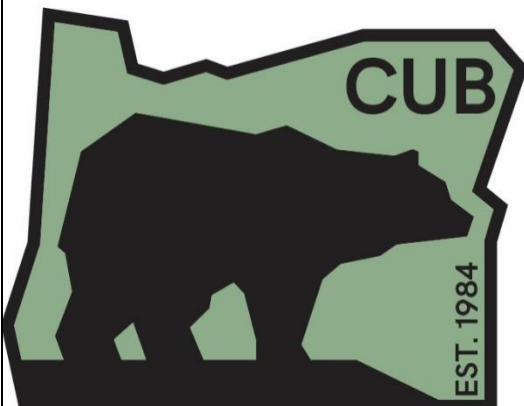


**BEFORE THE PUBLIC UTILITY COMMISSION  
OF OREGON  
UM 1911**

In the Matter of )  
 )  
IDAHO POWER COMPANY, )  
 )  
Resource Value of Solar. )  
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\_\_\_\_\_ )

**OPENING TESTIMONY  
OF THE  
OREGON CITIZENS' UTILITY BOARD**

March 16th, 2018



**BEFORE THE PUBLIC UTILITY COMMISSION  
OF OREGON  
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In the Matter of )  
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IDAHO POWER COMPANY, ) OPENING TESTIMONY OF THE  
) OREGON  
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)  
\_\_\_\_\_)

**I. Introduction**

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

2 A. My name is William Gehrke. I am an economist employed by Oregon Citizens'  
3 Utility Board (CUB). My business address is 610 SW Broadway, Ste. 400  
4 Portland, Oregon 97205.

5 **Q. Please describe your educational background and work experience.**

6 A. I have received a Bachelor of Arts degree in Economics and a Master of Science in  
7 Applied Economics from Florida State University. I began working for CUB in  
8 2017, and have previously worked as an Economist for the Florida Department of  
9 Revenue and as a Public Utility Analyst for the Florida Public Service  
10 Commission.

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

12 A. The purpose of my testimony is to reply to Idaho Power Company's Testimony  
13 filed for Phase II of the resource value of solar (RVOS) docket.

14 **Q. How is your testimony organized?**

1 A. The testimony is organized as follows:

2 II. Inflation

3 III. Administrative Cost

4

5 IV. Conclusion

## II. Inflation

6 **Q. What is inflation?**

7 A. Inflation is the rate at which prices for goods and services increase. A relatively  
8 constant level of inflation allows business to plan for the future. In financial  
9 models, inflation is commonly used as an escalation factor. For example, Idaho  
10 Power estimated its 2018 administration cost at \$47.77 per MWh. In order to  
11 escalate the administrative cost over twenty-five years, the company grew the  
12 administrative cost with inflation, as shown in the table below.

| Year | Formula         | Administration Cost |
|------|-----------------|---------------------|
| 2019 | $47.77 * 1.022$ | \$ 48.82            |
| 2020 | $48.82 * 1.022$ | \$ 49.90            |
| 2021 | $49.90 * 1.022$ | \$ 51.00            |

13

14 **Q. What rate has Idaho Power assumed for inflation?**

15 A. Idaho Power has assumed that the long-term inflation rate will be 2.2 percent.

16 This inflation number is consistent with the 2015 IRP assumptions.<sup>1</sup>

17 **Q. Is Idaho Power's inflation estimate an appropriate projection of long term**  
18 **inflation?**

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<sup>1</sup> See UM 1911, Direct Testimony of Idaho Power, 100/Haener, Page 22, Lines 24-25.

1     **A.**   No. Since 2012, the Federal Reserve, the central bank of the United States of  
2           America, has engaged in the policy of inflation targeting. The Federal Reserve has  
3           established a long-term target inflation rate of two percent.<sup>2</sup> When the Federal  
4           Reserve observes inflation, the central bank conducts monetary policy to lower  
5           future inflation. Inflation targeting reduces the variability of inflation and sets  
6           average inflation at two percent.

