

**BEFORE THE PUBLIC UTILITY COMMISSION**

**OF OREGON**

**UM 1129**

**PHASE II -- TRACK 2**

In the Matter of )  
 )  
PUBLIC UTILITY COMMISSION OF )  
OREGON )  
 )  
Staff's Investigation Relating to Electric )  
Utility Purchases From Qualifying )  
Facilities. )  
\_\_\_\_\_ )

**IDAHO POWER COMPANY**

**REBUTTAL TESTIMONY**

**OF**

**JOHN R. GALE**

**AND**

**RANDY C. ALLPHIN**

April 7, 2006

1           **Q. Please state your names and positions with Idaho Power Company (“Idaho**  
2 **Power” or the “Company”).**

3           A. My name is John R. Gale and I am the Vice President of Regulatory Affairs. My  
4 name is Randy C. Allphin and I am the Power Supply Cogeneration and Small Power Production  
5 (CSPP) Contract Administrator.

6           **Q. Are you the same John R. Gale who has previously provided direct**  
7 **testimony on behalf of Idaho Power in Phase II – Track 2 of this proceeding?**

8           A. Yes. My direct testimony in Phase II – Track 2 was identified as Idaho  
9 Power/300.

10          **Q. Mr. Allphin, have you previously testified in this case?**

11          A. No.

12          **Q. Mr. Allphin, please describe your educational background and work**  
13 **experience with Idaho Power.**

14          A. I graduated in 1982 from Boise State University with a Bachelors of Business  
15 Administration. In June 1982, I accepted a position as Customer Service Specialist with Idaho  
16 Power Company. In 1984 I transferred to the Property Accounting group. In 1986, I transferred  
17 to the Operations and Fuels Management accounting group, my specific responsibilities being  
18 accounting and economic analysis of the agreements with qualifying facilities (“QFs”), Fuels  
19 accounting and Thermal Operations and Maintenance accounting. In 1998 I was assigned the  
20 responsibility of CSPP Contract Administrator. As CSPP Contract Administrator, I am  
21 responsible for the daily administering of existing QF contracts, negotiations of new QF  
22 contracts, coordinating and assisting in QF economic, accounting, regulatory, and policy analysis  
23 and proposals.

24          **Q. What is the purpose of your rebuttal testimony in this Track 2 of Phase II?**

25          A. We will respond to testimony presented by Staff and intervenors on issues  
26 associated with negotiating the purchases prices, terms and conditions to be included in non-

1 standard contracts with large QFs. We will also discuss the approach that the Idaho Public  
2 Utilities Commission (“Idaho Commission”) has applied to several of these same contract  
3 negotiation issues with the hope that the Public Utility Commission of Oregon (“Commission”)  
4 will find the State of Idaho’s experience to be useful in its decision-making process. We will  
5 also address Staff Witness Dougherty’s recommendation that very small QFs be permitted to  
6 decide whether or not they will carry liability insurance.

7 **Q. When you refer to large QFs, what do you mean?**

8 A. Large QFs are those QFs with a nameplate capacity larger than the 10 MW cap  
9 for entitlement to standard rates and standard contracts the Commission set in Order No. 05-584.

10 **Q. Why should the purchase prices, terms and conditions for contracts with**  
11 **large QFs be different than the standard rates, terms and conditions available to small**  
12 **QFs?**

13 A. In Order No. 05-584, the Commission confirmed that it was consistent with  
14 PURPA and in the public interest to treat purchase arrangements between utilities and large QFs  
15 differently than the standard contracts and rates offered to small QFs. The Commission also  
16 recognized in Order No. 05-584 that large QFs can have a substantial impact on the utility’s  
17 costs and resource planning process, and as a result, such contracts should be addressed on an  
18 individually-negotiated basis. (Order No. 05-584, p. 16)

19 **Q. Weyerhaeuser/ICNU Witness Beach recommends that purchase prices for**  
20 **both energy and capacity for large QFs be differentiated by time of delivery to encourage**  
21 **reliability and as an economic equivalent to dispatchability. Do you concur with his**  
22 **recommendation?**

