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IDAHO PUBLIC
UTILITIES COMMISSION

BEFORE THE

IDAHO PUBLIC UTILITIES COMMISSION

**IN THE MATTER OF THE APPLICATION)
OF AVISTA CORPORATION FOR)
AUTHORITY TO INCREASE ITS RATES)
AND CHARGES FOR ELECTRIC AND)
NATURAL GAS SERVICE TO ELECTRIC)
AND NATURAL GAS CUSTOMERS IN)
THE STATE OF IDAHO.)**

**CASE NO. AVU-E-04-1/
AVU-G-04-1**

DIRECT TESTIMONY OF LYNN ANDERSON

IDAHO PUBLIC UTILITIES COMMISSION

JUNE 21, 2004

1 Q. Please state your name and business address for
2 the record.

3 A. My name is Lynn Anderson and my business
4 address is 472 West Washington Street, Boise, Idaho.

5 Q. By whom are you employed and in what capacity?

6 A. I am employed by the Idaho Public Utilities
7 Commission as a Staff economist.

8 Q. What are your duties with the Commission?

9 A. My duties include evaluating electricity,
10 natural gas, water and telephone utility applications and
11 customer petitions, as well as conducting generic
12 investigations, the results of which are used to make
13 recommendations to the Commission.

14 Q. Would you please outline your academic and
15 professional background?

16 A. I have a Bachelor of Science degree in
17 government and a Bachelor of Arts degree in sociology,
18 both from Idaho State University where I also studied
19 economics and architecture. I studied engineering at
20 Northwestern University and Brigham Young University and
21 public administration and quantitative analysis at Boise
22 State University. I have attended many training seminars
23 and conferences regarding utility regulation, operations,
24 forecasting, and marketing.

25 I began my employment with the Commission in

1 1980 as a utility rate analyst. In 1983 I was appointed
2 to the position of telecommunications section supervisor
3 and in 1992 I was appointed to my present position as an
4 economist. In that capacity I have been a Staff
5 representative to the Northwest Energy Efficiency
6 Alliance, Avista's External Energy Efficiency Board and
7 Idaho Power's Energy Efficiency Advisory Group. Since
8 1999 I have served the Commission as a policy strategist
9 for electricity and telecommunications issues on an as-
10 needed basis.

11 From 1975 to 1980 I was employed by the Idaho
12 Transportation Department where I performed benefit/cost
13 analyses of highway safety improvements and other
14 statistical analyses.

15 Q. What is the purpose of your testimony?

16 A. The purpose of my testimony is to make
17 recommendations regarding Avista's request that its
18 electricity and gas demand side management (DSM or energy
19 efficiency) expenditures be deemed reasonable and
20 prudent. I will also present changes to Avista's
21 electricity DSM funding level that the Company proposed
22 at the May 19, 2004 meeting of its External Energy
23 Efficiency (EEE) Advisory Board and that it reiterated to
24 the Staff on June 2, 2004. Finally, I will comment on
25 Avista's proposed advanced meter reading (AMR) proposal.

1 Demand Side Management/Energy Efficiency

2 Q. Please describe the energy efficiency
3 expenditures that the Company has requested be deemed
4 reasonable and prudent by the Commission.

5 A. The Company is asking that its electricity DSM
6 expenditures from January 1, 1999 through October 31,
7 2003, and its gas DSM expenditures from March 13, 1995
8 through October 31, 2003 be found to have been prudently
9 incurred. (Company witness Hirschhorn's pre-filed direct
10 testimony has a slight error, showing December 31, 2003
11 as the end date.) As noted by Avista witness Brian
12 Hirschhorn on page 44 of his pre-filed testimony, the
13 Commission previously found that the Company's
14 electricity DSM expenditures were prudently incurred
15 through December 31, 1998.

16 Q. How does Avista collect revenues that finance
17 its energy efficiency programs?

18 A. Avista collects revenues for its DSM programs
19 from surcharges described in its tariff Schedule 91 for
20 electricity DSM and Schedule 191 for its gas DSM.
21 Currently, the electricity surcharges amount to 1.95% of
22 base revenue and the gas surcharges amount to 0.5% of
23 base revenues. For 2002 these surcharges collected about
24 \$2.7 million and \$279,000 per year for electricity and
25 natural gas DSM, respectively.

