



Oregon

John A. Kitzhaber, MD. Governor

Public Utility Commission

550 Capitol St NE, Suite 215

Mailing Address: PO Box 2148

Salem, OR 97308-2148

Consumer Services

1-800-522-2404

Local: (503) 378-6600

Administrative Services

(503) 373-7394

January 25, 2012

Via Electronic Filing and U.S. Mail

OREGON PUBLIC UTILITY COMMISSION
ATTENTION: FILING CENTER
PO BOX 2148
SALEM OR 97308-2148

**RE: Docket No. UE 242 – In the Matter of IDAHO POWER COMPANY
2012 Annual Power Cost Update.**

Enclosed for electronic filing in the above-captioned docket is the Public Utility Commission Staff's Reply Testimony.

/s/ Linda Martin

Regulatory Operations Division
Filing on Behalf of Public Utility Commission Staff
(503) 378-4373
Email: linda.martin@state.or.us

c: UE 242 Service List (parties)

**PUBLIC UTILITY COMMISSION
OF OREGON**

UE 242

**STAFF REPLY TESTIMONY OF
STEPHEN SCHUE**

**In the Matter of
IDAHO POWER COMPANY
2012 Annual Power Cost Update**

January 25, 2012

CASE: UE 242
WITNESS: Stephen Schue

**PUBLIC UTILITY COMMISSION
OF
OREGON**

STAFF EXHIBIT 100

Reply Testimony

January 25, 2011

1 **Q. PLEASE STATE YOUR NAME, OCCUPATION, AND BUSINESS**
2 **ADDRESS.**

3 A. My name is Stephen Schue. I am a Senior Economist in the Electric & Natural
4 Gas Division of the Oregon Public Utility Commission (OPUC). My business
5 address is 550 Capitol Street NE Suite 215, Salem, Oregon 97301-2551.

6 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND WORK**
7 **EXPERIENCE.**

8 A. My Witness Qualification Statement is found in Exhibit Staff/101.

9 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

10 A. The purpose of my testimony is to analyze and provide a summary of the
11 October Update portion of Idaho Power Company's (Idaho Power or Company)
12 2012 Annual Power Cost Update (APCU). I also note issues that OPUC Staff
13 (Staff) might have associated with the March Forecast portion of the APCU.

14 **Q. HOW IS YOUR TESTIMONY ORGANIZED?**

15 A. My testimony is organized as follows:

16	Introduction	2
17	APCU Overview	4
18	Changes with Respect to 2011 APCU	7
19	Conclusions	10

INTRODUCTION**Q. PLEASE SUMMARIZE IDAHO POWER'S OCTOBER UPDATE FILING.**

A. On October 20, 2011, Idaho Power filed its 2012 APCU October Update for the April 2012 through March 2013 period (test period), with rates effective June 1, 2012. The October Update requested an increase in Net Power Supply Expenses (NPSE) of \$2.11 per MWh at the customer meter, or from \$16.96 to \$19.07 per MWh. This NPSE increase would result in an average rate increase of 3.34 per cent for Idaho Power's Oregon customers.

Q. WHAT IS THE SINGLE MOST IMPORTANT FACTOR BEHIND THE REQUESTED INCREASE?

A. A large increase in purchases required under the Public Utility Regulatory Policies Act of 1978 (PURPA) explains approximately 70 percent of the increase in unit NPSE. Projected purchases from PURPA projects have increased by approximately 60 percent relative to the 2011 APCU, or more than 1 million MWh. This is approximately seven percent of Idaho Power's load forecast (at the busbar) of 16.1 million MWh. The large quantity increase, combined with the fact that these new purchases are at contractual rates above forecast market prices, results in substantial upward pressure on both overall and unit NPSE.

Q. PLEASE DESCRIBE THE NEW PURPA CONTRACTS IN MORE DETAIL.

A. The new contracts are primarily for small wind projects located in Idaho. The costs of these new contracts are spread evenly across the Company's Oregon and Idaho service territories.