23 A. Time-of-delivery (“TOD”) pricing is certainly appropriate for purchases from  
24 large QFs and Idaho Power agrees that the Commission should encourage utilities and large QFs  
25 to utilize time-differentiated purchase rates in their negotiated agreements. Fortunately, with  
26 large QFs, economies of scale allow the cost-effective installation of sophisticated and reliable

1 TOD metering and telemetry equipment. As a result, negotiated QF purchase prices can be  
2 differentiated seasonally, monthly, daily and even hourly without undue expense or difficulty.  
3 Idaho Power also agrees that time-of-delivery pricing is beneficial because it can price QF  
4 energy deliveries based on times when the energy is most valuable to Idaho Power's customers.  
5 However, TOD rates are not a panacea. Idaho Power's experience has shown that they do not  
6 eliminate the need for contract provisions that address the reliability and dispatchability of large  
7 QF projects. The Company's experience has shown that time-of-delivery pricing works best  
8 when it is used in tandem with contract provisions that operate to address reliability and ensure  
9 that customers are not disadvantaged by purchases from large QFs.

10 **Q. What contract provisions do you have in mind?**

11 A. First, because large QFs can have a material impact on utility planning and  
12 operating functions, large QFs must be required to specify in the contract the amounts of  
13 capacity and energy or firm energy they will deliver each month. Time-of-delivery pricing will  
14 set the purchase prices to track the value of the firm energy actually delivered on-peak and off-  
15 peak during the month. Second, the contract provisions must include specific remedies if the QF  
16 fails to deliver the agreed-upon amount of energy. Such remedies would include contract  
17 provisions commonly used in the utility industry that would allow the Company to recover  
18 damages from large QFs in much the same way damages are recovered from counterparties in  
19 contracts for firm energy and capacity purchases Idaho Power makes in the wholesale market. If  
20 customers are to be held indifferent as between purchases from the wholesale market or from a  
21 QF, contract provisions should be included in QF projects that are similar to those routinely  
22 included in non-QF market purchase contracts.

23 Third, because contracts with large QFs can potentially involve large amounts of energy  
24 and money, Idaho Power must be allowed to contract with creditworthy parties and include  
25 commercially-reasonable security provisions to assure that large QFs will have the financial  
26 ability to make Idaho Power whole if the QF fails to perform the contract.

1           **Q.     Would QFs be disadvantaged if such industry-standard contract provisions**  
2 **are included in QF contracts?**

3           A.     No. Weyerhaeuser/ICNU Witness Beach testified that the industry-standard EEI  
4 master agreement could serve as the template for contracts with large QFs. (Weyerhaeuser/100,  
5 Beach/12) Idaho Power concurs with Mr. Beach that portions of the EEI master contract,  
6 particularly the provisions dealing with contract performance, measurement of damages for  
7 failure to perform and creditworthiness, are reasonable terms and conditions for both buyers and  
8 sellers and provide the basis for negotiating non-standard contracts with large QFs. Idaho Power  
9 recognizes that some adjustments to those standard provisions would be appropriate for certain  
10 large QF facilities, but in the main, those provisions will work as Mr. Beach has noted.

11           **Q.     Weyerhaeuser/ICNU Witness Beach recommends that payments to large**  
12 **QFs be reduced if they fail to deliver the agreed-upon amounts of generation and be paid a**  
13 **bonus if they generate more than the prescribed amount. (Weyerhaeuser/ICNU/300**  
14 **Beach/12) What is your response to that recommendation?**

15           A.     Idaho Power agrees with Mr. Beach that payments to QFs should be reduced if  
16 they fail to perform. Idaho Power has a large amount of QF resource on its system. As such, it  
17 must plan its acquisition of other resources taking into account the delivery amounts contained  
18 in QF agreements. If a large QF fails to deliver the agreed-upon amount of energy, it is likely  
19 Idaho Power will have to make up the energy shortfall with wholesale market purchases or  
20 operation of its peaking generation resources. If the cost to replace the shortfall is higher than  
21 the QF contract price, customers are disadvantaged and the difference should be recovered from  
22 the QF.

23           On the other hand, over-delivery by the QF is not normally beneficial to Idaho Power.  
24 By the time the over-delivery occurs, Idaho Power will have already planned its resources to  
25 cover its anticipated load, and receiving unexpected additional energy from a large QF generally  
26 means that the Company either has to back down less-expensive generating resources or sell the

1 energy unexpectedly received from the QF on the surplus market. Historically, such short-term  
2 sales have been at prices that are considerably less than the cost of QF energy. In addition, Idaho  
3 Power incurs costs to dispose of the excess energy.

