

**Law Office of William M. Eddie**

610 SW Alder St. Suite 910  
Portland, OR 97205

Ph: 503-542-5245  
Fax: 503-225-0276  
Cell: 208-484-7908

December 19, 2006

Jean Jewell, Commission Secretary  
Idaho Public Utilities Commission  
427 W. Washington St.  
Boise, ID 83702-5983

Re: **IPC-E-04-15**

Dear Ms. Jewell:

Please find enclosed for filing nine (9) copies of the DIRECT TESTIMONY OF STEVEN D. WEISS ON BEHALF OF NW ENERGY COALITION. I have included a cover page of this document to be conformed and returned to me. Thank you for your attention to this matter.

Sincerely,



William M. Eddie

RECEIVED  
2006 DEC 26 AM 8:35  
IDAHO PUBLIC  
UTILITIES COMMISSION

RECEIVED

2006 DEC 26 AM 8: 36

IDAHO PUBLIC  
UTILITIES COMMISSION

**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.     )  
\_\_\_\_\_ )

**DIRECT TESTIMONY OF  
STEVEN D. WEISS  
ON BEHALF OF NW ENERGY COALITION**

1

2 Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

3 A. My name is Steven Weiss. I am employed by the NW Energy Coalition

4 ("Coalition"), 219 First Ave. South, Suite 100, Seattle, WA 98104.

5 Q. WHAT EXPERIENCE DO YOU HAVE RELATED TO THIS PROCEEDING?

6 A. I was the lead staff person at NW Energy Coalition in reviewing filings and proposals

7 in this matter since Idaho Power Company filed their application in January 2006.

8 Prior to that time, the Coalition's Nancy Hirsh and our attorney, William Eddie, had

9 participated in workshops held within this docket. I conferred with Ms. Hirsh and

10 Mr. Eddie, in regard to the Coalition's prior role in this docket. I also have extensive

11 experience regarding decoupling in Oregon and Washington. I was instrumental in

12 negotiating decoupling agreements in Oregon for NW Natural and Cascade Gas

13 companies that were subsequently approved by the Oregon Commission. In addition

14 I am the Coalition's witness in the dockets now awaiting decisions of the Washington

15 Commission for Cascade, Avista and Puget Sound Energy's decoupling proposals.

16 Q. WHAT IS THE SUBJECT OF YOUR TESTIMONY?

17 A. I will explain and express the Coalition's support for the settlement stipulation

18 ("Stipulation") signed December 1, 2006.

19 Q. PLEASE DESCRIBE THE COALITION'S PAST INVOLVEMENT WITH THIS  
20 ISSUE.

21 A. The Coalition intervened in Idaho Power Company's 2003-04 general rate case (IPC-

22 E-03-13). Ralph Cavanagh presented testimony for the Coalition in that case, urging

23 the adoption of a fixed-cost adjustment mechanism to better align the interests of

1 Idaho Power's customers and shareholders; and Mr. Cavanagh also recommended an  
2 exploration of performance incentives to encourage strong performance in demand-  
3 side management ("DSM") by Idaho Power Company. Following hearings in that  
4 case, NW Energy Coalition, Idaho Power Company, Commission Staff, and the  
5 Industrial Customers of Idaho Power entered a "Joint Proposal" committing to work  
6 together to resolve issues raised by Mr. Cavanagh's testimony in a workshop setting.  
7 The Commission decided in Order No. 29505 that such an investigation should go  
8 forward, and specifically ordered: "The parties to the [Joint Proposal] are directed to  
9 propose a workshop schedule and initiate a proceeding." Pursuant to that Order, the  
10 Coalition filed a petition initiating this docket on June 18, 2004. The Coalition  
11 participated fully in the workshop proceedings, which primarily were held in late  
12 2004. Following Idaho Power's application to establish a fixed-cost adjustment  
13 mechanism in 2006, the Coalition intervened in this docket and participated in further  
14 workshops leading to the Stipulation now before the Commission.

15 Q. WHY DOES THE COALITION SUPPORT DECOUPLING?

16 A. All ratemaking regulation provides utilities with incentives or disincentives to behave  
17 in a certain manner. Ideally, utilities should be rewarded based on how well they  
18 meet their customers' energy service needs. But traditional rate design ties recovery  
19 of fixed costs directly to commodity sales. This encourages increased use and  
20 discourages even the most economical investments if they are likely to reduce  
21 throughput. If sales go down, Company shareholders forego cost recovery of  
22 recognized and prudent costs with every unsold kilowatt-hour. Under this system,  
23 supply expansion is the primary response to projected load growth - to the exclusion

1 of investments in energy efficiency, peak load pricing and distributed energy  
2 resources. This is economically inefficient because there is a disincentive for the  
3 utility to choose the least-cost mix of options to provide energy service or to  
4 encourage such investments by customers.