1 **Q. HAS THE COMPANY MODIFIED ITS PURPA CONTRACT PURCHASE**
2 **ESTIMATES SUBSEQUENT TO THE INITIAL OCTOBER 20, 2011, FILING?**

3 A. Yes. In response to a series of Staff Data Requests, Idaho Power made a
4 number of revisions to its PURPA contract estimates for the 2012 APCU. On
5 December 29, 2011, the Company made available its revised estimates. In
6 summary, the revisions resulted in a moderate increase in expected PURPA
7 purchase quantities and a moderate decrease in expected PURPA purchase
8 costs. These changes, along with minor interactive effects with other power
9 cost elements, resulted in a revised unit NPSE of \$18.98 per MWh, an increase
10 of \$2.02 over the basis for current rates.

11 **Q. HAS THE COMPANY PROVIDED ADEQUATE DOCUMENTATION FOR THE**
12 **PURPA CONTRACTS INCLUDED IN ITS DECEMBER 29, 2011, REVISION?**

13 A. Yes. The combination of materials supplied with the initial filing and in
14 response to Staff Data Requests provides adequate documentation.

15 **Q. WHAT IS THE REVISED RATE INCREASE FOR THE COMPANY'S**
16 **OREGON CUSTOMERS?**

17 A. With the PURPA contract-related revisions, the requested average rate
18 increase is now 3.20 percent. The total dollar request is approximately \$1.3
19 million, which compares with projected revenues at current rates of
20 approximately \$41.0 million. Given forecast test period Oregon loads at the
21 customer meter of approximately 660,000 MWh, average rates would increase
22 from approximately 6.2 cents per kWh to 6.4 cents per kWh.

ANNUAL POWER COST UPDATE OVERVIEW**Q. WHAT IS THE PURPOSE OF THE APCU?**

A. The purpose of the APCU is to update NPSE on an annual basis. Idaho Power's actual power costs vary considerably from year to year, primarily due to new PURPA contracts, hydro conditions, and changes in market prices for natural gas and electricity. If NPSE-related rates were not reset annually, the Company could easily collect substantially more or substantially less than its actual incurred NPSE. Over-collections would not be fair to customers, whereas under-collections would not be fair to the Company. The APCU process reduces the potential gap between actual power costs and the forecast used to set rates.

Q. WHAT HAPPENS IF THERE REMAINS A SIGNIFICANT GAP BETWEEN ACTUAL NPSE AND AMOUNTS COLLECTED IN RATES?

A. If Idaho Power either over- or under-collects its actual NPSE in any year, the Annual Power Supply True-up mechanism facilitates refunds or charges, subject to a dead-band and an earnings test.

Q. PLEASE SUMMARIZE THE APCU STRUCTURE.

A. The APCU consists of three primary elements – the October Update, the March Forecast, and the Forecast Change Allowed. The October Update is a test period NPSE forecast performed with the Company's Aurora power cost model. It is based on new load, fuel cost, contract and market price information, but also on normalized hydro conditions.¹ Subject to possible

¹ Normalized hydro conditions are essentially an average of 83 years of historical data.

1 disallowances, the October Update establishes an October Update Rate, which
2 is a base unit NPSE figure for allowable power cost rates in the test period.

3 The March Forecast further updates various elements, including contracts
4 and market prices. However, it is also based on the latest hydro forecast from
5 the Northwest River Forecast Center and current reservoir levels. Subject to
6 possible disallowances, the March Forecast then also establishes a March
7 Forecast Rate.

8 Finally, the Forecast Change Allowed is defined to be 95 percent of the
9 difference between the March Forecast Rate and October Update Rate,
10 multiplied by Forecast Sales (which is defined to be the load forecast). On a
11 unit basis, this is simply 95 percent of the difference between the March
12 Forecast and October Update Rates.

13 Essentially, the October Update establishes basic changes in forecast NPSE
14 from the previous APCU. The Company then passes on 95 percent of further
15 changes in forecast NPSE, as measured on a unit basis between the March
16 Forecast Rate and the October Update Rate.

