

1 **Introduction**

2 **Q. Please state your name and business address.**

3 A. My name is Don Reading and my business address is Ben Johnson Associates, 6070 Hill  
4 Road, Boise, Idaho.

5  
6 **Q. Have you prepared an Exhibit outlining your qualification and background?**

7 A. Yes. Exhibit 101 serves that purpose.

8  
9 **Q. What is the purpose of your testimony in this case?**

10 A. I have been retained by the Oregon Industrial Customers of Idaho Power (OICIP) to review  
11 Idaho Power's (IPC, Company) application for authority to increase its rates and charges for  
12 electric service. My testimony will address three aspects of the Company's rate application. The  
13 first is the increases to actual coincident peaks the Company made due to reductions in demand  
14 from their Demand Response (DR) programs. This adjustment masks the real impact of the  
15 programs' incentive payments and penalizes customer classes that participate in the DR  
16 programs. Second, I will support the Company's traditional assignment of transmission costs to  
17 100% demand that is consistent with its approach for 95% of its load in Idaho. The third issue I  
18 address is to explain why Idaho Power's request for a return on equity (ROE) is excessive given  
19 the Company's financial health and current economic conditions.

20  
21 **Adjusting Coincident Peak Data**

22 **Q. Dr. Reading, let us turn to the first issue you are addressing in your direct testimony.**  
23 **Do you agree with the adjustment Idaho Power is making to the coincident peak demand**  
24 **values for use in the calculation of total marginal cost?**

25 A. No. As explained by the Company actual coincident peaks have been adjusted upward to  
26 levels that Idaho Power estimates would have occurred if not for their Demand Response  
27 programs. The Company has three DR programs aimed at reducing peak: Irrigation Peak  
28 Rewards, A/C Cool Credit, and FlexPeak Management. Irrigation Peak Rewards is available to  
29 agricultural irrigation customers. A/C Cool Credit is program available to residential customers.

1 FlexPeak Management is administered by a third party – EnerNOC – and is available to larger  
2 commercial and industrial customers.

3

4 **Q. What is the Company’s rational for adjusting coincident peaks from the actual levels**  
5 **experienced by Idaho Power?**

6 A. Idaho Power states there is potential for inequitable cost allocation due to the effect of its  
7 Demand Response programs. The Company derives system coincident demand factors as if no  
8 DR programs had been in effect during the historical data period. In effect, they add back the  
9 MW’s that are saved by customers participating in the program during periods of peak demand.  
10 The Company reasons that DR programs should be treated equally with its own supply-side  
11 resources. Not to make this adjustment would, according to Idaho Power, unfairly shift the  
12 revenue requirement among customer classes:

13

14 With respect to the cost-of-service study, the Company’s resource selection should not  
15 unduly affect the allocation of revenue requirement among customer classes. If the  
16 effects of DR programs are not accounted for, revenue requirement allocation can  
17 potentially be skewed when demand reductions are achieved during peak hours. If no  
18 adjustments are made, coincident peak demand-related allocation can potentially shift  
19 revenue requirement solely based on the Company’s choice to utilize a demand-side  
20 resource over traditional supply-side resources.

21 Further, the Company’s DR programs provide a financial incentive to participants  
22 in exchange for temporary load reduction. Any revenue requirement allocation benefits  
23 received from DR program reductions that are not accounted for in the initial incentive  
24 design provide the potential for an unintended benefit to participating rate classes at the  
25 expense of non-participating rate classes. These allocation benefits are also received by  
26 all customers of a participating rate class, although not all customers within each rate  
27 class participate in DR programs, resulting in the potential for non-participating  
28 customers to receive a benefit without providing any load reduction in return. [Larkin, DI  
29 pgs. 15,16.]

30

1 Therefore it appears the Company's concern is shifting revenue requirement responsibility away  
 2 from those customer classes that are participating in a DR program onto customer classes that are  
 3 not part of the program.

