Peter J. Richardson (ISB # 3195) Gregory M. Adams (ISB # 7454) Richardson & O'Leary, PLLC 515 N. 27th Street P.O. Box 7218 Boise, Idaho 83702 Telephone: (208) 938-7901 Fax: (208) 938-7904 peter@richardsonandoleary.com greg@richardsonandoleary.com RECEIVED 2011 OCT -7 PM 2: 37 IDAHO PUBLIC UTILITIES COMMISSION

Attorneys for the Industrial Customers of Idaho Power

BEFORE THE IDAHO

PUBLIC UTILITIES COMMISSION

)

IN THE MATTER OF IDAHO POWER COMPANY'S REQUEST TO INCREASE ITS RATES AND CHARGES FOR ELECTIC SERVICE IN IDAHO CASE NO. IPC-E-11-08

INDUSTRIAL CUSTOMERS OF IDAHO POWER

DIRECT TESTIMONY OF DON STURTEVANT

October 7, 2011

1

Q.

Please state your name, occupation, and business address.

A. My name is Don Sturtevant, Corporate Energy Manager for the J.R. Simplot
Company headquartered at 999 Main Street, Boise, Idaho 83702.

4

Q. Please describe you educational background.

A. I'm a registered Professional Engineer, licensed in the State of Idaho and a
Certified Energy Manager. I hold a Bachelor's degree in Mechanical Engineering from the
University of Idaho and am a Masters of Business Administration student at Boise State
University.

9

Q. What is your work experience at the J.R. Simplot Company?

A. I've been the Corporate Energy Manager for five years, and have been with the
Company for the past eleven years. In my current role, I work with twenty-two different
utilities in North America, Canada, and Australia.

13

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to shed light on the Idaho Power Facilities Charge program, explain the effects on the J.R. Simplot Company, and propose a solution to what I consider to be an unfair business practice. J.R. Simplot Company is a member of the Industrial Customers of Idaho Power (ICIP), and supports of the ICIP's position in this case.

Q. Please explain in general terms the location and products produced at J.R.
 Simplot Company's plants taking service from Idaho Power as large power or special
 contract customers.

A. We are one of Idaho Power's largest customers with industrial facilities located in
Pocatello, Aberdeen, Nampa, and Caldwell. We also have several commercial facilities

Don Sturtevant, DI 1 Industrial Customers of Idaho Power

1	scattered thro	bughout the state. We are an AgriBusiness company and have farming and cattle						
2	operations, p	roduce fertilizer, and process potatoes into frozen french-fries.						
3	Q.	How many people are employed by J.R. Simplot Company in the State of						
4	Idaho?							
5	A.	We currently employ over three thousand (3,000) employees in Idaho.						
6	Q.	How much does the J.R. Simplot Company spend on electricity bills to Idaho						
7	Power annu	ally?						
8	A.	J.R. Simplot Company spends approximately \$16.5 million annually in Idaho						
9	Power charges.							
10	Q.	Does J.R. Simplot Company pay Idaho Power a facilities charge for electrical						
11	distribution equipment installed and maintained beyond the point of delivery by Idaho							
12	Power at J.I	R. Simplot Company's plants and facilities?						
13	А.	Yes.						
14	Q.	Could you explain your understanding of the facilities charge?						
15	А.	The current Schedule 19 tariff states that at Idaho Power's option, it may install						
16	and maintain facilities beyond the point of delivery and charge 1.7% monthly or 20.4% annually							
17	for Company	y-owned facilities beyond the point of delivery.						
18	Idaho	Power has filed to reduce the facilities charge to 1.41% monthly or 17.00%						
19	annually in t	his case for Schedule 19 customers, but not for Special Contract customers. In this						
20	context, I would like to point out that although the Don Plant has a separate Special Contract							
21	executed in 2004, section 15.2 of the contract specifically allows for changes to the Schedule 29							
22	rates, which include the facilities charge rate.							

