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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE INVESTIGATION)
OF FINANCIAL DISINCENTIVES TO)
INVESTMENT IN ENERGY EFFICIENCY BY) CASE NO. IPC-E-04-15
IDAHO POWER COMPANY.)
_____)

IDAHO POWER COMPANY
DIRECT TESTIMONY
OF
JOHN R. (RIC) GALE

1 Q. Please state your name and business address.

2 A. My name is John R. (Ric) Gale and my business
3 address is 1221 West Idaho Street, Boise, Idaho.

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

5 A. I am employed by Idaho Power Company ("Idaho
6 Power" or "the Company") as the Vice President of Regulatory
7 Affairs.

8 Q. What is your educational background and
9 business affiliations?

10 A. I received a BBA in 1975 and an MBA in 1981
11 from Boise State University. I maintain a close affiliation
12 with the university and serve on the College of Business and
13 Economics' Advisory Council. I have also attended the Public
14 Utilities Executive Course at the University of Idaho.

15 I am an active member of the Edison Electric
16 Institute's Economic Regulation and Competition Committee
17 (ERCC), which is the committee that is concerned primarily
18 with regulatory issues and ratemaking methods. I am the
19 current Vice Chair of the ERCC.

20 Q. Please describe your work experience.

21 A. In October 1983, I accepted a position as Rate
22 Analyst with Idaho Power Company. In March 1990, I was
23 assigned to the Company's Meridian District Office for one
24 year where I held the position of Meridian Manager. In March
25 1991, I was promoted to Manager of Rates. In July 1997, I was

1 named General Manager of Pricing and Regulatory Services. In
2 March of 2001, I was promoted to Vice President of Regulatory
3 Affairs. As Vice President of Regulatory Affairs, I am
4 responsible for the overall coordination and direction of the
5 Pricing & Regulatory Department, including development of
6 jurisdictional revenue requirements and class cost-of-service
7 studies, preparation of rate design analyses, and
8 administration of tariffs and customer contracts. In my
9 current position, I am also responsible for policy matters
10 related to the economic regulation of Idaho Power Company.

11 Q. What is the purpose of your testimony in this
12 proceeding?

13 A. I am supporting the application for
14 implementation of a true-up mechanism of the type described by
15 Company witnesses Cavanagh and Youngblood that would be
16 applicable to Idaho Power Company's Residential Service
17 (Schedule 1) and to Small General Service (Schedule 7)
18 customers. This true-up mechanism would be titled "Fixed Cost
19 Adjustment" or FCA. The proposed FCA would track costs and
20 revenues beginning January 1, 2006 and would adjust rates up
21 or down each June 1 (beginning June 1, 2007) coincidentally
22 with the timing of the Company's Power Cost Adjustment ("PCA")
23 and seasonal rate changes.

24 Q. Please describe the series of events leading up
25 to Idaho Power's filing an application to implement a Fixed

1 Cost Adjustment.

2 A. In 2003, Mr. Ralph Cavanagh met with Idaho
3 Power's senior management to discuss several opportunities
4 where the Company and the environmental community could work
5 together productively to achieve mutually beneficial results.
6 One of these items was the potential implementation of a true-
7 up mechanism that would remove the economic disincentive to
8 energy efficiency efforts by Idaho Power. Mr. Cavanagh
9 formally proposed this type of mechanism on behalf of the
10 Advocates for the West during the Company's last general rate
11 case, Case No. IPC-E-03-13. The Commission addressed this
12 issue in its rate case order by initiating a separate docket
13 to investigate disincentives to energy efficiency, Case No.
14 IPC-E-04-15. The Company's FCA Application is a continuation
15 of IPC-E-04-15.

16 Q. What was Idaho Power's initial position
17 regarding the need for a true-up mechanism?

18 A. Initially, Idaho Power believed that other
19 energy efficiency disincentives needed to be addressed as a
20 matter of priority before entertaining the concept of a new
21 mechanism. Additionally, the Company was in a capability-
22 building mode, so that the amount of energy efficiency
23 obtained was limited until the infrastructure was put into
24 place. Finally, Idaho Power desired to make significant
25 progress on its rate design for customer classes that was

1 kilowatt-hour metered only, believing that significant
2 movement in the rate design would address the same issues that
3 a true-up mechanism would.

