



Oregon Citizens' Utility Board

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June 15, 2018

Public Utility Commission of Oregon
201 High St SE, Suite 100
Salem, Oregon 97301

Re: UM 1911 - In the Matter of IDAHO POWER COMPANY, Resource Value of Solar

The Oregon Citizens' Utility Board files herewith a correction to its originally submitted UM 1911 Opening Testimony on March 16, 2018. CUB has removed section three, titled "Administrative Cost," because CUB does not intend to pursue this argument going forward. CUB has attached an amended version of the testimony for this filing.

Please contact me if you have any questions.

Sincerely,



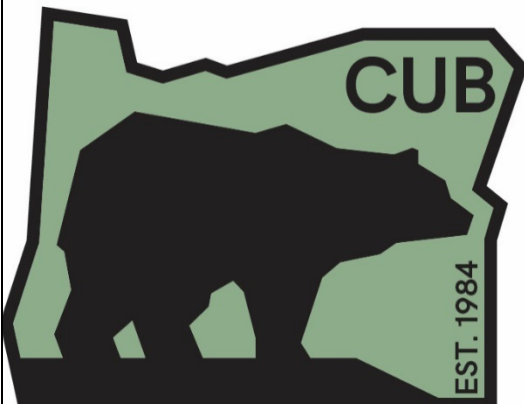
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**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON
UM 1911**

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
UM 1911**

In the Matter of)
)
IDAHO POWER COMPANY,) OPENING TESTIMONY OF THE
) OREGON
Resource Value of Solar) CITIZENS' UTILITY BOARD
)
)
_____)

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 I. Introduction

3 II. Inflation

4 III. Conclusion

II. Inflation

5 **Q. What is inflation?**

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

12

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

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

15 This inflation number is consistent with the 2015 IRP assumptions.¹

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

¹ 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.² 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. Conclusion

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

17 **A.** No.

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

19 **A.** Yes.

² “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).