Don Sturtevant, DI 2 Industrial Customers of Idaho Power

1	Q.	What types of equipment are included in the facilities charge?					
2	А.	The charge covers typical higher-voltage equipment such as transformers, poles,					
3	wires, and sw	itches.					
4	Q.	How much does J.R. Simplot Company currently pay as a facilities charge?					
5	А.	We have \$4.252 million in assets for which we pay \$867,426 each year.					
6	Q.	How did you become aware of the facilities charge?					
7	А.	I was investigating our bills and noticed the facilities charges. I began to					
8	question what	the charges were for and the total amount we were paying. I was very surprised to					
9	find out that t	he facilities charge was so large, that it never gets paid off, and we pay 20.4%					
10	annually fore	ver.					
11	Q.	Has Idaho Power ever requested your written consent to install any facilities					
12	beyond the p	oint of delivery at your plants?					
13	A.	No.					
14	Q.	Are you aware of such consent given by any other J.R. Simplot Company					
15	officials?						
16	А.	I am aware that section 10.1 of the Don Plant Special Contract approved in 2004					
17	grants Idaho Power access to Simplot premises for installation, removal, and maintenance of						
18	distribution facilities. I have reviewed the Schedule 19 tariff, and it contains no provision						
19	requiring the customer to grant Idaho Power access for purposes of installing or maintaining						
20	distribution facilities. Idaho Power formerly required customers to execute a Uniform Schedule						
21	19 Service A	greement, but the version from 2001 that I have reviewed likewise provides no					

Don Sturtevant, DI 3 Industrial Customers of Idaho Power provision granting the Company access to customers' premises for purposes of installing or
 maintaining distribution facilities.

0. 3 Does the Schedule 19 tariff appear to allow J.R. Simplot Company as an Idaho Power customer to opt out of the facilities charge, and to take on the responsibility 4 5 for electrical distribution facilities on Simplot plants' property? No. The tariff plainly states: "At the option of the Company, transformers and 6 Α. 7 other facilities installed beyond the Point of Delivery to provide Primary or Transmission 8 Service may be owned, operated, and maintained by the Company in consideration of the 9 Customer paying a Facilities Charge to the Company." This tariff implies the customer has no 10 choice and it does not state that the customer has the option to itself own and maintain the 11 facilities on its property. 12 0. Does Idaho Power's ownership and management of electrical equipment on plants owned by J.R. Simplot Company concern you from a liability perspective? 13 A. Absolutely. In large industrial and commercial operations, safety is our highest 14 15 priority. 16 0. What insurance requirements does J.R. Simplot Company require of 17 electrical contractors that conduct work on its property? 18 Α. We require that every contractor working at any J.R. Simplot Company location provide proof of \$5 million dollars in liability insurance. 19 20 0. Has Idaho Power provided J.R. Simplot Company with assurance that these

21 Simplot policies are met by Idaho Power's liability coverage?

Don Sturtevant, DI 4 Industrial Customers of Idaho Power

1	A. No. We asked for insurance coverage documents prior to this rate case and did						
2	not receive them. The attorney for the Industrial Customers of Idaho Power was able to obtain						
3	summaries of Idaho Power's insurance policies only through discovery in the general rate case.						
4	The Company stated in its Response to ICIP Production Request No. 14 contained in ICIP						
5	Exhibit No. 305 that "the insurance carried by the Company would cover any loss for which the						
6	Company was deemed negligent in an accident or injury." It is not clear from this response, or						
7	the documents describing the Company's insurance policies providing in its Response to ICIP						
8	Production Request No. 16 contained in ICIP Exhibit No. 305, that the Company indemnifies or						
9	co-insures J.R. Simplot for such negligent acts, or that the Commission requires it to do so.						
10	The Schedule 19 tariff provides no requirement for Idaho Power to insure or indemnify						
11	customers against any harm that may be caused to the customer or third parties by Idaho Power's						
12	intentional or negligent acts related to distribution facilities on the customers' premises.						
13	However, the Don Plant Special Contract approved in 2004 contains a general liability						
14	requirement, in section 12.1, which states:						
15	Each Party agrees to protect, defend, indemnify and hold harmless the other Party,						
16	its officers directors, parent company, affiliates, subsidiaries, agents						
17	representatives, and employees against and from any and all liability, suits, loss,						
18	damage claims, actions, costs, and expenses of any nature, including court costs						
19	and reasonable attorney's fees, even if such suits or claims are completely						
20	groundless, as a result of injury to or death of any person or destruction, loss or						
21	damage to property arising in any way in connection with, or related to, this						
22	Agreement, but only to the extent such injury to or death of any person or						