5 This regulatory paradigm places the utility's interest (to increase sales) in  
6 conflict with the customers' interest (to reduce their total energy costs). Not only  
7 does this foster a corporate culture that opposes direct utility investments in programs  
8 that reduce energy use, but also it further motivates the utility to discourage customer-  
9 financed reduction measures and to oppose efforts to tighten building codes and  
10 appliance standards.

11 Breaking the link between the utility's commodity sales and revenues removes  
12 both the utility's incentive to increase energy sales and the disincentive to run  
13 effective energy efficiency programs or promote other activities that may reduce load.  
14 Decision-making can then focus on making least-cost investments to deliver reliable  
15 energy services to customers even when such investments reduce throughput. The  
16 result is a better alignment of shareholder, management and customer interests to  
17 provide for more economically and environmentally efficient resource decisions.  
18 Decoupling is essential to establishing a corporate culture that promotes strong cost-  
19 effective conservation investments. A decoupling mechanism is able to do this much  
20 more successfully and comprehensively than other alternatives such as high fixed  
21 customer charges while, while providing greater assurance of fixed-cost recovery,  
22 also provide a poor price signal to customers regarding their energy use.

1           Decoupling is valuable for any utility facing attrition in per-customer use.  
2           Due to a variety of factors (including high energy prices, broader use of natural gas as  
3           a heating source, Company-sponsored conservation programs, advances in building  
4           codes and appliance standards, and new energy-efficient technology) Idaho Power's  
5           customers are reducing their energy use on a per-customer basis. Without  
6           decoupling, this declining usage rate would likely hurt Idaho Power's financial  
7           performance in between rate cases. But with decoupling, Idaho Power should be  
8           indifferent to declining usage rates.

9    Q.    DECOUPLING REMOVES THE COMPANY'S DISINCENTIVE TO  
10   ENCOURAGE ENERGY CONSERVATION, BUT DOES IT PROVIDE A  
11   POSITIVE INCENTIVE TO ACQUIRE COST-EFFECTIVE CONSERVATION?

12   A.    No, decoupling only is intended to make the utility indifferent to changes in energy  
13   usage. Therefore in every decoupling proceeding in which the Coalition has been  
14   involved, we have conditioned our support on strong, incremental conservation  
15   commitments.

16   Q.    DOES THE STIPULATION PROVIDE ASSURANCE THAT THE COMPANY  
17   WILL CONDUCT STRONGER CONSERVATION PROGRAMS?

18   A.    Yes. At paragraph 8 of the Stipulation, Idaho Power makes a series of  
19   unprecedented commitments to enhance its DSM programs (and supporting DSM  
20   efforts over which the Company has little or no direct control). The Stipulation  
21   provides for thorough reviews of the Company's conservation activities, and includes  
22   adequate safeguards to ensure no unintended consequences result from decoupling.  
23   These commitments, coupled with the Company's increased portfolio of DSM

1 programs as reflected in its 2006 Integrated Resource Plan, provide the Coalition with  
2 ample assurance that decoupling will create tangible, positive results. The  
3 Commission will have an opportunity to review the Company's performance  
4 annually, as well as at the end of the three-year pilot period.

5 Q. DOES THE COALITION AGREE WITH THE OVERALL POLICY DIRECTION  
6 EMBODIED IN THE STIPULATION AND MR. GALE'S SUPPLEMENTAL  
7 TESTIMONY?

8 A. Yes. In another docket, IPC-E-06-8, the Coalition urged the Commission to adopt  
9 rate structures that make Idaho Power Company indifferent to changes in customer  
10 loads. The decoupling mechanism proposed in the Stipulation takes a very strong  
11 and necessary step toward achieving that policy goal of indifference or neutrality  
12 toward changing loads. From this "base" of neutrality, the Commission is well-  
13 positioned to acknowledge the Company's enhanced commitments to DSM, and to  
14 create incentives for excellent performance in DSM.

15 Q. DO YOU HAVE A SPECIFIC RECOMMENDATION FOR THE COMMISSION?

16 A. Yes. The Coalition recommends the Commission approve the Stipulation.

17 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

18 A. Yes.

## CERTIFICATE OF SERVICE

I hereby certify that on this 19<sup>th</sup> day of December 2006, true and correct copies of the foregoing DIRECT TESTIMONY OF STEVEN D. WEISS were delivered to the following persons via U.S. Mail:

Commission Secretary (Nine copies provided)  
Idaho Public Utilities Commission  
427 W. Washington St.  
Boise, ID 83702-5983

Bart Kline  
Monica Moen  
Idaho Power Company  
P.O. Box 70  
Boise, ID 83707-0070

Peter Richardson  
Richardson & O'Leary  
515 N. 27<sup>th</sup> St.  
Boise, ID 83702

A handwritten signature in black ink, appearing to read 'W Eddie', written over a horizontal line.

William M. Eddie