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July 19, 2012

## VIA ELECTRONIC AND U.S. MAIL

PUC Filing Center  
Public Utility Commission of Oregon  
PO Box 2148  
Salem, OR 97308-2148

**Re: UE 233 – Idaho Power Company’s Application for Authority to Increase its Rates and Charges for Electric Service to its Customers in the State of Oregon**

Attention Filing Center:

Enclosed for filing in Docket UE 233 is an original and five copies of Idaho Power Company’s Reply Testimony of John Carstensen and Gregory W. Said.

A copy of this filing has been served on all parties to this proceeding as indicated on the attached Certificate of Service.

Please contact me with any questions.

Very truly yours,

A handwritten signature in black ink that reads "Wendy McIndoo". The signature is written in a cursive, flowing style.

Wendy McIndoo  
Office Manager

Enclosures

cc: Service List

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**CERTIFICATE OF SERVICE**

I hereby certify that I served a true and correct copy of the foregoing document in UE 233 on the following named person(s) on the date indicated below by email addressed to said person(s) at his or her last-known address(es) indicated below.

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BEFORE THE PUBLIC UTILITY COMMISSION  
OF OREGON

**DOCKET UE 233**

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

**IDAHO POWER COMPANY**

**REPLY TESTIMONY**

**OF**

**JOHN CARSTENSEN**

**July 19, 2012**

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

2 A. My name is John Carstensen and my business address is 1221 West Idaho Street,  
3 Boise, Idaho. I am employed by Idaho Power Company ("Idaho Power" or  
4 "Company") as a Project Engineering Leader in the Power Supply department.

5 **Q. Are you the same John Carstensen who previously testified in this docket?**

6 A. Yes. My witness qualifications are set forth in my Supplemental Testimony, Idaho  
7 Power/1300.

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

9 A. The purpose of my testimony is to reply to the testimony of the Citizens' Utility Board  
10 of Oregon ("CUB") that was filed on June 20, 2012. Specifically, I will respond to  
11 CUB's claims that Idaho Power was imprudent when it relied on PacifiCorp to  
12 operate the Jim Bridger power plant. I will also respond to specific claims made by  
13 CUB related to the studies that Idaho Power has relied upon to demonstrate the  
14 prudence of its decision to undertake the installation of pollution control equipment at  
15 Unit 3 of the Jim Bridger power plant ("the Jim Bridger Unit 3 Scrubber Upgrade  
16 Project").

17 **Q. CUB criticizes Idaho Power for not being actively engaged in the management  
18 of the Jim Bridger power plant.<sup>1</sup> Do you believe this criticism is warranted?**

19 A. No. On the contrary, I believe that the Company took all actions required of Idaho  
20 Power as the minority owner, overseeing the actions of the majority owner and plant  
21 operator.

22 **Q. Please describe PacifiCorp's role as the plant operator.**

23 A. As I explained in my initial testimony, under the Operating Agreement between Idaho  
24 Power and PacifiCorp, PacifiCorp is the designated plant operator, and as such is

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26 <sup>1</sup> CUB/300, Feighner-Jenks/6, ll. 6-13.

1 responsible for the day-to-day activities that are required to ensure the continued  
2 operation of the plant. These types of activities include scope and scheduling of  
3 planned outages, planning for and undertaking routine maintenance, coordinating  
4 and overseeing capital projects, preparation of the capital and O&M budgets (both  
5 current year and 10 year budgets), environmental compliance strategies, system  
6 protection and compliance, coordinating the delivery of coal from Bridger Coal  
7 Company and from outside sources. The Operating Agreement also specifically  
8 provides that PacifiCorp is responsible for ensuring that the plant is run in a prudent  
9 and skillful manner consistent with prevailing utility industry standards and in  
10 accordance with all applicable laws and regulations, including all relevant  
11 environmental regulations. Thus, to the extent that the Company is not actively  
12 engaged in the day-to-day operations of the plant, it is because Idaho Power has a  
13 contract with PacifiCorp which sets forth the parties' operational obligations. The  
14 Company believes this this arrangement provides efficiencies that result in a  
15 prudently run plant at the least cost for its customers.