1 Q. Do you believe Avista has been reasonable and
2 prudent in managing its DSM revenues?

3 A. Yes. Through my participation in Avista's EEE
4 Advisory Board and the Northwest Energy Efficiency
5 Alliance (NEEA) Board and various committees, I have
6 observed Avista's conscientious approach to obtaining
7 energy efficiency for its customers. I have also
8 reviewed Avista's detailed DSM cost-effectiveness
9 reports. As stated by Mr. Hirschhorn on page 45 of his
10 pre-filed, direct testimony, Avista estimates that its
11 average, historical, 15-year levelized utility cost of
12 electricity savings is 1.4¢ per kilowatt hour (kWh).
13 Avista's similarly calculated utility cost of gas savings
14 is 25¢ per therm. (Hirschhorn erroneously states that
15 Avista's utility cost of gas savings is 14¢ per therm.)
16 Both the electricity and gas costs of energy saved are
17 well below Avista's avoided costs. Although there may be
18 room for some minor disagreements among reasonable
19 evaluators about Avista's DSM cost-effectiveness
20 calculations, Avista's assumptions and calculations are
21 easily within a range of reasonableness.

22 Q. What changes did Avista propose to its
23 electricity DSM funding level at its May 19 EEE Board
24 meeting and again when it met with Staff on June 2, 2004?

25 A. Avista proposed reducing its electricity DSM

1 surcharge from the current 1.95% to about 1.25% of base
2 revenues. (See page 10 of Exhibit No. 132.) This
3 equates to nearly a \$1 million dollar reduction. Avista
4 also proposed that the surcharge be set on a cents-per-
5 kWh basis rather than on a percent of revenue basis as is
6 currently done.

7 Q. Does Staff agree with Avista's proposed
8 reduction in its DSM tariff rider?

9 A. Yes, Staff is willing to accept the reduction
10 in total DSM revenue collections contingent upon the
11 following two conditions:

12 1) Assurance by Avista that the reduction in DSM
13 revenues will not affect the Company's pursuit of cost-
14 effective energy efficiency measures, regardless of
15 whether such measures result in Avista DSM fund balance
16 being negative; and,

17 2) An increase in Avista's contribution to the Low
18 Income Weatherization (LIWA) program to a level
19 determined to be reasonable by the Commission in this
20 rate case.

21 Q. Has Avista indicated agreement to those two
22 conditions?

23 A. Yes. Jon Powell, Avista's DSM manager, assured
24 its EEE Advisory Board on May 19 that the proposed
25 reduction in DSM tariff rider revenue will not reduce the

1 availability of cost-effective energy efficiency
2 incentives and assistance for its customers. (See
3 pages 2 and 4 of Exhibit No. 132.) Furthermore, it is my
4 understanding that Avista will request that its DSM
5 surcharges be increased if its surcharge balance becomes
6 too negative for too long. Mr. Powell restated these
7 assurances to me after other Company representatives
8 reiterated the proposal at its meeting with the Staff on
9 June 2. Mr. Powell also suggested that Avista is not
10 opposed to a reasonable increase to its funding of LIWA.

11 Q. What have been the historical levels of
12 Avista's electricity DSM surcharges?

13 A. The DSM surcharge was initiated at 1.55% in
14 1995, decreased slightly to 1.503% in 1996, decreased
15 significantly to 1.0% in 1999 due to a large balance
16 being carried, and was increased to the current 1.95% in
17 June of 2001 shortly after Avista had begun rapidly
18 accelerating its DSM efforts in response to the western
19 states energy crisis.

20 Q. What is the history of Avista's electricity DSM
21 revenue collections and expenses?

22 A. The table in Exhibit No. 133 shows Avista's
23 reported annual DSM revenues, expenses and fund balance.

24 Q. What general programs does Avista's electricity
25 DSM surcharge fund?

1 A. Avista's electricity DSM surcharge funds all of
2 the Company's own electricity DSM programs, about
3 \$250,000 for the Company's Idaho share of the Northwest
4 Energy Efficiency Alliance's (NEEA) market transformation
5 efforts, and a small portion of the company's maximum
6 allocation of \$210,000 annually for the Lewiston
7 Community Action Partnership's (CAP) various low-income
8 programs, including weatherization.

