BEFORE THE

RECEIVED

2006 DEC 18 PM 4:07

IDAHO PUBLIC UTILITIES COMMISSION

IDAHO PUBLIC UTILITIES COMMISSION

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

DIRECT TESTIMONY OF RANDY LOBB IN SUPPORT OF THE STIPULATION

IDAHO PUBLIC UTILITIES COMMISSION

DECEMBER 18, 2006

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

A. My name is Randy Lobb and my business address is 472 West Washington Street, Boise, Idaho.

Q. By whom are you employed?

A. I am employed by the Idaho Public Utilities Commission as Utilities Division Administrator.

Q. What is your educational and professional background?

A. I received a Bachelor of Science Degree in Agricultural Engineering from the University of Idaho in 1980 and worked for the Idaho Department of Water Resources from June of 1980 to November of 1987. I received my Idaho license as a registered professional Civil Engineer in 1985 and began work at the Idaho Public Utilities Commission in December of 1987. My duties at the Commission currently include case management and oversight of all technical staff assigned to Commission filings. I have conducted analysis of utility rate applications, rate design, tariff analysis and customer petitions. I have testified in numerous proceedings before the Commission including cases dealing with rate structure, cost of service, power supply, line extensions, regulatory policy and facility acquisitions.

Q. What is the purpose of your testimony in this case?

A. The purpose of my testimony is to describe the process leading to the Stipulation on the Fixed Cost Adjustment (FCA) mechanism filed with the Commission and explain the basis for Staff's support.

Q. Please summarize your testimony.

A. Through a lengthy process of workshops and settlement meetings, parties to the case quantified reduced fixed cost recovery associated with Company sponsored Demand Side Management (DSM) programs, identified the disincentive perceived by the Company in implementing such programs and developed a mechanism to address that disincentive. Staff believes the filed Stipulation establishes a reasonable pilot mechanism to track the effects on fixed cost recovery of Company provided DSM programs and removes the perceived disincentive by reimbursing the Company for identified losses.

In exchange for removal of the DSM disincentive, the three-year pilot requires measured improvement by the Company with respect to the size and availability of DSM programs provided within its service territory. It also provides symmetry (surcharge/credit) when fixed cost recovery per customer varies above or below a Commission established base. Staff therefore supports the

Stipulation.

Q. Would you please briefly describe the process leading to the Stipulation?

A. Yes. On August 10, 2004, the Commission issued a Notice of Investigation and a Notice of Scheduling initiating Case No. IPC-E-04-15, to investigate the financial disincentives to the investment in energy efficiency by Idaho Power Company. In its Notice, the Commission approved a series of three workshops to begin on August 24, 2004. The four parties to the Case, the Northwest Energy Coalition (NWEC), the Industrial Customers of Idaho Power (ICIP), the Commission Staff (Staff) and Idaho Power Company (the Company) held a total of five workshops from August 24, 2004 through December 13, 2004. The parties then filed a report with the Commission on February 14, 2005 summarizing the results of the workshops and the investigation.

Q. What were the results of the investigation?

A. The Parties agreed that disincentives to DSM did exist but did not agree that restoration of lost fixed revenues would result in additional or more effective investment in DSM by Idaho Power. Nevertheless, the parties agreed to a set of criteria that would be required for any FCA mechanism and agreed to conduct a simulation of a proposed fixed cost true-up mechanism to identify potential impacts.

Q. What happened next?

A. Based on the results of the workshops and the FCA mechanism simulation, the Company filed testimony on January 27, 2006 that proposed implementation of a fixed cost adjustment mechanism designed to remove the financial disincentive to DSM. Subsequent to that filing, the parties held three more workshops/settlement meetings to develop the Stipulation signed by three of the four parties to the case (the ICIP did not sign the Stipulation but will not oppose its approval).

Q. Would you please describe the proposed FCA mechanism?

A. Yes. The Company has previously described in testimony the specific elements of the mechanism, so I will not repeat them here. However, the mechanism is generally based on an average fixed cost per customer (Schedule 1-Residential Service and 7-Small General Service) as established by the Commission in the Company's last general rate case. Because the level of fixed cost recovered annually from each customer is dependent upon the amount of energy consumed, the lower the per customer energy consumption, the lower the fixed cost recovery.

Under the mechanism, actual weather normalized consumption per customer and therefore the fixed cost recovery per customer will be compared to the base established by the Commission. The Company will then be either reimbursed for under recovery or customers will receive a credit for over recovery of fixed costs.

Consequently, the financial disincentive for the Company to implement DSM programs that reduce energy consumption is removed because the Company is reimbursed for any resulting lost fixed revenue.

Q. How did Staff determine that the proposed FCA mechanism was both necessary and appropriately structured?

A. As a result of the workshop process, simulation of mechanism impacts and significant additional analysis and evaluation of cost recovery in between rate cases, Staff concluded that DSM programs reduce fixed cost recovery over what otherwise would have occurred creating a financial disincentive for the Company to implement such programs. To the extent these disincentives are a significant barrier to cost effective DSM, Staff believes these barriers should be removed through an annual fixed cost adjustment.

Staff further determined that the proposed mechanism is appropriately structured because it uses a Commission approved fixed cost recovery level and it provides symmetrical adjustment to fixed cost recover above or below the Commission approved base.

Finally, Staff determined that the overall objective of an FCA mechanism is to remove the barriers to Company implementation of cost effective DSM. By agreeing to the mechanism as proposed in the Stipulation, Staff believes the Company has committed to embark on a significantly expanded level of DSM to the benefit of all ratepayers. To the extent barriers perceived by the Company are removed, Staff expects a renewed commitment to DSM including support for building codes and appliance standards that otherwise would not have occurred.