16 **Q. How is it that Idaho Power is willing to rely on PacifiCorp to make prudent**  
17 **decisions about the operation of its plant?**

18 A. There are several reasons. First, PacifiCorp is an expert in the operation of coal  
19 plants. PacifiCorp is the majority or sole owner and operator of 19 coal units in the  
20 Western United States, and has a reputation for doing so responsibly and efficiently.  
21 By contrast, I would note, Idaho Power, while maintaining a minority interest in two  
22 coal plants and a 50 percent interest in a third, is not the operator of any of them.  
23 Second, in operating Bridger, PacifiCorp is governed by the same regulatory  
24 requirements as Idaho Power, to operate its plants prudently in order to recover its  
25 costs. For this reason, as a majority owner, PacifiCorp has even more at stake than  
26 Idaho Power in its prudent operation of the plant. Third, Idaho Power does oversee

1 and review all major decisions made by PacifiCorp in the operation of the plant. I  
2 would note on this point that the Company has been very pleased with PacifiCorp's  
3 performance to date. For these reasons, Idaho Power is comfortable with PacifiCorp  
4 serving as Bridger's plant operator.

5 **Q. What types of efficiencies are gained by this type of arrangement?**

6 A. The primary efficiency results from the fact that Idaho Power is not required to incur  
7 duplicative costs to ensure the prudent operation of the plant on a day-to-day basis.  
8 If the arrangement were otherwise and both PacifiCorp and Idaho Power were each  
9 independently responsible for operating the plant, the costs to run the Jim Bridger  
10 power plant would be considerably higher.

11 **Q. Is this type of arrangement typical?**

12 A. Yes. This type of arrangement—where the majority owner is also the designated  
13 operator of the plant (with the same attendant duties as PacifiCorp)—is typical of the  
14 industry whenever there are joint owners of a plant.

15 **Q. Does the Company monitor PacifiCorp's performance as the operator of the  
16 plant?**

17 A. Yes. Idaho Power meets with PacifiCorp personnel on a regular basis to discuss the  
18 operations at the Jim Bridger power plant. Idaho Power meets with the plant on a  
19 quarterly basis for scheduled Ownership Meetings in which all operations of the plant  
20 are discussed. Idaho Power also meets with plant and corporate personnel to  
21 discuss any issues that the plant is currently facing such as environmental  
22 compliance, outage scope and scheduling, budgets, load forecasts, and union  
23 issues. Routine phone calls to the plant are made on an almost daily basis to assess  
24 operating restrictions and other issues that would have an effect on the output of the  
25 plant. Idaho Power also performs financial audits at the plant and corporate level.  
26

1 **Q. In its role as minority owner, does Idaho Power accept its responsibility to its**  
2 **customers to include in rates only those costs to provide utility service that**  
3 **are prudently incurred?**

4 A. Absolutely. The fact that Idaho Power has delegated to PacifiCorp the day-to-day  
5 operations of the Bridger plant—or any other plant for that matter—in no way  
6 suggests that Idaho Power is not responsible for ensuring that only prudently  
7 incurred costs are included in rates. PacifiCorp has covenanted with Idaho Power  
8 through the Agreement for the Operation of the Jim Bridger Project, “that it will  
9 operate and maintain the Project at the lowest reasonable cost and in a prudent and  
10 skillful manner in accord both with the standards prevailing in the utility industry for  
11 projects of a similar size and nature and with applicable laws and final orders or  
12 regulations of a regulatory or other agencies having jurisdiction.” The fact is that the  
13 Company believes that in respect to the Jim Bridger plant, the Company best meets  
14 this responsibility through its arrangement for PacifiCorp to serve as the plant  
15 operator.

16 **Q. CUB’s testimony discusses at length PacifiCorp’s 2012 Integrated Resource**  
17 **Plan (“IRP”) Update. Is PacifiCorp’s 2012 IRP Update relevant to Idaho**  
18 **Power’s decision to undertake the Jim Bridger Unit 3 Scrubber Upgrade**  
19 **Project?**

20 A. No. PacifiCorp’s 2012 IRP Update was prepared in late 2011 and early 2012—well  
21 after the decision was made to invest in the Jim Bridger Unit 3 Scrubber Upgrade  
22 Project. For this reason, it does not reflect what Idaho Power knew or should have  
23 known when it made its decision.