9 Avista says that the \$210,000 allocated to the
10 CAP is funded from a combination of Bonneville Power
11 Administration's Conservation and Renewable Discount (BPA
12 C&RD) funds and its own electricity and gas DSM funds.
13 Avista has also indicated that the CAP does not always
14 spend all of the \$210,000 maximum allocation.

15 Q. Given Avista's claim that its electricity DSM
16 programs have bought energy efficiency at an average
17 levelized utility cost of 1.4¢ per kWh, why is Staff
18 willing to accept Avista's proposed reduction in its DSM
19 surcharge?

20 A. As previously described, Avista has assured
21 Staff that the level of its DSM funding will not limit
22 its pursuit of cost-effective energy efficiency measures.
23 Avista's DSM surcharge historically has been increased
24 and decreased in response to changing needs. Avista has
25 been willing to ramp up its DSM efforts when it is cost-

1 effective to do so regardless of its DSM balance. Staff
2 believes that it is important for Avista to maintain
3 control of its DSM programs and funding levels especially
4 given its historically good stewardship of these programs
5 and funds. The reduction at this time better reflects
6 anticipated DSM expenditures and also provides some rate
7 relief as base rates will likely increase as a result of
8 this rate case. And, in comparison to the just completed
9 Idaho Power rate case, Avista's proposed DSM funding
10 level does not seem unreasonable.

11 Q. How do Idaho Power's DSM funding levels compare
12 to Avista's proposal?

13 A. Idaho Power's DSM surcharge equates to about
14 0.5% of base revenues and collects about \$2.7 million
15 annually, but that Company funds NEEA (\$1.2 million for
16 Idaho) and LIWA (\$1.2 million going forward) and some of
17 its DSM general administrative costs (\$0.3 million) from
18 other sources. In total, Idaho Power will likely spend
19 about \$5.4 million annually for DSM or about 1.1% of
20 total base revenues. Even with Avista's proposed
21 reduction to 1.25%, its DSM revenue as a percent of base
22 revenues would still be higher than Idaho Power's.

23 Q. Do you have a specific recommendation for
24 Avista's level of LIWA funding?

25 A. No. I am aware that Idaho Power's recently

1 ordered increase to \$1.2 million for LIWA for each of the
2 next three years (exclusive of any BPA C&RD funding)
3 equates to about \$3 per Idaho Power customer (\$1.2
4 million/400,000 total Idaho customers).

5 Q. Are you suggesting that Avista increase its
6 electricity DSM funding for LIWA to \$320,000 per year?

7 A. No. I am simply stating that amount is about
8 equivalent, on a per customer basis, to the \$1.2 million
9 recently approved by the Commission for Idaho Power.

10 In comparing northern and southern Idaho LIWA
11 funding levels, it should be noted that Avista also
12 contributes to LIWA from its gas DSM, whereas
13 Intermountain Gas does not contribute to LIWA. And, as
14 previously mentioned, the CAP apparently does not always
15 spend all of the maximum \$210,000 that Avista authorizes
16 it to spend for weatherization and other programs.

17 I anticipate that the Community Action
18 Partnership Association of Idaho (CAPAI) will recommend
19 and support an appropriate funding level based upon a
20 needs assessment specific to Avista's service area and
21 the ability of the CAP office based in Lewiston and its
22 satellite offices in Grangeville, Moscow, Coeur d'Alene
23 and Sandpoint to efficiently and prudently increase their
24 weatherization efforts for low-income households.

25 Q. You mentioned that Avista also proposed that

1 its DSM surcharge be set as a cents-per-kilowatt-hour
2 (kWh) rate rather than being set as a percent of base
3 revenues. Does the Staff support this change?

4 A. Yes. The current DSM surcharge rates, although
5 set as a uniform percent of base revenue, are also shown
6 in the tariff as various cents per kWh by class of
7 service. I believe it would be simpler for the tariff to
8 list just the cents per kWh. Doing so would also
9 eliminate the need to change the tariff language
10 coincident with general rate changes. Exhibit No. 134
11 shows the current DSM surcharges and the proportional DSM
12 surcharges that result from a \$1 million reduction.