7           Inflation targeting, while having a limited history in the United States, has been  
8           successful in other developed countries. For example, New Zealand, a pioneer in  
9           inflation targeting, has had stable inflation since implementing inflation targeting.

10    **Q. What inflation rate should Idaho Power use?**

11    **A.**    The Federal Reserve has established two percent as the medium-term inflation  
12           rate. Based on current Federal Reserve policy, CUB recommends that Idaho  
13           Power’s inflation estimate be set at 2%. This 0.2% adjustment to inflation seems  
14           minor. However, Exhibit 102 indicates the cumulative compounding effect of a  
15           0.2% increase in inflation on a \$10,000 reoccurring cost.

**III. Administrative Cost**

16    **Q. What is Idaho Power’s estimate of the Administrative cost of the resource**  
17           **value of solar?**

18    **A.**    Idaho power has estimated that the administrative cost of one unit of solar is \$47.77  
19           per MWh. The company bases this estimate on the actual cost of administrating its  
20           share of the Oregon Solar Photovoltaic Pilot Program. This RVOS component is  
21           meant to capture the increased cost of administering solar PV programs.

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<sup>2</sup> “Federal Reserve issues FOMC statement of longer-run goals and policy strategy”; Federal Reserve press release; available publicly at: <https://www.federalreserve.gov/newsevents/pressreleases/monetary20120125c.htm> (January 25, 2012).

1 **Q. What is the primary component of the Administrative cost of RVOS?**

2 **A.** The chart below details the primary drivers of administrative cost for RVOS.

| Driver                     | % of Total Cost |
|----------------------------|-----------------|
| Communication Service Fees | 61.9%           |
| Labor                      | 36.4%           |
| Other Operational Expenses | 1.65%           |

3

4 **Q. How did the Company estimate the administrative cost component?**

5 **A.** Idaho Power used the actual costs it incurred for administering the Oregon Solar  
6 Photovoltaic Program in 2016.

7 **Q. Is this an appropriate estimate of administrative cost?**

8 **A.** No. Idaho Power is not the only utility to file an initial RVOS estimate. The high  
9 administrative cost presented by Idaho Power significantly lowers its RVOS  
10 estimate. The table below presents the initial administrative cost presented by the  
11 three electric Oregonian utilities.

| Company                   | Administrative Cost (\$/MW) |
|---------------------------|-----------------------------|
| Idaho Power               | 47.7                        |
| PacifiCorp                | 2.88                        |
| Portland General Electric | 5.58                        |

12

13 **Q. What should Idaho Power use for its administrative cost?**

14 **A.** Idaho Power should not use the actual administrative costs for running the Oregon  
15 Solar Photovoltaic Program. In recognition of the high administrative cost, Idaho

1 Power has proposed removing communication service fees from the administration  
2 cost element of RVOS. This change would set the net levelized RVOS at 31.18.  
3 CUB believes that this is a starting point for the administrative cost element. Even  
4 when removing the communication service fees, the Idaho Power administration  
5 cost estimate is not in the same range as other Oregonian electric utilities. CUB  
6 welcomes Commission direction of a more appropriate way for the Company to  
7 calculate its administrative cost element.

#### **IV. Conclusion**

8 **Q. Do you have any further comments?**

9 **A.** No.

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

11 **A.** Yes.

**WITNESS QUALIFICATION STATEMENT**

**NAME:** William Gehrke

**EMPLOYER:** Oregon Citizens' Utility Board

**TITLE:** Economist

**ADDRESS:** 610 SW Broadway, Suite 400  
Portland, OR 97205

**EDUCATION:** Master of Science, Applied Economics  
Florida State University, Tallahassee, FL

Bachelor of Science, Economics  
Florida State University, Tallahassee, FL

**EXPERIENCE:** Worked as an Economist for the Florida Department of Revenue. Worked as Utility Analyst at the Florida Public Service Commission, providing advice on rate cases and load forecasting.

### Idaho Power's Estimate Overstates Inflation