17 **Q. WHAT ORDERS GOVERN IMPLEMENTATION OF THE APCU?**

18 A. Order Nos. 08-238 and 10-191 approved stipulations which govern most
19 aspects of current APCU implementation.

20 **Q. PLEASE DISCUSS ORDER NO. 08-238 IN MORE DETAIL.**

21 A. Order No. 08-238 in Docket UE 195 approved a stipulation covering most
22 APCU implementation factors. Of particular importance were a methodology to
23 re-price market purchases and sales for resale to be more consistent with

1 expected prices at the Mid-Columbia trading hub and agreement to update
2 PURPA contracts in both the October Update and the March Forecast.

3 **Q. PLEASE DISCUSS ORDER NO. 08-238 IN MORE DETAIL.**

4 A. Order No. 10-191 in Docket UE 214 approved a stipulation covering rate
5 spread and rate design applicable to the APCU process.

6 **Q. IS THE OCTOBER UPDATE PORTION OF THE 2012 APCU CONSISTENT**
7 **WITH ORDER NOS. 08-238 AND 10-191?**

8 A. Yes.

CHANGES WITH RESPECT TO 2011 APCU

1
2 **Q. WHAT MAJOR ELEMENTS HAVE CHANGED SINCE CURRENT RATES**
3 **WERE SET IN THE 2011 APCU PROCESS?**

4 A. The most important change is the large increase in PURPA contracts. Other
5 significant changes include a somewhat higher load forecast, the new Langley
6 Gulch plant, and higher coal costs for the Valmy plant.

7 **Q. PLEASE SUMMARIZE THE IMPACT OF THE NEW PURPA CONTRACTS.**

8 A. As discussed above, the large number of new PURPA contracts, whose
9 contractual rates are higher than forecast market electricity prices, explain
10 more than 70 percent of the NPSE increase of approximately \$2.00 per MWH.

11 **Q. HOW DOES THE NEW LOAD FORECAST COMPARE WITH THAT USED**
12 **TO SET CURRENT RATES?**

13 A. Idaho Power forecasts load to increase by a moderate 0.8 percent.

14 **Q. WHAT IS THE IMPACT OF THIS LOAD INCREASE ON UNIT NPSE?**

15 A. The load increase explains almost 10 percent of the overall increase of
16 approximately \$2.00 per MWH. Although the load increase is small, its
17 financial impact is magnified by the large difference between forecast market
18 electricity prices and Idaho Power's low overall system cost. Forecast market
19 prices are approximately twice as high as the Company's 2011 APCU-based
20 unit system cost of \$16.96.

21 **Q. PLEASE DESCRIBE THE LANGLEY GULCH PLANT.**

22 A. Langley Gulch is a new 300 MW combined cycle combustion turbine, modeled
23 to be on-line in July 2012.

1 **Q. DOES THE COMPANY EXPECT TO MEET THIS ON-LINE DATE?**

2 A. Yes.

3 **Q. WHAT IS THE IMPACT OF LANGLEY GULCH ON NPSE?**

4 A. The new plant will somewhat decrease net power costs. The Company will
5 only dispatch Langley Gulch when market electricity prices are greater than the
6 cost of natural gas to run the plant. Customers receive the benefit of these
7 margins in the Aurora model runs that are the basis for the power supply
8 portion of rates. In other words, the unit NPSE result from an Aurora run with
9 Langley Gulch is lower than a comparable run without the new plant.

10 **Q. IS THERE ANOTHER THERMAL PLANT CHANGE WHICH IMPACTS UNIT**
11 **NPSE?**

12 A. Yes. Coal costs for the Company's Valmy plant have increased. In Aurora,
13 the increase is sufficient to cause Valmy not to run during most of the spring
14 season, as the higher dispatch cost is above forecast market electricity prices.

15 **Q. IS THERE ANOTHER POTENTIAL CHANGE WHICH WOULD**
16 **SIGNIFICANTLY AFFECT THE MARCH FORECAST?**

17 A. Yes. The Company has a contract of significant size with Hoku, a
18 manufacturer of solar panels. Part of the contract is priced at rates which are
19 above forecast market electricity prices, and other customers benefit from
20 these "margins." However, Hoku has recently had financial difficulties. If Hoku
21 were to go out of business, Idaho Power would no longer receive the contract
22 "margins," and these benefits would no longer be passed on to other
23 customers.

