BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF IDAHO POWER COMPANY FOR AN ACCOUNTING ORDER AUTHORIZING THE INCLUSION OF POWER SUPPLY EXPENSES ASSOCIATED WITH THE PURCHASE OF CAPACITY AND ENERGY FROM PPL MONTANA,LLC IN THE POWER COST ADJUSTMENT.	)	CASE NO. IPC-E-03-08

IDAHO POWER COMPANY

DIRECT TESTIMONY

OF

GREGORY W. SAID

Q. Please state your name and business address.
A. My name is Gregory W. Said and my business address is 1221 West Idaho Street, Boise, Idaho.
Q. By whom are you employed and in what capacity?
A. I am employed by Idaho Power Company as the Director of Revenue Requirement in the Pricing and Regulatory Services Department.
Q. Please describe your educational background.
A. In May of 1975, I received a Bachelor of Science Degree with honors in Mathematics from Boise State University.
Q. Please describe your work experience with Idaho Power Company.
A. I became employed by Idaho Power Company in 1980 as an analyst in the Resource Planning Department. In 1985, the Company applied for a general revenue requirement increase. I was the Company witness addressing power supply expenses.

In August of 1989, after nine years in the Resource Planning Department, I was offered and I accepted a position in the Company's Rate Department. With the Company's application for a temporary rate increase in 1992, my responsibilities as a witness were expanded. While I continued to be the Company's witness concerning power supply expenses, I also sponsored the Company's rate computations and proposed tariff schedules.

Because of my combined Resource Planning Department and Rate Department experience, I was asked to design a Power Cost Adjustment which would impact customers' rates based upon changes in the Company's net power supply expenses. I presented my recommendations to the Idaho Public Utilities Commission ("IPUC") in 1992 at which time the IPUC established the PCA as an annual adjustment to the Company's rates. I have sponsored the Company's annual PCA adjustment for the years 1996 through 2003. In 1996 I was promoted to Director of Revenue Requirement in the Pricing & Regulatory Affairs Department, a position I currently hold.

In June of 1999, Mr. Ric Gale, Vice President of Regulatory Affairs, asked me to lead a team of analysts in the preparation of the Company's 2000 Integrated Resource Plan. Members of the team included experts in the areas of load forecasting, hydroelectric generation, thermal generation, transmission, finance and pricing. The plan was acknowledged by the Idaho Public Utilities Commission on December 12, 2000. In that plan, the Company stated that it would issue a Request for Proposals ("RFP") to solicit proposals for solutions to future anticipated deficiencies at a cost to Idaho Power customers that would be less than the costs of constructing a simple cycle combustion turbine.

Because the RFP was viewed as a continuation of the IRP process, I was asked to lead the RFP process as well.

Q. Please outline the major topics you will address in your testimony in this proceeding.

A. There are three major topics that comprise my testimony. First, I will briefly summarize the events that preceded the development of the power purchase agreement between the Company and PPL Montana, LLC ("PPA"). Second, I will describe the principal provisions of the PPA. Finally, I will discuss the treatment of PPA costs within the Power Cost Adjustment.

Q. Could you please describe the events that led to the development of the PPA?

A. The pursuit and execution of the PPA is a part of the Company's strategy to replace the 250 MW of capacity that was lost when changes in financial market conditions made it impossible for Garnet LLC to perform under the terms and conditions of the Idaho Power - Garnet LLC Power Purchase Agreement ("Garnet Contract"). The Company's strategy to acquire resources to replace the lost Garnet Contract capacity was described in Idaho Power's "Report to the IPUC On Replacing Garnet Power Agreement" ("Garnet Report").

On October 30, 2002, Idaho Power filed the Garnet Report with the Commission and asked that the

Commission take administrative notice of the Garnet Report in making its ultimate determination as to whether or not to acknowledge the Company's 2002 Integrated Resource Plan.