4  
 5 **Q. You stated above that you disagree with this adjustment. Could you please explain?**

6 A. In order to illustrate my point I will focus on the FlexPeak Management program and the  
 7 customer class load profile for Idaho Power's Oregon service territory. As pointed out above, the  
 8 FlexPeak Management program is designed for the commercial and industrial classes. Idaho  
 9 Power's Oregon service territory has a significantly higher proportion of industrial load profile  
 10 than the Company's load profile in Idaho, and it has lower residential and irrigation customer  
 11 profiles in Oregon than in Idaho. The table below displays the Company's load profile in each  
 12 state.

13  
 14

<b>Idaho Power Load Profile for Idaho &amp; Oregon</b>					
	kWh		PERCENT		
	ID	OR	ID	OR	
1+ Residential	5,010,676,610	198,842,419	37.7%	30.6%	
7 - Small General Serv.	148,946,670	17,842,896	1.1%	2.7%	
9 - Large General Serv.	3,492,140,651	132,187,815	26.3%	20.3%	
15 - Dusk/Dawn Lighting	6,562,095	483,936	0.0%	0.1%	
19 - Uniform Rate Cont.	2,040,681,796	253,344,914	15.3%	39.0%	
24 - Irrigation & Pump.	1,679,776,734	46,649,265	12.6%	7.2%	
40 - Unmetered Gen. Serv.	16,000,941	12,900	0.1%	0.0%	
41 - Municipal St. Light.	23,018,849	778,108	0.2%	0.1%	
42 - Traffic Control Light.	3,477,113	16,328	0.0%	0.0%	
Special Contracts	880,510,873	0	6.6%	0.0%	
	<b>13,301,792,332</b>	<b>650,158,581</b>	<b>95.3%</b>	<b>4.7%</b>	
source: Attachement 2 - Response Staff's DR 214					

15  
 16  
 17  
 18 According to the Company's 2010 Annual Demand-Side Management Annual Report  
 19 there are 60 customer sites participating in the FlexPeak program, 56 in Idaho and 4 in Oregon.  
 20 However, as might be expected given the difference in load profiles, these Oregon customers

1 provided 11.4 MW of the system-wide 47.5 MW highest hourly reductions or nearly one-quarter  
2 of the total savings. This is significant because Oregon's overall load is less than 5% of Idaho  
3 Power's system.

4  
5 **Q. Do you believe the Company's approach of adjusting coincident peak can have**  
6 **unanticipated consequences?**

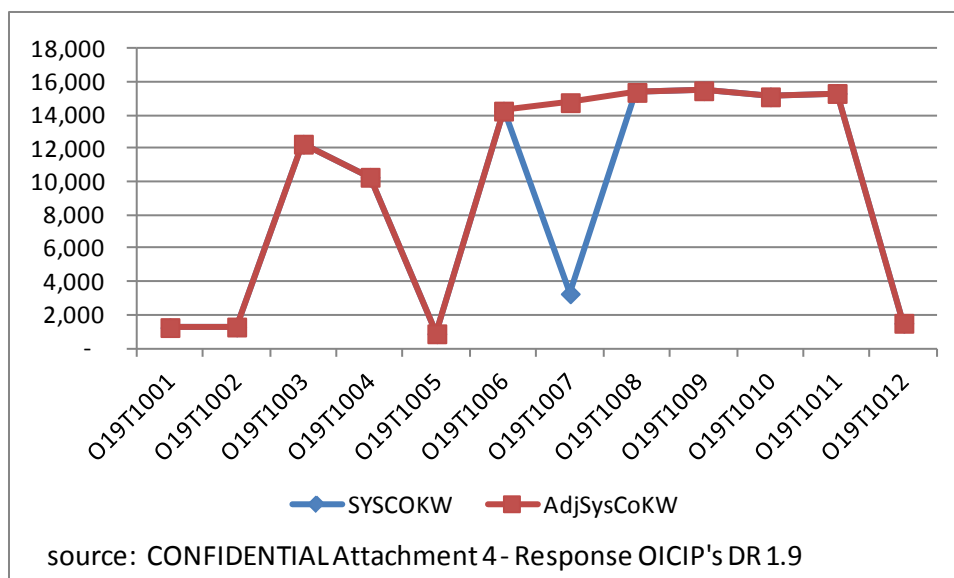
7 A. Yes. The FlexPeak customers are paid for their demand reductions. However, Idaho Power  
8 then adjusts peak loads and assigns higher power costs and thus rates to the customer class  
9 because they artificially assign higher than actual peak loads to that class. This reduces the  
10 incentive for a customer who may want to join the program. For any other customer in that class  
11 that do not join the program, it will simply mean an increase in their rates.