24 **Q. If you do not believe that PacifiCorp’s 2012 IRP Update is relevant, why did you**  
25 **reference it in your previous testimony?**

26 A. As has been noted in previous filings by Idaho Power, the Company cited

1 PacifiCorp's 2012 IRP Update for a limited purpose—to rebut a point made by CUB  
2 related to PacifiCorp's Naughton coal-fired power plant. The Company never relied  
3 on the 2012 IRP Update to demonstrate the prudence of the decision to invest in the  
4 Jim Bridger Unit 3 Scrubber Upgrade Project. To the extent that CUB relies on the  
5 results of the modeling in the 2012 IRP Update to support its claim that the Jim  
6 Bridger Unit 3 Scrubber Upgrade Project was imprudent, the Company reiterates that  
7 the 2012 Update was based on information (including natural gas price forecasts)  
8 that were unavailable at the time the investment decision at issue here was made.  
9 Thus, CUB's claim that 2012 IRP Update "did little to demonstrate that the scrubber  
10 upgrade was cost-effective" completely misses the point because the 2012 IRP  
11 Update was never intended to demonstrate the cost-effectiveness of the scrubber  
12 upgrade.

13 **Q. CUB is suggesting that the analysis for the scrubber upgrade was done in a**  
14 **piecemeal fashion, not taking into consideration the additional investment that**  
15 **will be required to be compliant with future air quality regulations. Do you**  
16 **agree with CUB's argument?**

17 A. No. PacifiCorp's analysis did take additional investments into consideration using  
18 the information available at the time. PacifiCorp approached its analysis  
19 comprehensively and considered the emissions control investments required or  
20 reasonably anticipated for compliance with the Regional Haze Rules and other air  
21 quality regulations.

22 **Q. CUB's testimony also includes criticisms of the studies that were performed by**  
23 **PacifiCorp related to the pollution control investments at Jim Bridger Unit 3.**  
24 **How do you respond to those criticisms?**

25 A. Idaho Power relied on PacifiCorp, as the plant operator, to prepare these studies. As  
26 such, Idaho Power relies on the testimony and analyses set forth in the direct and

1 reply testimony of PacifiCorp witness Chad A. Teply, and the reply testimony of  
2 PacifiCorp witness Cathy S. Woollums to rebut CUB's criticisms.

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

4 A. Yes.

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BEFORE THE PUBLIC UTILITY COMMISSION  
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**DOCKET UE 233**

IN THE MATTER OF THE APPLICATION )  
OF IDAHO POWER COMPANY FOR )  
AUTHORITY TO INCREASE ITS RATES )  
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STATE OF OREGON. )  
\_\_\_\_\_ )

**IDAHO POWER COMPANY**

**REPLY TESTIMONY**

**OF**

**GREGORY W. SAID**

**July 19, 2012**

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

2 A. My name is Gregory W. Said and my business address is 1221 West Idaho Street,  
3 Boise, Idaho. I am employed by Idaho Power Company (“Idaho Power” or  
4 “Company”) as the Vice President of Regulatory Affairs.

5 **Q. Are you the same Gregory W. Said who previously testified in this docket?**

6 A. Yes. My witness qualifications are set forth in my Direct Testimony, Idaho  
7 Power/100.

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

9 A. My testimony will respond to the testimony filed by the Citizens’ Utility Board of  
10 Oregon (“CUB”) on June 20, 2012. Specifically, my testimony will address the  
11 practical implications of CUB’s novel proposal related to the application of the Public  
12 Utility Commission of Oregon’s (“Commission”) used and useful standard to pollution  
13 control investments made at coal-fired power plants. Because I am not a lawyer,  
14 and I am filing testimony as opposed to a legal brief, I will not address the merits of  
15 the legal argument CUB sets forth in its testimony. That subject will be reserved for  
16 the legal briefing.

17 **Q. What is CUB’s proposal for applying the used and useful standard to pollution  
18 control investments at coal-fired power plants?**

19 A. As I understand it, CUB’s proposal is that for purposes of pollution control measures  
20 at coal-fired power plants, investments should not be considered used and useful  
21 until the compliance deadline mandated by the particular environmental regulation  
22 that required the pollution control equipment to be installed. For example, if  
23 compliance with a particular environmental regulation, like Regional Haze Rules  
24 (“RHR”) is required by 2015, CUB proposes that no investments related to  
25 compliance with that regulation be included in rates before 2015—regardless of  
26 whether the investment was made in equipment, like the scrubber, that has been

1 installed and is operational before the 2015 deadline. Thus, the theory that seems to  
2 underlie this proposal is that the purpose of the investment is not to remove or  
3 reduce pollutant, but rather to comply with a law, and thus, cannot be used and  
4 useful until the last possible date on which compliance must be made.