Q. Did the Commission acknowledge and accept the Company's 2002 IRP, as supplemented with the Garnet Report?

A. Yes. On February 11, 2003, the IPUC in Order No. 29189 acknowledged and accepted Idaho Power's 2002 IRP filing.

Q. Please describe the findings of the Garnet Report with regard to potential alternatives to replace the Garnet Contract.

A. Idaho Power investigated a number of potential alternatives to replace the Garnet Contract. The alternatives include acquiring firm transmission rights and firm wholesale purchases, energy exchanges, adding or acquiring the output of generation resources located within the Company's control area, integration of demand-side measures where cost effective, or a combination of these alternatives.

Q. What was the recommended replacement for the Garnet Contract in the 2002 IRP Supplement?

A. Given then-current forward prices and estimates of future market-clearing prices, the recommended replacement for the Garnet Contract was a combination of firm wholesale purchases and exchanges. The Garnet Report emphasized that successful negotiation and execution of firm wholesale power purchase and exchange agreements prior to any major changes in forward market prices were critical to the success of this strategy. If either forward prices or the estimates of future market-clearing prices were to increase substantially, then adding additional generation resources within Idaho Power's control area could become the preferred strategy.

Q. Has Idaho Power successfully negotiated a firm wholesale power purchase?

A. Yes. Idaho Power has successfully negotiated a firm wholesale power agreement with PPL Montana, LLC to replace a portion of the Garnet Contract. A copy of the Agreement with PPL Montana, LLC (the "PPA") is attached as Exhibit 1 to my testimony.

Q. Could you briefly discuss why the PPA with PPL Montana, LLC is worth pursuing.

A. Contracting with PPL Montana, LLC is advantageous for two primary reasons. First, because of the existing constraints on Idaho Power's ability to import power on the west side of its system, power purchases on the east side of the system are more easily facilitated. Second, PPL Montana, LLC owns, operates and maintains substantial generating resources. PPL Montana, LLC purchased most of the generating assets sold by Montana

Power Company when the state of Montana restructured its electric utility industry. PPL Montana, LLC owns and operates eleven hydroelectric plants with total generating capacity of 474 MW. PPL Montana, LLC also owns and operates coal-fired generating capacity at the Colstrip Power Plant and J.E. Corette Power Plant in excess of 500 MW. PPL Montana, LLC's ownership of generating plants on the east side of Idaho Power Company's system and its favorable credit rating made PPL Montana, LLC a good match for the type of power acquisition Idaho Power is seeking.

Q. In the first full paragraph on page 2 of the PPA, the Confirmation Agreement, there is a reference to the WSPP Agreement and Service Schedule C and the WSPP Credit Annex dated 03/25/2003. Please explain that reference.

A. WSPP stands for Western States Power Pool. The Western States Power Pool is an umbrella organization which includes dozens of energy industry participants (including Idaho Power and PPL Montana, LLC) who engage in power purchase and sales transactions in the western United States and Canada. To facilitate those transactions, the members of the WSPP have negotiated and published a model power purchase and sale contract which addresses the usual commercial terms and conditions that are required for these types of transactions. The WSPP Agreement and the accompanying service schedules, including Service

Schedule C, have been filed with the FERC and provide an umbrella agreement under which regulatory filings can be facilitated at the FERC. In the Confirmation Agreement, Idaho Power and PPL Montana, LLC have agreed that the terms and conditions contained in the WSPP agreement will be the general commercial terms and conditions that will govern the PPA. The transaction-specific arrangements are set out in the Confirmation Agreement and the Credit Annex. The WSPP Credit Annex referred to in the Confirmation Agreement was individually negotiated between Idaho Power and PPL Montana, LLC and modifies specific portions of the WSPP Agreement to address the credit requirements of the parties to the PPA.

Q. Could you briefly summarize the principal provisions of the PPA?

A. The principal provisions of the PPA with PPL Montana, LLC call for a firm power purchase for the heavy-load hours, six days a week, sixteen hours a day (6X16) in the months of June, July and August. These are the time periods identified in the Company's 2002 IRP as the times of peak resource need on Idaho Power's system. The term of the PPA is June 1 through August 31 for each year beginning in 2004 and ending in 2009. The quantity of energy purchased is 83 MW per hour, except for the month of August 2004, which shall be 26 MW per hour. The price to be paid for this energy is $44.50 per MWh. After adjusting for losses, and with the exception of the August 2004 time period, Idaho Power will actually receive approximately 80 MW per hour under the PPA.