4 Certainly there may be times when it is cost-effective for Idaho Power to obtain energy  
5 from a QF that exceeds the agreed-upon delivery amounts. In those cases, bi-lateral negotiations  
6 as to the delivery conditions and the purchase price are the best vehicle to create a mutually  
7 beneficial result. But in most instances, there is no benefit to customers in receiving  
8 unscheduled excess energy. Paying QFs a bonus for excess deliveries simply creates a windfall  
9 for the QF developer with no commensurate benefit to customers. In most instances Idaho  
10 Power and its customers are best served by QFs if the QF actually delivers the amount of energy  
11 it commits to provide – no more, no less.

12 **Q. If large QFs deliver more than the committed amount, how should the**  
13 **additional energy be valued?**

14 A. It should be valued for what it is – non-firm energy. The purchase price should be  
15 set accordingly. Idaho Power recommends that the purchase price formula set out in its Idaho  
16 Schedule 86 (Idaho Power Exhibit 302) is an appropriate measure of the value of non-firm  
17 energy received from large QFs. Non-firm energy pricing under Schedule 86 ensures that  
18 customers do not pay more than market price for energy and further ensures that the Company  
19 will be able to recover most of the costs it will incur to dispose of the energy that it had not  
20 planned on receiving.

21 **Q. If large QFs only receive non-firm market prices for excess energy as**  
22 **provided under Idaho Power’s Schedule 86, will they be fairly compensated?**

23 A. Yes. Those QFs that produce excess energy from renewable resources that do not  
24 have an incremental fuel cost will simply receive a windfall. The QFs that utilize a fuel source  
25 can make their own decision as to whether or not the market price of energy is sufficiently high  
26 to justify their utilizing their fuel to generate excess energy or delivery to Idaho Power.

1           **Q.     Weyerhaeuser/ICNU Witness Beach recommends that purchase rates for**  
2 **large QFs be divided into separate payments for capacity and energy? Do you have any**  
3 **comment on that proposal?**

4           A.     It is certainly possible to pay large QFs separately for capacity and energy and the  
5 contract provisions recommended by Weyerhaeuser/ICNU in their Exhibit 302 provide a  
6 reasonable starting point for negotiations if the Commission decides to dictate that separate  
7 payments are the only acceptable approach. However, experience in Idaho indicates that caution  
8 should be exercised before proceeding down that path.

9           **Q.     Please elaborate.**

10          A.     In its initial implementation of PURPA in Idaho, the Idaho Commission required  
11 that payment to QFs be structured as separate capacity and energy payments. However, the  
12 Idaho Commission soon decided that the separate capacity and energy payment structure was not  
13 the best approach and directed Idaho utilities to stop using separate capacity and energy  
14 payments and instead utilize energy and capacity payments bundled into a single payment based  
15 on firm energy production.

16          **Q.     Why did the Idaho Commission decide that a single bundled payment was**  
17 **preferable to separate capacity and energy payments?**

18          A.     The difficulty with separate capacity and energy payments became apparent early-  
19 on when several QFs failed to provide the amounts of capacity they agreed to provide. These  
20 early Idaho contracts contained provisions very similar to those recommended by  
21 Weyerhaeuser/ICNU Witness Beach in his Exhibit 302. If a QF failed to provide the agreed-  
22 upon capacity, the QF was placed on probation, and if the QF could not correct the problem  
23 within a reasonable period of time, the QF project's capacity was derated. When a derating  
24 occurred, the QF was required to refund the prior capacity overpayments. While those  
25 provisions are reasonable, the reality is that most QF developers utilize project financing to  
26 develop their projects and their projects are highly leveraged. As soon as the QF project's

1 capacity was derated and the obligation to repay the utility arose, the QFs complained to the  
2 Idaho Commission that they could not make their debt payments, cover O&M expenses and  
3 repay the utility at the reduced revenue levels that were placed into effect after the QF's capacity  
4 was derated. After the Idaho Commission adjudicated several proceedings in which the QFs  
5 requested that the Idaho Commission order Idaho Power to provide fifteen and twenty-year  
6 repayment terms so the QFs could maintain their cash flows, the Idaho Commission decided to  
7 eliminate the use of separate capacity and energy payments for future QF contracts. The Idaho  
8 Commission ordered that QFs be paid a rate that bundled the capacity and energy components  
9 into a single, per-kWh or "all-energy" rate. Eventually, most of the QFs that had separate  
10 capacity and energy payments opted to amend their contracts to utilize a single bundled payment  
11 rate.

