most recent forecast, dated April  
17 26, 2007, predicts to be even lower at 3.17 maf. This lower forecast is closer to the  
18 beginning of the Oregon 2007 Deferral period, and would be a more accurate  
19 representation of future expectations. Given this consideration, I believe the forecast  
20 for net power supply expenses used for the PCA filing in Idaho may be a  
21 conservative estimate for determining expected net power supply expenses for the  
22 Oregon 2007 Deferral period.

23 **Q. How might forward fuel prices affect net power supply costs?**

24 A. Idaho Power's Oregon retail rates are set to recover, among other things, the  
25 Company's net power supply expenses under average or normal conditions. In the  
26 Company's last general rate case, under a normal condition, the Commission

1 determined that annual average market prices, for high load hours, was  
2 approximately \$47.00 per megawatt-hour. As of April 27, 2007, the forward price  
3 curve for power at Mid-Columbia, averaged over \$69.00 for May 2007 through April  
4 2008, with some months over \$80 per megawatt-hour. With extremely low  
5 streamflow conditions expected, Idaho Power will be forced to generate more power  
6 with its thermal generating plants and purchase more power on the open market. At  
7 these higher prices, Idaho Power's net power supply expenses will be materially  
8 higher than normal.

9 **Q. If we use the forecasted net power supply expenses presented in the Idaho**  
10 **PCA filing as a conservative estimate of the net power supply expenses**  
11 **estimated for the deferral period, please describe how they compare with net**  
12 **power supply expenses the Company has experienced historically?**

13 A. The Company's Idaho PCA forecast of net system power supply expenses for the  
14 twelve months April 2007 through March 2008 is \$129,234,632. Since 1983, this  
15 expense amount is among the highest, including the energy crisis years of 2000 and  
16 2001. Idaho Power filed for and received a deferral accounting order from the  
17 Oregon Commission for the extraordinarily high net power supply expenses of 2001.  
18 The Company is currently continuing to amortize that deferral which still has a  
19 remaining balance of \$6,174,890. The Company has also filed for deferred  
20 accounting orders for 2005 and 2006. The 2005 deferral was eliminated due to an  
21 offset Idaho Power received from the sale of SO<sub>2</sub> emission allowances in 2005 and  
22 2006 (Order No. 07-119). The parties to the 2006 deferral case have agreed on a  
23 settlement amount of \$2,000,000, the stipulation to memorialize that settlement is  
24 under preparation and the Company expects it will be presented to the Commission  
25 for review and approval in the very near future.

1 **Q. How does the Company propose to determine its estimate of Oregon's**  
2 **jurisdictional share of the 2007-2008 net system power supply expenses?**

3 A. The Company proposes to use a slightly modified methodology to the one used and  
4 accepted in determining Oregon's share of Idaho Power's 2001 net power supply  
5 expenses (Order No. 01-307 issued in Docket UM 1007) and again in determining  
6 Oregon's share of Idaho Power's 2005 net power supply expenses (Order No. 05-  
7 870 issued in Docket UM 1198). The key features of this methodology are:

- 8 • Actual net variable power expenses are compared to base net variable  
9 power expenses to quantify deferrals;
- 10 • An amount of excess net variable power expenses up to \$12,167,857 on  
11 a system basis, equivalent to a 150 basis point return on equity dead  
12 band, is not deferred. Ninety percent of the jurisdictional portions of  
13 amounts greater than \$12,167,857 above base net variable power  
14 expenses will be the responsibility of Idaho Power's Oregon customers;
- 15 • The calculated deferral recognizes the Oregon allocation factor to  
16 determine the amount of deferral subject to amortization to Oregon  
17 customers;
- 18 • Interest will accrue on the deferred amount at the Company's authorized  
19 overall rate of return.

20 **Q. What are the base net power supply expenses as defined by this**  
21 **methodology?**

22 A. In Order No. 05-871 issued in Docket UE 167, the Commission established a  
23 negative \$1,792,200 as the base net power supply expenses which currently  
24 included in the Company's Oregon rates.

25 **Q. How are the base net power supply expenses used for the determination of**  
26 **excess net power supply expenses?**

1 A. The base net power supply expenses are compared to the actual net variable power  
2 expenses which will be incurred by the Company for the next twelve months. The  
3 difference between the base and the actual net power supply expenses is defined as  
4 the excess net power supply expenses.

5 **Q. What then, is the excess net power supply expenses expected for May 1, 2007  
6 through April 30, 2008?**

7 A. Using the forecasted net power supply expenses of \$129,234,632 submitted in the  
8 Idaho PCA filing as a conservative estimate for the net power supply expenses  
9 expected to be incurred by the Company for the Oregon 2007 Deferral period, and  
10 the base net power supply expenses currently in rates of negative \$1,792,200, the  
11 excess net power supply expenses on a system basis are expected to be  
12 \$131,026,832.

13 **Q. With the dead-band and 90/10 sharing of excess net power supply costs  
14 between Idaho's Oregon customers and the Company's shareholders, what  
15 would be excess net power supply expenses to be considered in this case?**

16 A. With the 150 basis points on return on equity implemented, the first \$12,167,857 of  
17 the excess net power supply expenses would not be considered for recovery.  
18 Everything above this dead-band would be shared at 90-10 with ninety percent of the  
19 jurisdictional portions of amounts greater than \$12,167,857 above base net variable  
20 power expenses being the responsibility of Idaho Power's Oregon customers. Using  
21 this methodology, the total amount of expected system excess net power supply  
22 expenses (\$131,026,832) to be considered for recovery would be limited to  
23 \$118,858,975.

24 **Q. What is the resulting amount of excess net power supply expenses estimated  
25 for the Oregon jurisdiction for the next year that would be deferred for future  
26 recovery by the Company?**



1 A. The Oregon jurisdictional share of \$118,858,975 which would be deferred for future  
2 recovery would be 4.80%, or \$5,705,230.

3 **Q. Will the Company be able to recover and amortize these excess net power**  
4 **supply expenses in 2008?**

5 A. No. The Company is currently recovering and amortizing excess net power supply  
6 expenses that were incurred in 2001 at the maximum rate permitted by Oregon law.  
7 As of the end of March, 2007, the Company still has \$6,174,890 left in the  
8 unamortized balance from 2001. In addition, if the Commission approves the 2006  
9 deferral settlement amount of \$2,000,000, that amount will be amortized following  
10 the recovery of the 2001 deferral balance.

11 **Q. When will the Company be able to recover and amortize these 2007-2008**  
12 **excess net power supply expenses?**

13 A. At the current rate for amortizing the 2001 excess net power supply expenses and  
14 the additional 2006 deferral settlement amount, at projected revenues for the  
15 Company's Oregon jurisdiction, the Company would expect to be able to begin  
16 recovery and amortization of the May 2007 through April 2008 excess net power  
17 supply expenses late in 2012.

18 **Q. Will the Company apply a carrying charge to these expenses?**

19 A. Yes. Until the amortization of the excess net power supply expenses begins, the  
20 Company would apply its current authorized overall rate of return in Oregon. This  
21 rate is subject to change based on the outcome of future proceedings as described  
22 in Order No. 06-507. As a result, the balance of the deferral amount would increase.

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

24 A. Yes, it does.