13 Q. Are you recommending or suggesting any changes
14 to Avista's natural gas DSM surcharges, programs or
15 contribution to CAP for LIWA?

16 A. No.

17 **Advanced Meter Reading (AMR)**

18 Q. Briefly describe Avista's advanced meter
19 reading (AMR) proposal.

20 A. As described in more detail in Company witness
21 David Holmes' pre-filed, direct testimony, Avista is
22 proposing to install advanced meter reading (AMR)
23 capability over a four-year period for all of its
24 electricity and gas customers in Idaho. Mr. Holmes says
25 AMR will result in reduced meter reading operating

1 expenses, will provide other immediate system benefits
2 and will provide much of the infrastructure necessary for
3 critical peak and/or time-of-use (TOU) pricing in the
4 future.

5 Q. Does Avista believe that the immediate savings
6 in operating expenses after completion of the AMR project
7 will completely offset the capital costs?

8 A. Not quite. Mr. Holmes estimates the net gas
9 savings to be \$63,000 per year or 0.12% of \$51 million in
10 revenue (about a 7¢ decrease to a \$57 customer bill), but
11 that the electricity net cost would be an increase of
12 \$189,000 or 0.13% of \$146 million in revenue (about a 7¢
13 increase to a \$50 customer bill). Mr. Holmes concludes
14 the estimated very small net revenue requirement increase
15 is more than offset by additional system benefits that
16 have not been monetarily quantified.

17 Q. Does Staff support Avista's AMR proposal in
18 principle?

19 A. Yes. We believe one of the most important
20 future system benefits of AMR will be the capability to
21 implement critical peak TOU pricing. Staff anticipates
22 that critical peak TOU pricing will become cost-effective
23 for Avista by about the time the AMR system is completed
24 and that the additional components necessary for such a
25 pricing system should begin to be installed at that time.

1 In other words, Staff believes it reasonable for Avista
2 to consider installing just the AMR facilities without
3 specific TOU pricing facilities at this time.

4 Q. Is it Staff's position that Avista's proposal
5 should be deemed a reasonable and prudent capital
6 investment?

7 A. No, Staff does not have sufficient information
8 to make a final judgment and Avista is not requesting
9 such judgment from the Commission in this case.

10 Q. What is Avista requesting of the Commission
11 regarding its four-year AMR proposal?

12 A. As explained by Avista witness Don Falkner on
13 page 46 of his pre-filed direct testimony, Avista wants
14 to be able to "...treat AMR investment costs as a unique
15 construction project." As such, Avista proposes that its
16 AMR investment would be capitalized as construction work
17 in progress until after the entire metering project is
18 completed. At that time depreciation would begin and the
19 investment could be included in rate base should the
20 Company file an Application to do so.

21 Q. Does the Staff agree with Avista's proposed
22 deferred accounting treatment for its four-year AMR
23 implementation?

24 A. Staff believes that Avista will begin to
25 benefit from automated meter reading before completion of

1 the entire four-year AMR installation. However, to
2 promote Avista's implementation of AMR at this time,
3 Staff is not opposed to the deferred accounting treatment
4 proposed by Mr. Faulkner.

5 Q. Does this complete your direct testimony?

6 A. Yes, it does.

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Avista DSM Program Review

May 19th, 2004

*EEE Handout
from Jon Powell*

Expenditures

- Policy
 - Cost-control is a critical part of bringing the tariff rider back to zero
 - Cost-control measures are largely composed of unsustainable cost-controls
 - We will / are modifying these cost-controls as we reach the end of their sustainability
 - We will not compromise on our long-term ability to acquire DSM resources in exchange for short-term cost-controls
 - The ramp-up of the Idaho electric DSM portfolio is allowing us to transition towards a long-term approach to cost-control
 - Cost-control measures that are currently being modified include
 - Training
 - Staffing
 - New Technology measures