In addition to the cost of power under the PPA, Idaho Power intends to purchase firm monthly transmission service across NorthWestern Energy's transmission system to Jefferson. At current rates in NorthWestern Energy's OATT, the maximum charge for the monthly firm transmission service to Jefferson is $3.10 per kilowatt of reserved capacity per month.

Q. Are there additional conditions of the contract?

A. Yes. Usually power sellers are reluctant to hold their prices firm for an extended period of time. To accommodate the need for time to pursue the Commission approval process, Idaho Power has paid a deposit to PPL Montana, LLC in the amount of $250,000. Idaho Power has 60 days from May 13, 2003 to obtain Commission approval of the PPA. If the PPA is approved by the Commission within the 60-day period, PPL Montana, LLC will refund the $250,000 to Idaho Power and the PPA shall remain in effect. If the Commission does not approve the PPA within the 60-day period, then either party may terminate the PPA and Idaho Power will forfeit the $250,000 deposit.

Q. Paragraph 2 of the Confirmation Agreement addresses the possibility that Idaho Power's transmission reservation on Northwestern Energy's transmission system could be "bumped." Could you please address this section of the PPA?

A. In accordance with FERC requirements, NorthWestern Energy's Open Access Transmission Tariff ("OATT") provides that a long-term firm purchase of transmission capability has priority and can "bump" a transmission reservation of shorter duration. Idaho Power intends to purchase monthly firm transmission rights on Northwestern Energy's transmission system for delivery of the power under the PPA at Jefferson. Annual firm transmission service on Northwestern Energy's transmission system is very expensive. Idaho Power owns long-term transmission capability (with renewal rights) for all of the transmission capacity from Jefferson into the Idaho Power transmission system. Because Idaho Power owns all of the transmission capacity from Jefferson into the Idaho Power system, it is extremely unlikely that any party would desire to purchase long-term firm transmission from anywhere on NorthWestern's transmission system to Jefferson, and, thus, preempt Idaho Power's shorter-term reservation and subsequently prevent Idaho Power from taking delivery of the energy under the PPA at Jefferson. As a result, Idaho Power intends to purchase monthly firm transmission capacity rather than annual firm transmission capacity. Paragraph 2 of the Confirmation Agreement addresses the unlikely possibility that Idaho Power's reservation is "bumped." It places an obligation on PPL Montana, LLC to take additional steps to deliver the power under the PPA to Idaho Power under alternative arrangements.

Q. How do the energy costs of $44.50 in this PPA compare to other options the Company might have?

A. The costs associated with this PPA are competitive and favorable when compared to alternative resource options. Other energy costs that may be used for comparison purposes include the Company's current avoided costs for energy purchases from small QFs as established by this Commission and forward market prices with added transmission costs.

Idaho Power's current avoided costs for small QFs as determined by the IPUC in Order No. 29124 are based upon a surrogate avoided resource of a 230 MW combined cycle combustion turbine and were set September 26, 2002. The levelized rate for a non-fueled project smaller than 10 MW, coming on-line in the year 2004 for a contract length of 5 years is 43.78 mills/kWh ($43.78 per MWh). The levelized rate for a twenty-year contract (a more likely scenario for a QF contract) is $49.83/MWh. The PPA rate of $44.50/MWh for a peak hour summer peak period product compares favorably to non-seasonalized QF contract rates. All of Idaho Power's existing QF contracts use "seasonalized" rates which provide significantly higher purchase prices in the summer months.