1 **Q. WHAT IS THE IMPACT ON UNIT NPSE OF REMOVING THE HOKU**
2 **CONTRACT FROM THE OCTOBER UPDATE AURORA MODEL RUN?**

3 A. The impact is an increase of approximately \$0.90 per MWh.

CONCLUSIONS

1
2 **Q. PLEASE SUMMARIZE THE OCTOBER UPDATE PORTION OF IDAHO**
3 **POWER'S 2012 APCU.**

4 A. The October 20, 2011, filing, combined with updates submitted on December
5 29, 2011, result in NPSE of \$18.98 per MWh, an increase of \$2.02 over the
6 \$16.96 figure from the 2011 APCU March Forecast, the basis for current rates.
7 This results in a request to increase average rates by 3.2 percent, to 6.4 cents
8 per kWh. New PURPA contracts account for 70 percent of the increase. A
9 moderate load increase accounts for another 10 percent of the increase.

10 **Q. DOES STAFF HAVE REMAINING CONCERNS WITH THE OCTOBER**
11 **UPDATE PORTION OF THE 2012 APCU?**

12 A. No. Given the December 29, 2011, updates and the Company's Responses to
13 other Staff Data Requests, Staff considers the Company's NPSE forecast of
14 \$18.98 per MWh to be reasonable.

15 **Q. DOES STAFF RESERVE THE RIGHT TO CHALLENGE CHANGES**
16 **INCORPORATED IN THE MARCH FORECAST?**

17 A. Yes. Among other things, Staff will examine additional PURPA contracts, the
18 hydro forecast, any significant changes to the load forecast, and whether the
19 Hoku contract is included in the March Forecast.

20 **Q. DOES THIS CONCLUDE YOUR REPLY TESTIMONY?**

21 A. Yes.

CASE: UE 242
WITNESS: Stephen Schue

**PUBLIC UTILITY COMMISSION
OF
OREGON**

STAFF EXHIBIT 101

Witness Qualification Statement

January 25, 2012

WITNESS QUALIFICATION STATEMENT

NAME: STEPHEN SCHUE

EMPLOYER: PUBLIC UTILITY COMMISSION OF OREGON

TITLE: SENIOR ECONOMIST, ELECTRIC AND NATURAL GAS DIVISION

ADDRESS: 550 CAPITOL ST. NE, SALEM, OR 97308-2148

EDUCATION: Bachelor of Science, Economics, University of Oregon
Master of Arts, Economics, University of Minnesota
Master of Business Administration, University of Leuven (Belgium)

EXPERIENCE: I have been employed at the Oregon Public Utility Commission (Commission) since August of 2011. My current responsibilities include research, analysis and technical support for electric cost recovery proceedings, with an emphasis on variable power costs and purchases from qualifying facilities. I was previously employed at Portland General Electric Company (PGE) for 18 years. At PGE, I performed analysis and sponsored testimony related to net variable power costs, resource planning, and purchases (both transmission and power) from the Bonneville Power Administration. I was the project manager for PGE's 2000 Integrated Resource Plan. During 1986 and 1987, I worked at the Commission, specializing in economic evaluation of utility conservation programs.

CASE: UE 242
WITNESS: Steve Schue

**PUBLIC UTILITY COMMISSION
OF
OREGON**

STAFF EXHIBIT 102

**Exhibits in Support
Of Reply Testimony**

January 25, 2012

The purpose of this worksheet is to provide a rough explanation of why Idaho Power Company's 2012-13 test year net power costs are approximately \$32 million higher than those for 2011-12.