Business Plan Execution Risks

- We are approaching a “slippery slope”
 - Our ramp-up must be intelligently designed and prudently executed
 - Increased expenditures must be associated with the prospect of increased value to those paying into the tariff rider
 - New DSM investments (programs, projects) require
 - A coherent and plausible business case
 - A measurement strategy
 - An exit strategy in the event that the measurements of critical portions of the business case are not successful
 - In recognition of these risks the business plan will be subject to a higher than ordinary level of scrutiny

Resource Acquisition

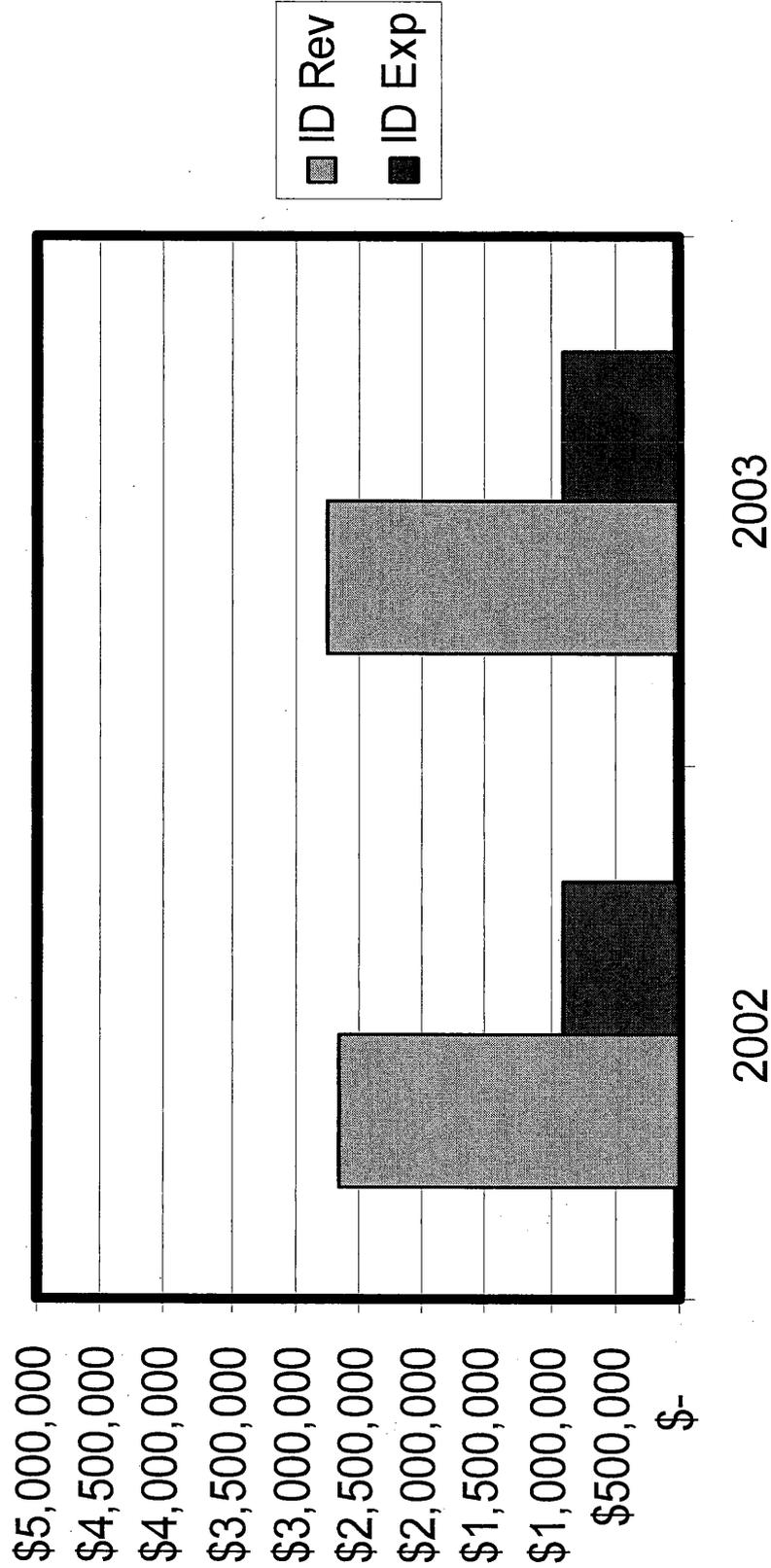
- Recall priority #1
 - “Meet all legal, regulatory and ethical obligations”
- This obligation includes least-cost resource acquisition
- We have taken a long-term view of this obligation
 - Acquire all lost opportunity resources
 - Lost opportunity due to physical measure issues
 - Lost opportunity due to “window of opportunity” issues
 - Target low-cost / no-cost resources at all times
 - Improves our ability to deliver resources within budgetary restrictions