4 Q. How has this position evolved?

5 A. In the last several years Idaho Power has
6 reestablished a complete energy efficiency effort in terms of
7 personnel, budgets and programs. The Company instituted the
8 Energy Efficiency Advisory Group, which has proven to be a
9 productive method to engage customers, environmental advocates
10 and technological experts in the development of Idaho Power's
11 energy efficiency emphasis and effort. The Commission-
12 approved Energy Efficiency Rider has provided a steady funding
13 supply to carry out energy efficiency and demand response
14 initiatives. Additionally, the Company's Integrated Resource
15 Planning process has incorporated the demand-side activities
16 in an increasingly meaningful way. Finally, the Idaho
17 Commission has been supportive of cost recovery of the dollars
18 invested in energy efficiency. All these developments have
19 helped remove the initial disincentives to Idaho Power
20 initiating extensive energy efficiency activities.

21 At the same time, Idaho Power has tried to
22 implement changes to its pricing for Schedule 1 and Schedule 7
23 customer classes with very limited success. Frankly, the
24 Commission has not shown an appetite for changes to the rate
25 design that significantly increases the monthly customer

1 charge.

2 Q. Returning to the docket that dealt with
3 disincentives to energy efficiency, Case No. IPC-E-04-15.
4 Please describe the status of this proceeding.

5 A. Following the Company's general rate case, the
6 Commission Staff, customer groups, other interested parties
7 and the Company embarked upon a workshop process to
8 investigate disincentives that may keep Idaho Power from
9 investing fully in energy efficiency activities. The group
10 met five times over a five-month period and filed a summary
11 report called "Final Report on Workshop Proceedings" (Final
12 Report) on February 15, 2005. The Final Report is Company
13 Exhibit No. 1, which has already been introduced by Mr.
14 Cavanagh. The effort resulted in two action items - (1) the
15 development of a true-up simulation to track what might occur
16 if a decoupling type mechanism were initiated at Idaho Power
17 and (2) advocacy for the filing of a pilot energy efficiency
18 program that would incorporate both performance incentives and
19 "lost revenue" adjustments. The filing of the Final Report
20 was the last action in the Case No. IPC-E-04-15. Since the
21 docket remains open and the Company's application is directly
22 related to the Final Report's conclusions, Idaho Power has
23 made its current request under the same docket number.

24 Q. What was done to follow up on the two action
25 items?

1 Youngblood's testimony also describes the Company's
2 collaboration with Mr. Hirst on this issue.

3 Q. What is the underlying problem that a true-up
4 mechanism is trying to address?

5 A. Basically, when a utility recovers a
6 significant portion of its fixed costs through variable rates,
7 it is not in the utility's economic interest to embark on any
8 programs or initiatives that reduces the amount of energy
9 sold.

10 Q. How does a true-up mechanism help this
11 situation?

12 A. A true-up mechanism disconnects (or decouples)
13 the fixed cost recovery from the energy rates and recouples
14 the fixed cost recovery to some other variable such as the
15 number of customers served by the utility. The utility
16 becomes economically indifferent to decreases in energy sales.
17 As a result, the disincentive to act in ways that decrease
18 energy consumption is removed.

19 Q. Are there potential concerns that might be
20 raised when a new rate adjustment mechanism is implemented?

21 A. Yes. A chief concern of the Company is that
22 when any new rate adjustment mechanism is introduced there is
23 the potential for unintended consequences - something
24 unforeseen in the development of the mechanism that causes the
25 mechanism to not work as designed or intended. There are

1 other possible negatives to the introduction of a true-up
2 mechanism, such as (1) a true-up mechanism may take the
3 pressure off efforts to better align prices and costs through
4 rate design, (2) a true-up mechanism may be countercyclical to
5 a region's economic cycle, and (3) a true-up mechanism may
6 introduce potentially large rate swings. Most of these
7 concerns can be mitigated by the design of the mechanism
8 itself.