On May 8, 2003, forward market bid/offer quotes at Mid-Columbia for Q3 2003, heavy load hours, were $45.50/MWh and $46.50/MWh, respectively. Bid/offer quotes for the same product at Palo Verde were $62.00/MWh and $64.25/MWh, respectively. With an energy purchase at either of these hubs, additional costs would be incurred for transmission to the Idaho Power system. It should be noted that transmission from Mid-Columbia, if available, would need to be routed through the northern part of the regional inter-connected transmission grid since the Idaho Power transmission system is constrained from the west.

Q. How do the energy costs under this PPA compare to the power costs under the Garnet Contract?

A. In the prefiled testimony of Commission Staff Witness Sterling in Case No. IPC-E-01-42, the Commission Staff estimated the cost of Garnet to be nearly $77/MWh over a ten-year period of time assuming gas prices of $3.75 per MMBtu. This PPA, while not equivalent to the Garnet PPA in its entirety, does provide for partial replacement of Garnet at a lower price.

Q. How do the energy costs under this PPA compare to the costs of operating the Company's Danskin combustion turbine at Mountain Home?

A. The cost of operating Danskin varies with the cost of natural gas. At present, Idaho Power has purchased natural gas to operate Danskin during the heavy load hours of July and August 2003. The projected Danskin operating cost (fuel costs, startup costs and variable O&M) for July heavy load operation is $57.85/MWh with a natural gas price of $4.55/MMBtu. The projected Danskin operating cost (fuel costs, startup costs, and variable O&M) for August heavy load operation is $59.16/MWh with a natural gas price of $4.71/MMBtu.

Q. In its final order acknowledging and accepting the Company's 2002 IRP, the Commission directed Idaho Power to consider the potential for cost-effective DSM as an alternative to supply-side resources. Is the PPA compatible with available DSM options?

A. In my opinion, the PPA dovetails very well with the Company's ongoing efforts to develop DSM programs targeting summer peak loads. As noted in the Company's 2002 IRP, the Company's peak load requirements occur during summer months with a secondary peak occurring in November and December. The PPA is specifically targeted at the heavy-load hours during the peak summer months. The term of the PPA runs from the summer of 2004 through the summer of

2009. In accordance with Commission Order No. 29207, the Company is currently pursuing a pilot program to implement a residential air conditioning cycling program. As noted in Order No. 29207, the Energy Efficiency Advisory Group ("EEAG") has concurred with the Company's proposal to use energy efficiency rider funds collected under Idaho Power's Schedule 91, to finance the air conditioning cycling pilot program. The air conditioning cycling program targets heavy-load hours during June, July and August. If it is ultimately determined that an air conditioning cycling program would be a cost-effective way to reduce critical system peaks, such a program would address essentially the same peak loads that are covered by the PPA, and could potentially mitigate the continuing need for resources like the PPA. The Company is also discussing with the EEAG additional DSM programs that would target irrigation usage, another contributor to the Company's peak load during the June, July and August period covered by the PPA. For all of these reasons, I believe that the PPA is consistent with the Commission's expectations regarding consideration of DSM within the Company's integrated resource planning process.

Q. How does the Company propose that the costs associated with this PPA be treated in the Company's Power Cost Adjustment ("PCA")?

A. The costs associated with acquiring firm monthly transmission service from NorthWestern Energy's transmission system, will be booked in FERC account 565, Transmission of Electricity by Others. These monthly transmission costs will not flow through the Company's Power Cost Adjustment ("PCA").

Idaho Power's costs for power acquired through this PPA will be booked in FERC account 555, Purchased Power, and will appropriately flow through the Company's PCA upon contract approval by the Commission. Until the costs of the contract are included in a general revenue requirement proceeding, any contract costs associated with the PPA will be considered deviation from the base and, therefore, only ninety percent of the Idaho jurisdictional costs will be borne by customers.

Q. Based upon your testimony in this proceeding, what is the Company's recommendation with regard to the PPL Montana Power Purchase Agreement?

A. The Company recommends that the Commission approve the PPL Montana Power Purchase Agreement for ratemaking purposes and authorize Idaho Power to include the expenses associated with the power purchases under the PPA in the Company's PCA.

Q. Does this conclude your testimony?

A. Yes, it does.