Key Balance Management Transition

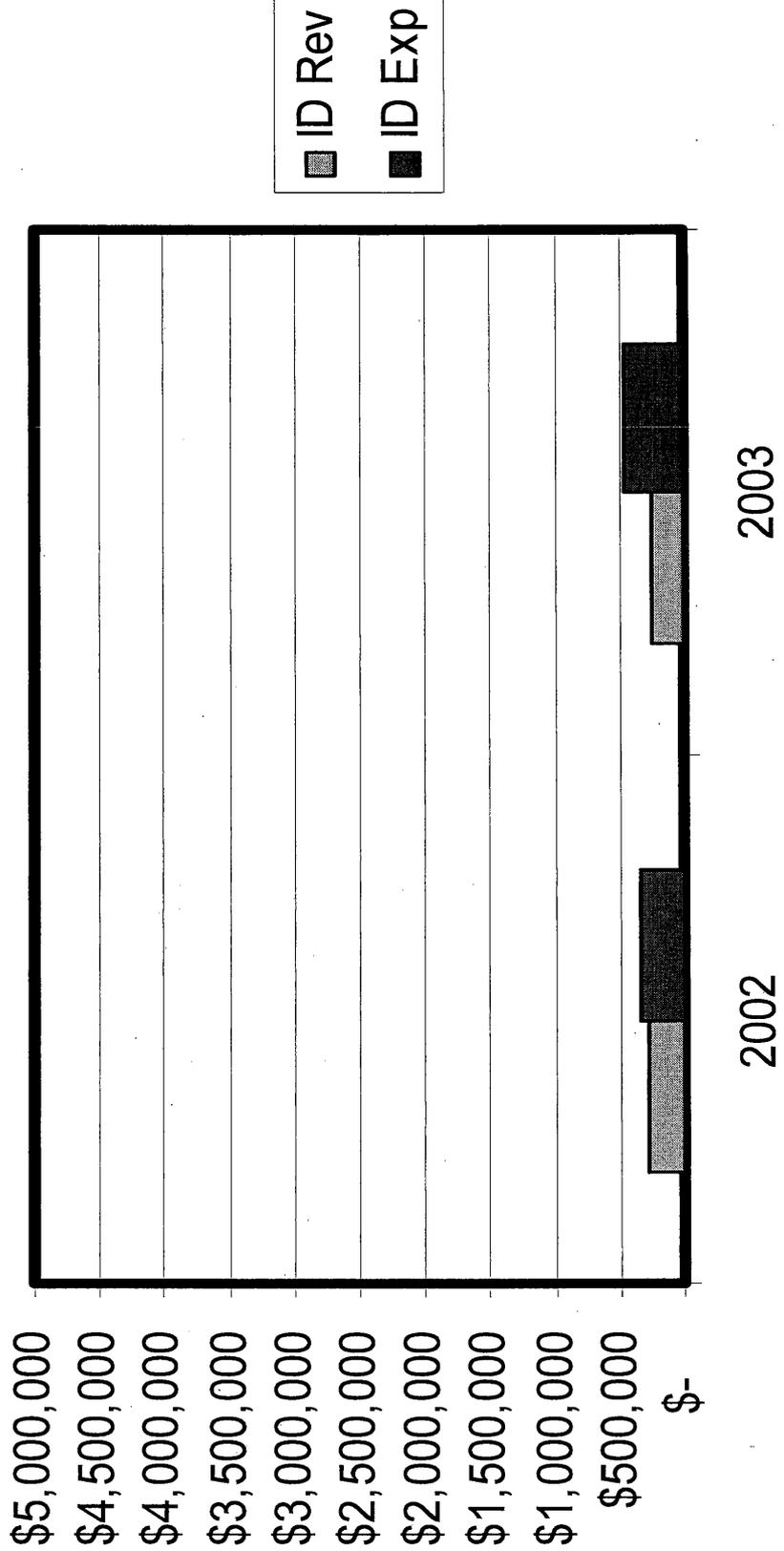
- Shift from managing four negative balances to ...
- Managing a mix of positive and negative tariff riders
- Complicated by the asymmetric interest on electric positive balances
- Continued strong demand for gas-efficiency measures
 - Uncertainty regarding when, or if, we'll saturate this niche