12 **Q. Has Idaho Power experienced any other potential problems with separate**  
13 **capacity and energy payments?**

14 A. Yes. Idaho Power has experienced a situation where a biomass-fired QF project  
15 found it economically advantageous to cease generation and sell its wood-waste fuel. Under  
16 those circumstances it would have been extremely unfair to Idaho Power's customers if it had  
17 been forced to make capacity payments during the probationary period. Fortunately, in the  
18 instances where this situation occurred in Idaho, Idaho Power was paying the QF on a bundled  
19 energy-capacity payment basis and as a result was not economically disadvantaged. However,  
20 had the Company been paying a separate capacity payment while the QF sold its fuel during the  
21 probation period it would have been a very inequitable pricing arrangement.

22 **Q. Does a bundled payment covering both capacity and energy eliminate the**  
23 **problem you just described?**

24 A. A bundled payment does not eliminate the problem of the large QF  
25 overestimating how reliably it will generate. It does eliminate the problem of a capacity  
26 repayment balance accruing which then must be repaid if the large QF's contract capacity is

1 derated. Under the bundled payment approach, the large QF and the utility “settle up” each  
2 month and no excessive capacity overpayment balance is created.

3 **Q. Does a bundled capacity and energy payment provide the same incentive for**  
4 **reliability as separate capacity and energy payments?**

5 A. Yes. In fact, the bundled payment is more effective. For example, in his  
6 testimony Mr. Beach describes how a capacity payment based on delivery during on-peak times  
7 encourages a large QF to be available and therefore more “reliable.” (Weyerhaeuser/ICNU/300,  
8 Beach/12) He makes a similar argument for time-of-delivery energy payments.  
9 (Weyerhaeuser/ICNU/300, Beach/13) Combining those two payments into a single, per  
10 kilowatt-hour payment provides an even greater level of incentive to large QFs to perform in  
11 accordance with their commitment. If they generate during the on-peak period, they receive the  
12 on-peak capacity payment and on-peak energy payment combined. If they do not generate  
13 during the on-peak period, they not only lose out on the energy component, but also the capacity  
14 component. This provides an even stronger incentive for the large QF to be reliable. In  
15 summary, the bundled payment provides the same or greater incentive to perform without the  
16 problems of the large QF being paid for capacity not actually provided and the subsequent  
17 problems with derating and retroactive repayment mechanisms.

18 **Q. Your prior answers have discussed the use of a bundled energy and capacity**  
19 **payment to encourage QF reliability. Does a bundled energy capacity payment address the**  
20 **issue of QF non-dispatchability?**

21 A. No. Neither separate capacity and energy payments nor a bundled capacity and  
22 energy payment captures the additional costs Idaho Power incurs because large QF resources  
23 cannot be dispatched to optimize the overall cost of resources on Idaho Power’s system.  
24 Weyerhaeuser/ICNU Witness Beach acknowledges that QF resources have very limited ability to  
25 change their generation patterns to respond to increasing customer loads or the availability of  
26 lower-cost alternative resources. (Weyerhaeuser/ICNU/300, Beach/13)

1 As a general rule, non-fueled QFs, such as wind, hydro, animal waste digesters and  
2 geothermal QFs, will generate as much as they can all the time because incremental fuel cost is  
3 not an issue. Fueled QFs such as biomass or natural gas CHP projects that provide either steam  
4 to a thermal host or electricity to a companion industrial facility have minimum generation  
5 requirements that substantially limit their ability to respond to changing utility system  
6 conditions. Over the years, Idaho Power has experienced numerous occasions where low  
7 wholesale prices have allowed the Company to reduce generation at its own resources to save  
8 customers money. Unfortunately, at the same time, it was unable to reduce purchases from QF  
9 resources and achieve even greater savings. The payment structure recommended by Mr. Beach  
10 ignores the costs associated with the inability of Idaho Power to dispatch QF resources.