Data to Consider:	2011	2012	2011	2012
Net Power Supply Expenses:	\$ 247,467,000	\$ 279,231,600		
Load at Customer Meter:	14,590,974	14,713,937	MWh	16,100,000
Unit Cost:	\$ 16.96	\$ 18.98		Approximate load at busbar
PURPA Costs:	\$ 129,051,222	\$ 192,026,200		
PURPA Quantities:	1,711,787	2,744,142	MWh	Note slight mismatch between load at customer meter and PURPA quantities - line losses or not.
Purchased Power Quantities:	840,865	520,193	MWh	Market only.
Purchased Power Costs:	\$ 42,107,100	\$ 20,808,600		
Unit Purchased Power Costs:	\$ 50.09	\$ 40.00		
Surplus Sales Quantities:	1,945,407	2,712,657	MWh	
Surplus Sales Revenues:	\$ 82,876,800	\$ 104,756,900		Net of transmission costs.
Unit Surplus Sales Revenues:	\$ 42.60	\$ 38.62		
Hydro Output:	8,686,578	8,647,019	MWh	
Difference to Explain:	\$	\$ 31,764,600		
Factors to Consider:				
Load Increase:	\$ 5,463,860			Load increase multiplied by market purchase cost of opportunity cost of foregone surplus sales.
Net Cost of New PURPA Resources:	\$ 21,051,513			Difference in costs, net of value of additional power.
Value of Reduced Hydro Output:	\$ 1,606,473			
Total Explained:	\$ 28,121,846			
Remainder to Explain:	\$ 3,642,754			
Other Factors:				
<ul style="list-style-type: none"> -- Higher costs at Valley increase net power supply expenses. -- New Langley Gulch plant decreases net power supply expenses, as only run when "in the money," and margins are credited to customers. -- Lower market prices increase net power supply expenses, as Idaho Power Company surplus, i.e. value of surplus down. 				
Difference to Explain on Unit Cost Basis:	\$	\$ 2.02		
Factors to Consider:				
Load Increase:	\$ 0.22			Lesser percentage (of difference to explain) effect on unit than on overall dollar basis, as unit analysis includes revenues from new customer load.
Net Cost of New PURPA Resources:	1.43			
Value of Reduced Hydro Output:	0.11			
Total Explained:	1.76			
Remainder to Explain:	0.26			

UE 242
Service List (Parties)

CITIZENS' UTILITY BOARD OF OREGON

OPUC DOCKETS	610 SW BROADWAY, STE 400 PORTLAND OR 97205 dockets@oregoncub.org
ROBERT JENKS (C)	610 SW BROADWAY, STE 400 PORTLAND OR 97205 bob@oregoncub.org
G. CATRIONA MCCRACKEN (C)	610 SW BROADWAY, STE 400 PORTLAND OR 97205 catriona@oregoncub.org

IDAHO POWER COMPANY

CHRISTA BEARRY	PO BOX 70 BOISE ID 83707-0070 cbearry@idahopower.com
LISA D NORDSTROM	PO BOX 70 BOISE ID 83707-0070 lnordstrom@idahopower.com

MCDOWELL RACKNER & GIBSON PC

LISA F RACKNER	419 SW 11TH AVE., SUITE 400 PORTLAND OR 97205 lisa@mcd-law.com
----------------	--

PUBLIC UTILITY COMMISSION OF OREGON

STEVE SCHUE (C)	PO BOX 2148 SALEM OR 97308-2148 steve.schue@state.or.us
-----------------	---

PUC STAFF--DEPARTMENT OF JUSTICE

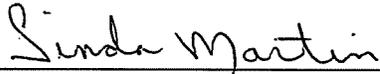
STEPHANIE S ANDRUS (C)	BUSINESS ACTIVITIES SECTION 1162 COURT ST NE SALEM OR 97301-4096 stephanie.andrus@state.or.us
------------------------	--

CERTIFICATE OF SERVICE

UE 242

I certify that I have this day served the foregoing document upon all parties of record in this proceeding by delivering a copy in person or by mailing a copy properly addressed with first class postage prepaid, or by electronic mail pursuant to OAR 860-001-0180, to the following parties or attorneys of parties.

Dated this 25th day of January, 2012 at Salem, Oregon.



Linda Martin
Public Utility Commission
Regulatory Operations
550 Capitol St NE Ste 215
Salem, Oregon 97301-2551
Telephone: (503) 378-4373