Idaho Electric Revenue / Expense



Idaho Gas Revenue / Expense



Objectives

- As each tariff rider return to zero it is Avista's desire to
 - Establish a mechanism that fairly treats ratepayers and shareholders
 - Provides for the necessary revenue to acquire cost-effective resources
 - Is sufficiently flexible to respond to changing resource opportunities, balances, cash flow etc.
 - Allows the Company to manage our programs first and our balances second

Proposal

- Establish a PGA-style annual adjustment to tariff rider levels based upon
 - Projected revenue requirement over the following year
 - Current balance
 - Base rate upon which the tariff rider is levied

Application of this Approach to the Idaho Electric Tariff Rider Balance

- A 1.25% electric tariff rider, when augmented with the positive balance, would equal the revenue generated by the current 1.95% tariff rider.
- The 1.25% is based upon a comparison of a post-GRC base rate to the revised Schedule 91 tariff rider

Idaho Electric Ramp-Up

May 19, 2004

Major Program Initiatives

- Original list of 50 concepts
- Current implementation of
 - Rooftop HVAC
 - Indirect Evaporative Cooling
 - Residential electric to gas conversion
 - Prescriptive Lighting
 - Prescriptive Motors
 - Prescriptive measure package for grocery stores
 - Participation in Double-Your-Savings regional program
 - Motor Management training
 - Lighting Seminar series

Major Program Initiatives

- All are temporary initiatives pending further evaluation
- All programs have
 - A well-defined objective
 - Quantifiable results
 - An exit strategy
- Programs may be expanded, revised or cancelled depending on program success
- All successful programs will be evaluated for availability in Washington
- Results expected in six months to two years

Avista's Electricity DSM Revenues, Expenses and End-of-Year Balances for Idaho

Year	Revenues w. Interest	Expenses incl. LIWA & NEEA	End of Year Balance
1999	\$ 1,640,637	\$ 1,588,759	\$ 775,920
2000	\$ 1,237,548	\$ 2,006,370	\$ 7,098
2001	\$ 1,672,173	\$ 5,214,921	(\$ 3,535,650)
2002	\$ 2,660,353	\$ 882,959	(\$ 1,758,256)
2003 (10 mo.)	\$ 2,236,728	\$ 738,956	(\$ 318,869)

Exhibit No. 133
Case No. AVU-E-04-1/
AVU-G-04-1
L. Anderson, Staff
6/21/04

Avista's Current and Proposed DSM Surcharges in Idaho

Schedule	Current Rate	Reduced Rate
1 residential	0.104¢ / kWh	0.067¢ / kWh
11 & 12	0.140¢ / kWh	0.090¢ / kWh
21 & 22	0.100¢ / kWh	0.064¢ / kWh
25	0.0684¢ / kWh	0.044¢ / kWh
31 & 32	0.102¢ / kWh	0.065¢ / kWh
41 - 49	1.95% of bill	1.25% of bill
Revenue	\$2.7 million	\$1.7 million

CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 21ST DAY OF JUNE 2004, SERVED THE FOREGOING **DIRECT TESTIMONY OF LYNN ANDERSON**, IN CASE NO. AVU-E-04-1/AVU-G-04-1, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

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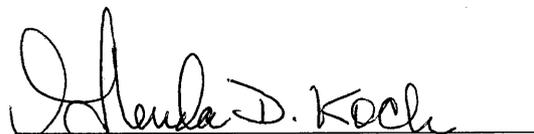
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