11 **Q. Is there a way to measure the cost associated with the inability to dispatch**  
12 **QF resources?**

13 A. Yes. Staff Witness Schwartz in her testimony discusses the use of stochastic  
14 system dispatch models to estimate the cost of QF non-dispatchability. (Staff/1800 Schwartz/11)  
15 Idaho Power has such a stochastic system resource dispatch model, the AURORA model, that it  
16 uses in its Integrated Resource Planning (“IRP”) process. Running the system dispatch model  
17 (“IRP model”) with and without the QF resource will provide cost information that can be used  
18 to determine the costs and benefits to customers of adding a non-dispatchable QF resource. This  
19 cost information can provide a rational basis for adjusting the avoided costs specific to the non-  
20 dispatchability of the individual large QF resource.

21 **Q. Does Idaho Power have experience in utilizing this stochastic IRP model in**  
22 **setting avoided cost rates?**

23 A. Yes. Approximately ten years ago the Idaho Commission ordered Idaho Power  
24 and all other electric utilities subject to its jurisdiction to utilize their IRP models to determine  
25 avoided costs for large QFs.  
26

1           **Q     Please briefly explain how this technique for developing avoided costs for**  
2 **large QFs works.**

3           A.     In summary, the IRP model is the same model that the Company uses to establish  
4 its integrated resource plan every two years. The IRP methodology utilizes the AURORA  
5 system dispatch model for which Idaho Power and the Idaho Public Utilities Commission Staff  
6 have a user's license. As a result, the Idaho Commission Staff is familiar with the IRP  
7 methodology AURORA model that is used to determine rates for large QFs.

8           At the time its Integrated Resource Plan is developed, Idaho Power, the Staffs of both the  
9 Idaho and Oregon Commissions and numerous other participants in the Company's Integrated  
10 Resource Plan Advisory Committee ("IRPAC") review the Company's Integrated Resource  
11 Plan. The IRPAC looks at the costs and benefits of numerous alternative resource portfolios  
12 which include demand-side management, renewable resources, demand reduction programs, as  
13 well as more traditional generating resource choices such as coal and natural gas-fired  
14 generators. Ultimately, with the aid of the AURORA model, the optimal Integrated Resource  
15 Plan is determined and submitted to both the Idaho and Oregon Commissions.

16           In Idaho, to assess the avoided costs of large QFs, the IRP model is used to compare the  
17 accepted IRP resource portfolio to that same portfolio with the inclusion of the QF resource. By  
18 comparing the revenue requirement associated with the two alternative portfolios, it is possible to  
19 better estimate the costs Idaho Power can avoid by purchasing the output of the large QF. This  
20 IRP method provides a more specific measurement of the value of an individual large QF  
21 resource than does the more generic surrogate avoided resource method that forms the basis for  
22 standard rates in Idaho and Oregon.

23           **Q.     Is Idaho Power recommending that this Commission allow Idaho Power to**  
24 **utilize the IRP methodology for determining avoided costs for large QFs in Oregon?**

25           A.     Yes. Both Idaho Power and the Idaho Commission Staff continue to believe that  
26 the use of the IRP methodology to determine avoided cost rates for large QFs is in the public

1 interest. It is true, as Mr. Gale has testified previously, that using the more sophisticated IRP  
2 methodology tends to produce avoided costs that are somewhat lower than the avoided costs  
3 used to set standard rates for smaller QFs in Idaho and Oregon. As a result, a few large QFs in  
4 Idaho have chosen to down-size their projects to take advantage of the higher standard rates.  
5 Idaho Power believes that because it is receiving requests for contracts from QFs larger than 100  
6 MW, it is critical that the avoided costs for those large resources be set as precisely as possible.  
7 The IRP methodology is a more precise measure of the value of an individual QF on Idaho  
8 Power's system than is the more generic standard rates and provides a cost-based framework for  
9 negotiations to address the price-related criteria the Commission identified in Order No. 05-584.  
10 For all of those reasons, Idaho Power requests that the Commission allow Idaho Power to utilize  
11 the same IRP methodology it utilizes in Idaho to address the price-related criteria for negotiating  
12 avoided cost rates for large QFs in Oregon.