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1	destru	action, loss or damage to property is not due to the negligence or other					
2	breach of legal duty of such other Party; provided, however, that each Party shall						
3	be solely responsible for claims of and payment to its employees for injuries						
4	occurring in connection with their employment or arising out of any worker's						
5	compensation law. In no event shall either Party be liable to the other for any						
6	indirect, incidental, special, or consequential damages of any character including,						
7	with	out limitation, damages for lost profits or work stoppages.					
8	Q.	Is this provision in the Don Plant Special Contract consistent with J.R.					
9	Simplot Cor	npany's general insurance requirements for contractors performing work at					
10	the plant?						
11	А.	No. Even this provision does not expressly require J.R. Simplot Company's \$5					
12	million in ins	surance requirement I testified to above.					
13	Q.	Do you think it is reasonable for Idaho Power to agree to indemnify J.R.					
14	Simplot at t	he Don Plant but not to agree to indemnify J.R. Simplot at any of the plants					
15	taking Sche	dule 19 Service?					
16	Α.	No.					
17	Q.	Please comment on the average age and overall rates paid by J.R. Simplot					
18	Company fo	or the equipment at any J.R. Simplot Company plants subject to the facilities					
19	charge.						
20	А.	Based on the Distribution Facilities Reports provided by Idaho Power periodically					
21	for each of o	ur plants and an inventory of the equipment undertaken by myself and Idaho Power					
22	representativ	es in the past year, we have 1,609 items on the facilities charge that were installed at					

Don Sturtevant, DI 6 Industrial Customers of Idaho Power a total initial investment of \$4,252,088 and an annual charge of \$867,426. Since this equipment
has been installed, we have paid around \$14 million or three point four (3.4) times its installed
investment already. We have two items that are sixty-six (66) years old and have paid for those
items almost seven (7) times. The average age of all our facilities charge equipment is twentyfour (24) years old.

Q. You stated the average age of the equipment is nearly 24 years old, and you
have already paid for this equipment 3.4 times. Do you think it is fair for Idaho Power to
continue charging the facilities charge rate for Idaho Power's initial investment?

9 A. No, it is not fair at all. I believe that Idaho Power has more than earned their rate 10 of return that would have been fair and reasonable many times over. This falls under the 11 category of subsidization and unfair business practice.

Q. Does a reduction in the annual facilities charge from 20.4% of the initial investment to 17.00% of the initial investment seem adequate to you for Schedule 19 Customers?

A. No, this seems like a very high rate for operation, maintenance, and a return on
investment, especially considering that the principal amount is never paid off by J.R. Simplot
Company and never goes away.

Q. Have you calculated the remaining book value of Idaho Power facilities
charge equipment at any J.R. Simplot Company premises subject to the facilities charge.
A. Yes. The remaining book value for all of our equipment is listed below:

Don Sturtevant, DI 7 Industrial Customers of Idaho Power

Book Value 🛨	∐ 30-yr	Caller H.S	25	-yr	20-yr		15-yı	
Don	\$	998,570	\$	787,133	\$	615,726	\$	435,002
Caldwell	\$	189,774	\$	156,019	\$	127,704	\$	106,322
Aberdeen	\$	161,120	\$	125,967	\$	85,810	\$	40,236
Irving	\$	120,271	\$	118,553	\$	115,975	\$	111,680
Nampa	\$	114,201	\$	102,401	\$	88,916	\$	69,405
Grandview	\$	74,086	\$	60,733	\$	46,379	\$	35,649
Double-J	\$	60,341	\$	55,714	\$	48,775	\$	37,209
WSI	: * * \$	17,546	\$	9,273	\$	1,506	\$	-
Poc-Pump	\$	17,475	\$	16,411	\$	14,816	\$	12,156
Grand Total	\$	1,753,384	\$	1,432,204	\$	1,145,608	\$	847,660

Q. Do you think it would be fair for Idaho Power to sell this equipment to you for that price?

A. No, I do not. We have many items that are much older than 30 years. We have calculated that 520 items at our plants are over 30 years old, which is 32% of all of our facilities charge equipment. We have paid for this equipment several times already, and if we paid the net book value on the remaining items, we would not get fair credit for the overpayments that we have already made on equipment that should have been paid off long ago. Overall, we have paid for the initial value of this equipment more than 3.4 times already and should be given ownership of all items today.

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What is your understanding of the options provided by Idaho Power's

12 facilities charge for the customer to stop paying the charge?

A. Under the plain terms of the Schedule 19 tariff and sections 4.2 and 7.3 of the 2004 Don Plant Special Contract, we may require Idaho Power to "remove" the facilities. But then we must pay Idaho Power for the remaining depreciated value of the facilities plus the cost to remove the facilities minus a credit for the salvage value of the equipment. There is no express provision allowing for purchase of facilities by the customer to avoid paying removal

> Don Sturtevant, DI 8 Industrial Customers of Idaho Power

costs and to avoid incurring additional costs that may arise if Idaho Power is unable to find a
willing buyer for the facilities or otherwise salvage the facilities. In other words, the facilities
charge does not allow for the customer to purchase the facilities from Idaho Power, even if the
customer has more than paid off the initial investment and provided Idaho Power with reasonable
fees to cover operation and maintenance and a reasonable return.