12 Highlighting my concern is the example of the Oregon the rate class 19T. The class has  
13 only one customer, and that customer is participating in the FlexPeak program. By reducing  
14 power consumption when the system is at its highest cost, this customer is penalized by paying  
15 higher rates, which lowers the compensation the customer is getting for cutting its loads during  
16 peak periods.

17 Under the FlexPeak program each customer negotiates with EnterNOC for payments for  
18 reducing demand. The levels of these payments are proprietary and are completely delinked  
19 from the Company's cost of service cost assignment. This means the customer thinks they are  
20 getting a certain level of compensation for participating in the program when in reality they are  
21 receiving something less because they will be assigned higher rates in the next rate case. This is  
22 critically important for an industrial customer that needs to weigh the cost of interruption of their  
23 production process due to reducing power consumption versus the compensation it will receive.  
24 If the rewards for reducing power are not fully understood by the customer, then they may either  
25 not participate in the program or negotiate a higher price from EnerNOC.

26 The effect of the Company's adjustment can be dramatic. The graph below displays the  
27 coincidence peak adjustment for Schedule 19T in Oregon.

28



1

2

3 **Q. Is the OICIP opposed to the Company's FlexPeak program?**

4 A. Not at all. Idaho Power is becoming increasingly peak constrained relative energy used by its  
 5 customers. The gap between energy consumption and demand at peak periods has been  
 6 increasing, meaning conservation programs aimed at reducing peak demand is good not only for  
 7 those participating in the program but also the system as a whole. What we are objecting to is  
 8 artificially increasing peak demand cost responsibility to the customer classes that have signed  
 9 up for the FlexPeak program. At a minimum, the Company should inform the customer of the  
 10 impact on the cost of service cost rate increase implications before they enter into a contract with  
 11 EnterNOC, so they can fully understand the costs and rewards of participating in the program.

12

13

14 **Allocation of Transmission Costs**

15 **Q. Please explain your understanding of Idaho Power's proposed allocation of**  
 16 **transmission costs in this case?**

17 A. Idaho Power has followed its traditional approach in the current case and allocated  
 18 transmission costs 100% to demand.

19 **Q. Do you agree with the Company?**

20 A. I agree with the Company that allocating to demand 100% of transmission expenditures is  
 21 reasonable. The Company stated:

1  
2 Transmission-related investment has been classified as 100 percent demand related  
3 according to the Company's traditional approach. In the settlement stipulation to the 2009  
4 Rate Case, the Company agreed to the classification of transmission-related revenue  
5 requirement as 75 percent demand-related and 25 percent energy-related. While the  
6 Company agreed to this one-time adjustment for use in the settlement stipulation, it  
7 believes that classifying transmission-related investment as 100 percent demand-related  
8 results in a more appropriate allocation of transmission-related costs. [Larkin, p. 9.]  
9

10 Transmission is allocated 100% to demand for the Company's Idaho service territory, which  
11 comprises 95% of the Company's loads. This allocation is in recognition of the fact that  
12 transmission facilities are sized and constructed to meet a utility's demand and therefore are  
13 properly assigned as demand related.

14 **Q. Is this how the transmission was allocated in the Settlement Stipulation filed in Idaho**  
15 **Power's last Oregon general rate case (UE 213)?**

16 **A.** No. In the Stipulation agreed to by the parties in case UE 213, in 2009, transmission costs  
17 were allocated on a 75% demand and 25% energy for "settlement purposes only" rather than  
18 allocated 100% to demand.