9 Q. Given the potential positives and negatives,
10 what is the Company proposing?

11 A. the Company is proposing a limited
12 implementation of a true-up mechanism to two customer classes
13 - Schedule 1, Residential Service, and Schedule 7, Small
14 General Service - that would start for accounting purposes on
15 January 1, 2006. Rates would adjust annually on June 1 at the
16 same time as the PCA and seasonal rates change. These two
17 customer classes would recouple fixed costs to customer counts
18 and the energy usage would be weather-normalized in the same
19 manner as the Company employs for its rate proceedings. Idaho
20 Power proposes a monthly deferral that would operate, in terms
21 of reporting and the application of a carrying charge, similar
22 to the PCA. Finally, the Company proposes a cap on any upward
23 rate change of three percent that could be implemented at the
24 option of the Commission - again, similar to the seven percent
25 provision provided for in the PCA.

1 Q. Why limit the mechanism to Schedule 1 and
2 Schedule 7?

3 A. Idaho Power wants to take an incremental
4 approach to the introduction of a true-up mechanism in order
5 to gain some experience and to avoid some exposure to
6 potential unintended consequences. Schedule 1 and Schedule 7
7 are a logical place to start in that these two customer
8 classes present the most fixed cost exposure (in percentage
9 terms) and, because they recouple fixed cost revenue to
10 customer counts, they avoid the recoupling complications
11 associated with larger customer groups. Additionally, because
12 neither rate schedule has a demand charge, the calculations
13 are simpler.

14 Q. What is the importance of starting the
15 accounting on January 1, 2006?

16 A. There are two advantages in using a calendar
17 year for tracking an FCA deferral. One is that the numbers
18 tie directly to the numbers reported in the Company's FERC
19 Form 1 Report, which is particularly important for consistency
20 in reporting the number of Schedule 1 and Schedule 7
21 customers. The second advantage is that weather can be
22 normalized on a calendar-year basis as opposed to split-year
23 reporting.

24 Q. Why are you then proposing to wait until June
25 1, 2007 to change rates?

1 Q. Why are you proposing a cap to potential rate
2 increases and how will it be implemented?

3 A. The cap is proposed to mitigate some of the
4 potential negatives - such as an economic downturn - that
5 might occur with the introduction of a new rate mechanism.
6 The proposed cap is intended to work exactly like the cap
7 provided in the PCA. Accordingly, the Commission at its
8 discretion and judgment can impose the cap or let the rate
9 change as calculated. Historically, under the PCA mechanism,
10 the Commission has been reluctant to impose the cap for
11 various reasons, including the dilution of the price signal
12 and the fear of another high-cost year. Nevertheless, the cap
13 is there as a tool for the Commission's potential use.

14 Q. Why is the deferral being set up similarly to
15 the PCA deferral?

16 A. The PCA has been in place since 1993. One of
17 the outstanding characteristics of the PCA has been its
18 symmetrical approach to benefits and costs. The mechanism has
19 been well tested in a variety of water/cost scenarios and has
20 proven to work well for all concerned. Accordingly, Idaho
21 Power believes in applying the same tried and true method to
22 the FCA.

23 Q. Is it your opinion that the implementation of a
24 FCA as proposed by the Company is in the public interest?

25 A. Yes. The FCA proposal provides an opportunity

1 to conservatively test the concept of a true-up mechanism and
2 the removal of a disincentive to energy efficiency activities.
3 The proposal will properly incent the Company to look for
4 economic opportunities to reduce load. The proposal
5 incrementally addresses the customer classes that are the
6 simplest to administer and that have the largest relative
7 exposure to problems with fixed cost recovery. In addition,
8 safeguards have been added to protect against the unintended.
9 Finally, the deferred aspect of the FCA is mirrored after
10 another mechanism that has been successful since 1993.

11 Q. Does this conclude your testimony?

12 A. Yes.