13 **Q. Does use of the IRP methodology address all of the components the**  
14 **Commission identified in Order No. 05-584 to be taken into account in negotiating rates**  
15 **with large QFs?**

16 A. Not all of them. Individual negotiation and analysis are still necessary to address  
17 a number of the identified issues, such as variations in line losses, usefulness of QF energy and  
18 capacity during system emergencies, and scheduling of outages. These issues can be addressed  
19 by contract provisions and Idaho Power has dealt with all of those issues in prior QF contracts.  
20 As such, the Company does not believe that they will present a material barrier to successful  
21 negotiations with developers of large QF projects.

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23 ///

24 ///

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1           **Q.     Weyerhaeuser/ICNU Witness Beach testifies that termination provisions in**  
2 **QF contracts should keep the ratepayer whole if a QF receives capacity payments that are**  
3 **front-loaded or levelized and the QF subsequently terminates the contract before**  
4 **completion of the full term. (Weyerhaeuser/ICNU/300 Beach/14) What is your reaction to**  
5 **Mr. Beach’s recommendation?**

6           A.     Idaho Power agrees with Mr. Beach that if a large QF has received levelized  
7 payments and terminates the contract early, the QF has been overpaid due to the front-loading of  
8 the payments and that this overpayment should be repaid. An overpayment can also result if a  
9 QF has its capacity derated. The prior payments for the derated capacity were overstated  
10 because of levelization. Finally, overpayments resulting from payment levelization are not the  
11 only damages a utility suffers if the QF terminates early. Idaho Power should be permitted to  
12 recover all of its damages if a large QF chooses early termination.

13           **Q.     Weyerhaeuser/ICNU Witness Beach testified that the purchase prices for**  
14 **large QFs should be indexed to natural gas prices. What is Idaho Power’s response?**

15           A.     Mr. Beach is candid in his testimony that large QFs, particularly natural gas-fired  
16 CHP QFs, strongly desire to transfer the potential risks of volatile natural gas prices to the utility  
17 and its customers by tying QF purchase prices to spot market natural gas prices. As Mr. Beach  
18 notes on P. 25 of his testimony, “With indexing, CHP projects gain the assurance of a direct link  
19 between the major cost driver of both their input and output costs, reducing operating risk and  
20 promoting more stable output.” As Mr. Gale noted in his direct testimony (Idaho Power/300,  
21 Gale/2), to avoid natural gas volatility price risk, Idaho Power has decided not to construct a  
22 base-load natural gas-fired resource. Basing large QF purchase prices on fluctuating spot-market  
23 natural gas prices is inconsistent with the Company’s approved IRP and shifts gas price risk back  
24 to Idaho Power’s customers that should legitimately be borne by the QF developer.

25           It is also important to note that in the case of many CHP projects, the thermal host is  
26 already utilizing natural gas as a part of its industrial process. As such, the host is currently

1 managing the risks associated with volatile natural gas prices. By allowing the QF developer to  
2 be paid on an index of spot-market gas prices, Idaho Power's customers are absorbing the natural  
3 gas volatility risk for both the electric generation of the QF and the industrial process of the  
4 steam host.

5 **Q. Mr. Beach asserts that ratepayers will benefit if QF prices are tied to indexed**  
6 **natural gas prices when natural gas prices decline. Is he correct?**

7 A. Under current rate mechanisms, Idaho Power's Oregon customers would not be  
8 benefited. Idaho Power does not have a power cost adjustment mechanism in Oregon, and as a  
9 result, any benefit from reduced natural gas prices could not be passed on to customers.

10 **Q. Staff Witness Chriss indicates in his testimony that basing QF purchase**  
11 **prices on fluctuating spot market natural gas prices may be reasonable because utilities can**  
12 **hedge the market risk of fluctuating natural gas prices. (Staff/1900 Chris/8) Do you agree?**

13 A. Idaho Power disagrees for several reasons. First, as noted in the prior testimony,  
14 in Idaho Power's specific case, basing QF prices on volatile spot-market gas prices is  
15 inconsistent with the Company's acknowledged Integrated Resource Plan and unreasonably  
16 shifts risk to Idaho Power's customers that should legitimately be borne by the QF developer.