6

7

Q. Has the J.R. Simplot Company paid similar facilities charges in other jurisdictions, or with other utilities?

- A. Yes. At our Othello, Washington facility, Avista was charging us 21% annually,
 which was paid off after thirty years. When I learned of this, I approached the Avista staff and
 requested that we be allowed to pay off this charge and get out from under the exorbitant
 payments. They agreed, we paid it off, and they have offered to do maintenance or repairs for
 us at a "time and materials" rate. This is the only other utility with which we pay a facilities-type
 charge.
- Q. If J.R. Simplot Company were soliciting competitive bids from private companies to lease and manage the electrical facilities similar to those services provided by Idaho Power under the facilities charge, would you consider a bid of an ongoing annual charge of 17.00% of the initial investment to be a reasonable bid for your Schedule 19 facilities? How about the 20.4% for the Don Plant?
- A. Not at all. As you know, interest rates are very low. Anyone who approached us
 with this type of financing option would not be considered.

Don Sturtevant, DI 9 Industrial Customers of Idaho Power

- Has J.R. Simplot Company approached Idaho Power to request that Idaho **Q**. 1 2 Power sell the facilities charge equipment, or otherwise allow J.R. Simplot Company to stop paying Idaho Power for electrical equipment on J.R. Simplot Company property? 3 Yes. In meetings and letters in the year prior to this rate case, J.R. Simplot 4 A. 5 Company requested that it be allowed to exercise the option to own all of its distribution facilities beyond the point of delivery. In a letter from our attorney dated December 30, 2010, 6 7 we requested that Idaho Power provide the depreciated book value of those facilities so that we 8 could evaluate the option of ownership. We also requested that Idaho Power provide the costs 9 by the end of January 2011 because we needed the information by that time to adequately 10 evaluate it in time for internal financial decision timelines for the next fiscal year. Idaho Power responded by letter on January 31, 2011, by stating that it would provide 11 J.R. Simplot Company with "buy-out" prices by mid-March 2011. It stated that it would only 12
- provide such prices at the "fair market value price of those facilities, not at the depreciated book value price." Idaho Power also indicated it would need to install additional protective equipment on its side of the meter if it sold these pieces of equipment to Simplot, and that it would provide the cost for that equipment to us mid-March 2011 as well.

Idaho Power also stated it will not allow for mixed ownership, or an option whereby
Simplot owned the equipment and paid Idaho Power a limited facilities charge for maintenance
expenses, like the option offered by Avista in a similar situation. These letters are included in
ICIP Exhibit No. 307, attached to Dr. Don Reading's direct testimony.