19 **Q. Didn't the OICIP agree to the Stipulation in UE 213?**

20 **A.** Yes, but for settlement purposes only. As pointed out in his testimony in case UE 213 Oregon  
21 Staff witness George Compton stated:

22  
23 Standard settlement protocol is for parties to accept final numerical results without  
24 necessarily agreeing to the concepts and theories that may have been originally employed  
25 in arriving at those results. In other words, the concepts and theories cannot be regarded  
26 as precedent setting. [Testimony of George Compton, Staff/100, Compton/1, UE 213,  
27 footnote 3, p. 6.]  
28

29 The OCIP would not have signed the Stipulation without the provision that it not be precedent  
30 setting, and firmly believes the correct allocation of transmission costs should be 100% to

1 demand. This is consistent with the Company's recommend approach and the method approved  
2 for its Idaho service territory which makes up 95% of its total system load.

3

4 **Return on Equity**

5 **Q. The Company is asking for a 10.5% return of equity (ROE) in this case. Do you have**  
6 **any comments relating to this request?**

7 A. Company witness Steven Keen in his direct testimony states that he is aware the Oregon  
8 Commission a year ago set Pacific Power's ROE at 10.125% in docket UE-217. [Keen, p. 4.]  
9 This year two states adjoining Oregon set PacifiCorp's ROE under 10%. In Washington, the  
10 UTC set Pacific Power & Light's ROE at 9.8% (UE-100799), and in Idaho the PUC set Rocky  
11 Mountain Power's ROE at 9.9% (PAC-E-10-07). The OICIP believes any ROE over 10% is  
12 excessive in the current economic climate, and not in line with Idaho Power's financial risk  
13 profile.

14

15 **Q. Would you please explain why you believe a ROE request over 10% is excessive for a**  
16 **this regulated utility in this economic climate?**

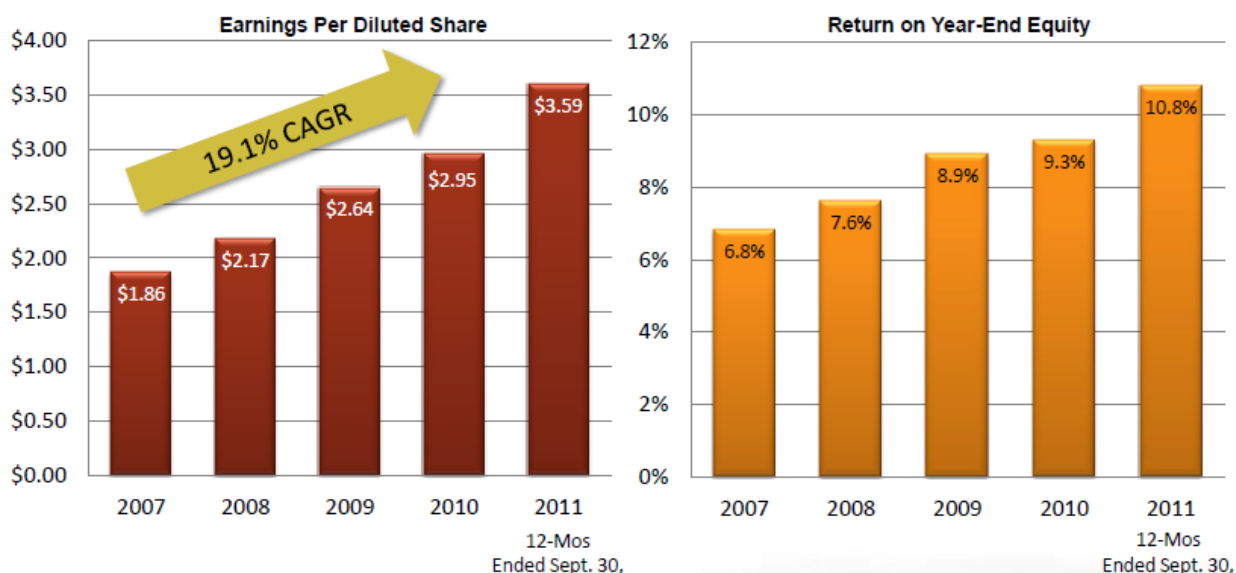
17 A. Without conducting a full blown cost of capital study, I believe it is clear, for a variety of  
18 factors, that a ROE of anything over 10% is excessive. While each investor owned utility has  
19 various financial challenges Idaho Power is one of the few investor-owned electric nationally  
20 utilities with a predominantly hydroelectric generating base. Approximately 50% of it loads are  
21 met with its 17 hydroelectric power plants, and the Company projects it will maintain this  
22 generation mix through 2030. [2011 Integrated Resource Plan, p. 7] It is universally accepted  
23 that there will be increasingly stricter air pollution controls for fossil fuel generating plants and  
24 some type of carbon tax, the Company is uniquely situated to avoided the increasing cost  
25 pressure other utilities will face. In several states utilities are undergoing expensive resource mix  
26 decisions by closing, rather than upgrading, their aging coal plants and replacing the lost  
27 generation with new gas fired units and increased conservation. Due to the fact Idaho Power's  
28 fuel generation mix is 50% hydropower, it will not be facing the same economic pressures as  
29 other utilities.