5 **Q. Why do you describe CUB's proposal as "novel"?**

6 A. To my knowledge, the Commission has never interpreted its used and useful  
7 standard, when applied to pollution control investments at coal-fired power plants, to  
8 be applied in the manner CUB proposes. In the past, a pollution control investment  
9 was treated like any other capital investment at the plant—once the equipment is  
10 installed and operational it was deemed used and useful and accordingly included in  
11 rates. With respect to a scrubber, this meant that once the scrubber was installed  
12 and was removing sulfur dioxide from the plant emissions, it was used and useful.

13 **Q. Do you agree that the Commission should adopt CUB's novel proposal?**

14 A. No, I do not. There are several reasons why the Commission should reject CUB's  
15 proposal as poor public policy. Perhaps most important of all, CUB is proposing the  
16 introduction of additional regulatory lag for no apparent reason other than to allow  
17 impermissible hindsight review of these investment decisions. Idaho Power does not  
18 dispute that when a utility makes a decision to invest in a particular pollution control  
19 measure, it must consider in that decision-making process all the related regulations  
20 and associated pollution control measures that are reasonably known at the time the  
21 investment decision is made. That is precisely what PacifiCorp considered in its  
22 "Clean Air Initiative Capital Projects Study for Jim Bridger U3 – Dec. 2008" ("CAI  
23 Study") and described further by Mr. Carstensen. CUB's proposal moves well  
24 beyond this concept, however, and proposes that the Commission not even review  
25 the prudence of the scrubber upgrade until the RHR compliance deadline, which is in  
26 2015. CUB's proposal here appears to have no purpose except to allow the

1 Commission to deviate from its prudence standard and evaluate the entire suite of  
2 pollution control measures based upon information that becomes known after the  
3 original decision is made. Indeed, in this case, CUB's testimony argues that if Idaho  
4 Power and PacifiCorp were to update the analysis that was used to justify the  
5 scrubber upgrade investment that updated analysis may result in a different decision.  
6 But that is not how a prudence review works—it looks at what a utility knew or should  
7 have known *at the time the decision was made*. Here, CUB has developed a novel  
8 used and useful standard in an attempt to allow hindsight review of pollution control  
9 investments, which goes against well-established Commission precedent and should  
10 be rejected.

11 **Q. Are there any other problems with CUB's proposal?**

12 A. Yes. One of the serious implications of CUB's proposal is that it would encourage  
13 utilities to wait until the last possible moment to make necessary investments in  
14 pollution control measures. Such a delay may cause unintended problems due to  
15 limited materials and labor and may ultimately result in customers paying more for  
16 the installation of these pollution control measures than it would otherwise cost if the  
17 utility was able to prudently plan ahead and install the equipment in the most cost  
18 effective Manner. PacifiCorp, as the operator of the plant was able to install the  
19 facilities at issue in this case during a planned outage period. Given a CUB-like  
20 approach to hold off on facility investment until the last possible moment, PacifiCorp  
21 might not be able to sync up with a planned outage, resulting in higher costs to shut  
22 down the unit(s) in order to make the necessary upgrades.

23 The novelty of CUB's position here is also particularly problematic because  
24 the investments at issue in this case were made years ago, and therefore application  
25 of a new used and useful standard applied in a retroactive manner results in an  
26 unfair decision. So if the Commission does adopt CUB's interpretation of the used

1 and useful standard it should do so prospectively only.

2 **Q. Why do you believe that it is unfair to retroactively apply a new interpretation**  
3 **of the used and useful standard in this case?**

4 A. When Idaho Power becomes aware of an applicable, or potentially applicable,  
5 environmental regulation that will impact the operations of its coal-fired plants, the  
6 Company ensures that a comprehensive plan is developed that will allow the  
7 Company to comply with the regulation in an efficient and orderly manner at the least  
8 cost to customers. In this case, PacifiCorp developed and implemented its  
9 Comprehensive Air Initiative,<sup>1</sup> as the operator of the Jim Bridger power plant,  
10 incorporating the utilities' understanding of the current used and useful standard.  
11 Had Idaho Power known that the Commission would apply a new interpretation of  
12 the used and useful standard, as CUB has requested here, then Idaho Power's  
13 actions may have been different.

14 **Q. Does that conclude your testimony?**

15 A. Yes, it does.  
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24 <sup>1</sup> It was part of this Comprehensive Air Initiative that PacifiCorp developed the CAI  
25 Study that the Company relies on to demonstrate the prudence of the scrubber upgrade at  
26 issue here.