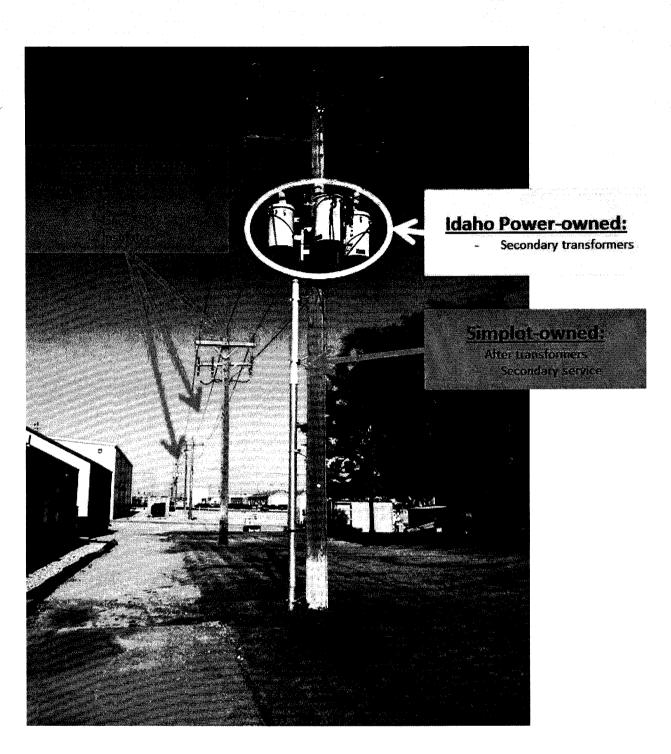
21

Q. Did Idaho Power provide such prices by mid-March?

Don Sturtevant, DI 10 Industrial Customers of Idaho Power

1	A. No. Idaho Power contacted us at the end of March to set up a meeting in April						
2	2011. Prior to the meeting, Idaho Power's attorney sent our attorney an email stating, for the						
3	first time, that Idaho Power would not agree to sell the facilities to us. This email is included in						
4	ICIP Exhibit No. 307 attached to the direct testimony of Dr. Don Reading. At a meeting on						
5	April 11, 2011, attended by our representatives, Idaho Power took the position that it cannot sell						
6	facilities to Simplot at a fair market price without increasing the rates of other Schedule 19						
7	customers. The price Idaho Power stated, for discussion purposes only, that J.R. Simplot would						
8	have to pay Idaho Power was approximately \$10 million for the facilities if they were to be sold,						
9	which is over twice the initial investment in the facilities provided by Idaho Power of \$4.25						
10	million.						
11	Q. Does it seem fair to offer to sell the facilities at over twice the initial						
12	investment?						
13	A. No, but Idaho Power never actually stated that was an option. They just provided						
14	the calculation of what they believed we would need to pay in order to purchase these facilities						
15	after years of paying the facilities charge.						
16	Q. Does Idaho Power's response that it cannot allow for mixed ownership make						
17	sense to you?						
18	A. Not at all. They cite that safety is the reason, and we agree that safety of all						
19	employees, theirs and ours, is of the most paramount concern. However, we have successfully						
20	had mixed ownership of equipment at our Caldwell facility since 1945 without incident.						
21	Additionally, in conversations with other customers that are paying facilities charges, they have						
22	mixed ownership as well. Below is a picture of the mixed ownership at our Caldwell facility:						

Don Sturtevant, DI 11 Industrial Customers of Idaho Power



Mixed Use – JR Simplot Plant, Caldwell, ID

Idaho power owns the transmission, substation, and meter. Simplot owns the majority of the distribution lines, poles, etc. Idaho Power owns some secondary transformers. Simplot owns the secondary service.

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Don Sturtevant, DI 12 Industrial Customers of Idaho Power Q. Did Idaho Power ever provide J.R. Simplot Company with the cost to simply
 remove the equipment subject to the facilities charge, as expressly allowed in the Don Plant
 Special Contract and the Schedule 19 tariff?

4 Α. We requested that cost in discovery in this case, and they required us to request it 5 outside of the rate case. Our attorney then sent a letter to Idaho Power requesting the removal 6 costs. Idaho Power's response letter from their attorney to our attorney, contained in ICIP 7 Exhibit No. 308 attached to Dr. Don Reading's direct testimony, said exercising the removal 8 option may require turning the power off at our facilities, thus interrupting production. Removal 9 would also require J.R. Simplot Company to first pre-pay Idaho Power to engineer a plan to 10 remove the facilities in phases. I understand that the removal cost may increase if Idaho Power 11 is not able to find a good salvage use for the equipment. I believe that this complicated removal 12 process is unnecessary when we have already paid for the equipment and when it is already being put to use at our facilities. It makes no sense to charge us to remove the equipment and 13 14 attempt to find some other use for it when we have repeatedly paid for its full initial value already. 15

16

Q. What is the current status as you understand it?

A. J.R. Simplot Company is still paying the facilities charge at each of the plants
served by Idaho Power, and Idaho Power has provided no description satisfactory to the J.R.
Simplot Company of how it would stop paying the charge.

20 Q. If you had the choice, how would you propose Idaho Power address the 21 problems you see with its facilities charge?

> Don Sturtevant, DI 13 Industrial Customers of Idaho Power

A. We have paid for our current facilities charge equipment more than three times
 already. I believe that Idaho Power has already recovered its initial costs and any authorized rate
 of return several times over. It would be fair to simply turn ownership of these facilities over to
 J.R. Simplot Company.

5 Additionally, I believe it is imperative that the Commission seriously reform the facilities 6 charge according to the proposals and analysis contained in Dr. Don Reading's testimony. I 7 fully support the recommendations contained in the direct testimony of Dr. Don Reading, which 8 would make the monthly charge fair for those customers who wish to pay it and would provide 9 reasonable mechanisms by which customers may take over ownership of equipment on their own 10 property.

11 **Q. D**

Yes.

Does this conclude your testimony?

12 **A.**

Don Sturtevant, DI 14 Industrial Customers of Idaho Power