30

- 1 **Q. How has Idaho Power performed financially since the economic downturn?**
- 2 A. In spite of economic conditions that have be a worse than any time since the Great
- 3 Depression. Idaho Power has been able to increase its earnings per diluted share and return on
- 4 year-end equity every year since 2007. The slide below was presented by IdaCorp at a EEI
- 5 conference in November of this year.



## Earnings Per Diluted Share & Return on Year-End Equity (Period-End)



- 6 7
- 7 EEI Financial Conference Analyst Information, Lake Buena Vista, Florida, Nov. 17, 2011
- 8 The 12 month ROE of 10.8% ending in the 3<sup>rd</sup> quarter of 2011 is in part the result of the one-
- 9 time uniform capitalization method agreement with the IRS that provided the Company with a
- 10 onetime \$56.9 million of previously unrecognized tax benefits. However, with earnings per
- 11 share increasing 52% since 2007 and its ROE increasing by 400 basis points since 2007, the
- 12 Company certainly appears to be in solid financial shape and attractive to potential investors. A
- 13 ROE under 10% that is in line with current rates of return granted in neighboring state, should
- 14 not unduly financially impact the Company.



- 1 **Q. Does this conclude your Direct Testimony?**
- 2 A. Yes, it does.

	<b>Don C. Reading</b>
<i>Present position</i>	Vice President and Consulting Economist
<i>Education</i>	B.S., Economics — Utah State University M.S., Economics — University of Oregon Ph.D., Economics — Utah State University

<i>Honors and awards</i>	Omicron Delta Epsilon, NSF Fellowship
<i>Professional and business history</i>	Ben Johnson Associates, Inc.: 1989 --- Vice President 1986 --- Consulting Economist  Idaho Public Utilities Commission: 1981-86 Economist/Director of Policy and Administration  Teaching: 1980-81 Associate Professor, University of Hawaii-Hilo 1970-80 Associate and Assistant Professor, Idaho State University 1968-70 Assistant Professor, Middle Tennessee State University
<i>Firm experience</i>	Dr. Reading provides expert testimony concerning economic and regulatory issues. He has testified on more than 35 occasions before utility regulatory commissions in Alaska, California, Colorado, the District of Columbia, Hawaii, Idaho, Nevada, North Dakota, North Carolina, Oregon, Texas, Utah, Wyoming, and Washington.  Dr. Reading has more than 30 years experience in the field of economics. He has participated in the development of indices reflecting economic trends, GNP growth rates, foreign exchange markets, the money supply, stock market levels, and inflation. He has analyzed such public policy issues as the minimum wage, federal spending and taxation, and import/export balances. Dr. Reading is one of four economists providing yearly forecasts of statewide personal income to the State of Idaho for purposes of establishing state personal income tax rates.  In the field of telecommunications, Dr. Reading has provided expert testimony on the issues of marginal cost, price elasticity, and measured service. Dr. Reading prepared a state-specific study of the price elasticity of demand for local telephone service in Idaho and recently conducted research for, and directed the preparation of, a report to the Idaho legislature regarding the