17 Second, Mr. Chriss testifies that utilities are protected from the potential volatility of gas  
18 index prices because they employ sophisticated risk management and hedging programs with  
19 which they are able to manage price risk. He goes on to testify that both PGE and PacifiCorp  
20 have capably managed their natural gas purchase and price risk. Idaho Power also has a formal  
21 risk management program, but because the Company has chosen not to pursue a base-load  
22 natural gas-fired generating resource, the need for a formal natural gas price hedging program  
23 has not been critical. But even with the Company's limited exposure to natural gas price  
24 hedging programs, Idaho Power's experience has demonstrated that operating such hedging  
25 programs is neither inexpensive, nor is it without risk. It is not good public policy for Idaho  
26 Power and ultimately its customers to be required to absorb the costs and risks associated with

1 volatile natural gas prices simply to reduce the risk to QF developers. There are numerous  
2 entities that will provide both physical and financial hedging and risk management services for  
3 large QFs. Establishing a fixed avoided cost purchase price based on a neutral forecast of natural  
4 gas prices and then requiring a large QF to manage its fuel expense against the fixed forecast  
5 price properly allocates the risk of natural gas price volatility between the QF developer and  
6 Idaho Power and its customers.

7 **Q. Weyerhaeuser/ICNU Witness Beach testifies that Idaho Power's experience**  
8 **in Idaho demonstrates that QFs need assistance in negotiating contracts with utilities.**  
9 **What is your response?**

10 A. Mr. Beach's testimony demonstrates that he has very little actual knowledge of  
11 the facts surrounding QF development in Idaho. Mr. Beach cannot identify how many viable  
12 large QF projects are located in Idaho or any specific situations where a potential QF developer  
13 elected not to move forward with an economical large QF project in order to avoid negotiating a  
14 contract with Idaho Power. Additionally, Mr. Beach cannot identify any unreasonable pricing  
15 provisions or contractual concessions that Idaho Power has insisted be included in contracts with  
16 large QFs that have led to frustration of the development of large QFs in Idaho or Oregon. His  
17 conclusion that utility intransigence is the primary reason that relatively few large QFs have  
18 developed in Idaho appears to be speculation on his part.

19 As testified previously, the Idaho Commission has ordered Idaho Power to utilize the IRP  
20 methodology in determining avoided costs for large QFs. Also, as testified earlier, using the  
21 more precise IRP methodology to determine costs that can be avoided by purchasing energy  
22 from large QFs tends to result in avoided costs for individual QF projects that are somewhat less  
23 than the avoided costs computed using the more generic Surrogate Avoided Resource ("SAR")  
24 methodology used to compute standard rates.

25 While it may suit Weyerhaeuser/ICNU's purpose in this case to speculate that utility  
26 intransigence is the primary reason for the relatively few large QF developments in Idaho, a

1 more logical conclusion would be that QF developers prefer the more lucrative standard rates  
2 and have simply chosen to downsize their projects to receive the higher purchase prices.

3 **Q. Staff Witness Schwartz recommends that in negotiating avoided cost pricing**  
4 **for large QFs, the utility should take into account estimated integration costs for the**  
5 **specific QF project (Staff/800 Schwartz/22). Does Idaho Power concur with this**  
6 **recommendation?**

7 A. Yes. Idaho Power has retained a nationally-recognized wind integration  
8 consultant, Enerex, to perform exactly the kind of wind integration study described in Ms.  
9 Schwartz's testimony. That study is well under way and should be completed no later than June  
10 of this year. The Company intends to utilize the results of that study to determine integration  
11 costs which would be factored into negotiations with large intermittent QF resources.

12 **Q. Have you reviewed Staff Witness Dougherty's testimony concerning liability**  
13 **insurance for small QFs?**

14 A. Yes. I am concerned that Mr. Dougherty's conclusion that the decision to  
15 purchase liability insurance should be left to the total discretion of the QF developer. I am  
16 concerned that allowing QFs, even very small ones, to simply opt out of the purchase of liability  
17 insurance because they do not want to pay the premium exposes Idaho Power and eventually its  
18 customers to the possibility of significant expense. Idaho Power should not be obligated to enter  
19 into contracts with QFs that are unwilling to purchase basic liability insurance. Such a  
20 requirement is inconsistent with prudent utility practice and public policy.