Q. What issues were of concern to Staff in evaluating the FCA mechanism?

A. Staff identified several issues including the potential impact on customer rates, recovery of assumed fixed costs associated with new customers, recovery of lost fixed cost due to reasons other than Company DSM programs and whether removal of disincentives through the FCA will result in measurable improvement in Company DSM programs.

Q. How do we know that the Company would not have expanded and improved its DSM programs without the FCA mechanism?

A. Beyond what's stated in its Integrated Resource Plan (IRP), we don't know what DSM programs the Company would have actually provided or how effective the programs might have been absent the FCA mechanism. However, Staff concluded that approval of the mechanism in pilot form will allow the Commission and other interested parties to evaluate Idaho Power's progress in DSM after a Company cited impediment to DSM is removed. If the Company does not perform DSM at an improved level, then payment under the FCA mechanism could potentially be made in the form of credits to customers and we may ultimately conclude that guaranteed fixed cost recovery does not have the DSM enhancing effect intended.

Q. Should the Company be assured of average fixed cost recovery for new customers in between rate cases and/or when consumption declines due to reasons other than Company sponsored DSM?

A. Staff evaluated the effect of load growth on fixed cost recovery and determined that while actual fixed costs to serve new load in between rate cases is not known, DSM programs also reduce the level of fixed cost recovery from these new customers over what it otherwise would have been. Whether a new or existing customer, Staff recognized that from the Company's perspective, the disincentive to DSM is just as material. Staff concluded that for a company with consistent customer growth such as Idaho Power, an overall per customer comparison is more practical than trying to remove changes in consumption due to customer growth.

Staff also recognized that per customer consumption could decline due to factors other than Company provided DSM Programs. For example, new customers could simply use less electricity on a per customer basis than the existing customer average due to reduced electrical space heating. Per customer consumption could also be reduced due to general economic conditions or as electric prices increase. Other than normalizing for the effects of weather, the proposed FCA mechanism does not distinguish between changes in consumption due to DSM and changes caused by other factors.

Consequently, Staff analyzed consumption trends of new customers and evaluated alternative mechanisms that attempt to "separate out" the effect on energy consumption of non-DSM factors. Staff ultimately concluded that the potential improvement in accuracy did not justify the additional complexity required to remove the effect of non-DSM factors for purposes of the proposed pilot mechanism.

Finally, the stipulation includes provisions for Staff to audit FCA results annually to compare actual savings as adjusted in the mechanism to DSM savings estimates. Staff will also compare actual new customer consumption to new customer load growth estimates as provided in the Company's IRP. Both the Company and Staff have the opportunity to request that the mechanism be discontinued if it fails to perform as intended.

Q. What is the anticipated impact of the proposed mechanism on customer bills?

A. The prefiled testimony of Company witness Youngblood in this case describes in detail the anticipated impact of the proposed mechanism on customer bills. The impact was evaluated by simulating the FCA true-up mechanism over the period 1994 through 2004. The Company's evaluation of the simulation showed that the mechanism could result in both customer credits and surcharges ranging from an annual reduction of less than 1% to an increase of almost 4%. The proposed mechanism includes a 3% cap on annual increases with carry over of unrecovered deferred costs to subsequent years.

Staff has evaluated the simulation methodology and has concerns about the validity of the results. Staff also recognizes that the results are highly dependent upon many variables including relative success of Company DSM programs, new customer energy consumption and the timing of Company general rate cases. That is why Staff has insisted upon a three-year pilot program with annual audits to evaluate the impact of the mechanism as a condition of agreeing to the Stipulation.

Q. Are there any other potential customer billing impacts?

A. To the extent DSM programs are significantly expanded, it is likely that the Company will request an increase in the DSM tariff rider to recover additional program costs. However, the Company has not made a request to increase the rider at this time nor has it indicated when it might make such a filing.

The ultimate effect on individual customer bills will depend on the availability of DSM programs and the level of customer participation in those programs.

Q. The final report on workshop proceedings submitted to the Commission in February 2004, described a pilot energy efficiency program that would incorporate performance incentives. Is such a program provided as part of the Stipulation in this case?

A. No, it is not. However, the parties have agreed in principal to a pilot DSM program that will incorporate performance based incentives. It is anticipated that a signed Stipulation proposing such a program will be filed with the Commission in the near future.

Q. Could you please summarize Staff's position with respect to the Stipulation establishing the FCA mechanism?

A. Yes. Staff supports the FCA mechanism agreed to in the Stipulation because it has the potential to deliver cost effective DSM that otherwise might not occur. The pilot nature of the mechanism, the required commitment of the Company to expand DSM programs and the opportunity for annual audit with off ramps to modify or terminate the mechanism all reflect uncertainty regarding the mechanism's actual impact and an appropriately cautious approach to implementation.

Q. Does this conclude your direct testimony in this proceeding?

A. Yes, it does.

CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 18TH DAY OF DECEMBER 2006, SERVED THE FOREGOING **DIRECT TESTIMONY OF RANDY LOBB,** IN CASE NO. IPC-E-04-15, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

MONICA MOEN
BARTON L KLINE
IDAHO POWER COMPANY
PO BOX 70
BOISE ID 83707-0070

PETER J RICHARDSON
RICHARDSON & O'LEARY
PO BOX 7218
BOISE ID 83702

WILLIAM M EDDIE
ADVOCATES FOR THE WEST
610 SW ALDER ST SUITE 910
PORTLAND OR 97205

Jo Nelson
SECRETARY