	<p>status of telecommunications competition in that state.</p>
	<p>Dr. Reading's areas of expertise in the field of electric power include demand forecasting, long-range planning, price elasticity, marginal and average cost pricing, production-simulation modeling, and econometric modeling. Among his recent cases was an electric rate design analysis for the Industrial Customers of Idaho Power. Dr. Reading is currently a consultant to the Idaho Legislature's Committee on Electric Restructuring.</p> <p>Since 1999 Dr. Reading has been affiliated with the Climate Impact Group (CIG) at the University of Washington. His work with the CIG has involved an analysis of the impact of Global Warming on the hydro facilities on the Snake River. It also includes an investigation into water markets in the Northwest and Florida. In addition he has analyzed the economics of snowmaking for ski area's impacted by Global Warming.</p> <p>Among Dr. Reading's recent projects are a FERC hydropower relicensing study (for the Skokomish Indian Tribe) and an analysis of Northern States Power's North Dakota rate design proposals affecting large industrial customers (for J.R. Simplot Company). Dr. Reading has also performed analysis for the Idaho Governor's Office of the impact on the Northwest Power Grid of various plans to increase salmon runs in the Columbia River Basin.</p> <p>Dr. Reading has prepared econometric forecasts for the Southeast Idaho Council of Governments and the Revenue Projection Committee of the Idaho State Legislature. He has also been a member of several Northwest Power Planning Council Statistical Advisory Committees and was vice chairman of the Governor's Economic Research Council in Idaho</p> <p>While at Idaho State University, Dr. Reading performed demographic studies using a cohort/survival model and several economic impact studies using input/output analysis. He has also provided expert testimony in cases concerning loss of income resulting from wrongful death, injury, or employment discrimination. He is currently a adjunct professor of economics at Boise State University (Idaho economic history, urban/regional economics and labor economic.)</p> <p>Dr. Reading has recently completed a public interest water rights transfer case. He has also just completed an economic impact analysis of the 2001 salmon season in Idaho.</p>

<p><i>Publications</i></p>	<p>"Energizing Idaho", Idaho Issues Online, Boise State University, Fall 2006. <a href="http://www.boisestate.edu/history/issuesonline/fall2006_issues/index.html">www.boisestate.edu/history/issuesonline/fall2006_issues/index.html</a></p> <p>The Economic Impact of the 2001 Salmon Season In Idaho, Idaho Fish and Wildlife Foundation, April 2003.</p> <p>The Economic Impact of a Restored Salmon Fishery in Idaho, Idaho Fish and Wildlife Foundation, April, 1999.</p> <p>The Economic Impact of Steelhead Fishing and the Return of Salmon Fishing in Idaho, Idaho Fish and Wildlife Foundation, September, 1997.</p> <p>"Cost Savings from Nuclear Resources Reform: An Econometric Model" (with E. Ray Canterbury and Ben Johnson) <i>Southern Economic Journal</i>, Spring 1996.</p> <p>A Visitor Analysis for a Birds of Prey Public Attraction, Peregrine Fund, Inc., November, 1988.</p> <p>Investigation of a Capitalization Rate for Idaho Hydroelectric Projects, Idaho State Tax Commission, June, 1988.</p> <p>"Post-PURPA Views," In Proceedings of the NARUC Biennial Regulatory Conference, 1983.</p> <p>An Input-Output Analysis of the Impact from Proposed Mining in the Challis Area (with R. Davies). Public Policy Research Center, Idaho State University, February 1980.</p> <p><i>Phosphate and Southeast: A Socio Economic Analysis</i> (with J. Eyre, et al). Government Research Institute of Idaho State University and the Southeast Idaho Council of Governments, August 1975.</p> <p><i>Estimating General Fund Revenues of the State of Idaho</i> (with S. Ghazanfar and D. Holley). Center for Business and Economic Research, Boise State University, June 1975.</p> <p>"A Note on the Distribution of Federal Expenditures: An Interstate Comparison, 1933-1939 and 1961-1965." In <i>The American Economist</i>, Vol. XVIII, No. 2 (Fall 1974), pp. 125-128.</p> <p>"New Deal Activity and the States, 1933-1939." In <i>Journal of Economic History</i>, Vol. XXXIII, December 1973, pp. 792-810.</p>
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## CERTIFICATE OF SERVICE

I HEREBY CERTIFY that on the 7<sup>th</sup> day of December, 2011, a true and correct copy of the within and foregoing **DIRECT TESTIMONY OF DR. DON READING IN DOCKET UE 233** was served as follows:

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Signed \_\_\_\_\_

  
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