21 **Q. Please explain why you believe all QFs, regardless of size, should be required**  
22 **to maintain comprehensive general liability insurance in force.**

23 A. In his testimony on p. 5, Staff Witness Dougherty quotes a portion of Idaho  
24 Power's UM 1129 Opening Brief in which Idaho Power stated: "Staff's argument is similar to  
25 an argument that you don't need to maintain fire insurance on your home because houses rarely  
26 burn down." Mr. Dougherty said: "I agree with this statement as it relates to the need for fire

1 insurance, as all homes face some fire risk.” He goes on to argue that homeowners may  
2 legitimately choose not to obtain flood insurance if they do not live in a flood plain or to  
3 purchase earthquake insurance if they are located a long distance from the closest fault line. He  
4 argues that QF developers will weigh risks against costs in determining whether or not to  
5 purchase various types of insurance. In Idaho Power’s judgment, all QFs face liability risk. In  
6 that regard, the need for liability insurance is very similar to the need for fire insurance. Seldom  
7 do you call on a liability insurance policy to respond to a claim, but when you do, the magnitude  
8 of the harm that might be suffered without the liability insurance is likely to be much more  
9 consequential than the cost of the premiums. Maintaining liability insurance only makes good  
10 business sense. In most instances, project lenders will require it.

11 In addition, liability insurance also protects innocent third parties who receive some  
12 protection from the fact that the QF maintains liability insurance. This societal protection is  
13 similar to the State of Oregon’s requirement that all motor vehicle operators maintain liability  
14 insurance. This requirement is not only aimed to protect the driver, but to protect the state and  
15 innocent third parties who might be injured in a motor vehicle accident.

16 Idaho Power’s primary motivation for requiring that liability insurance be in place is to  
17 protect Idaho Power and its customers from additional expense that it will necessarily incur  
18 defending itself in litigation if a QF is accused of negligence and an injury has ensued. Electrical  
19 contact injuries are often serious and the potential for economic damage is great. Invariably, in  
20 such a situation Idaho Power will be joined as a co-defendant in the lawsuit with the QF. If the  
21 QF does not procure liability insurance which requires the QF’s insurance carrier to indemnify  
22 and provide a legal defense to Idaho Power, at a minimum the expense of defending the  
23 Company will be incurred by Idaho Power and ultimately visited on Idaho Power’s customers,  
24 even if there is no actual recovery from Idaho Power.

25 Ultimately, leaving the decision as to whether or not to procure liability insurance to the  
26 QF developer is almost certainly going to result in many QF developers choosing to save money

1 by foregoing the purchase of liability insurance. Allowing QF developers to make that decision  
2 will expose Idaho Power and its customers to potential expense and will also expose innocent  
3 third parties to the possibility of receiving an injury due to the negligence of the QF developer  
4 with no ability to collect their damages arising out of that injury for the QF developer. These  
5 exposures are not in the public interest.

6 **Q. Does that complete your direct testimony?**

7 A. Yes, it does.

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April 7, 2006

VIA ELECTRONIC MAIL AND US MAIL

Filing Center  
Oregon Public Utility Commission  
550 Capitol Street NE #215  
PO Box 2148  
Salem, OR 97308-2148

Re: UM 1129 (Phase II, Track 2) – Rebuttal Testimony of John R. Gale and Randy Allphin

Dear Sir or Madam:

Enclosed for filing in the above-named docket is the original and five copies of the Rebuttal Testimony of John R. Gale and Randy Allphin on Behalf of Idaho Power Company. Please contact this office with any questions.

Very truly yours,



Jessica A. Gorham

Enclosures

cc: UM 1129 Service List

**CERTIFICATE OF SERVICE  
UM 1129 - PHASE II -- TRACK 2**

I hereby certify that a true and correct copy of **REBUTTAL TESTIMONY OF JOHN R. GALE AND RANDY ALLPHIN ON BEHALF OF IDAHO POWER COMPANY** was served via U.S. Mail on the following parties on April 07, 2006:

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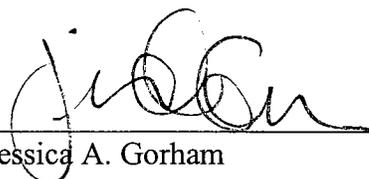
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