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IDAHO PUBLIC
UTILITIES COMMISSION

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION)
OF IDAHO POWER COMPANY FOR)
AUTHORITY TO INCREASE ITS RATES) CASE NO. IPC-E-08-10
AND CHARGES FOR ELECTRIC SERVICE.)
_____)

IDAHO POWER COMPANY

DIRECT REBUTTAL TESTIMONY

OF

COURTNEY WAITES

1 Q. Please state your name.

2 A. My name is Courtney Waites.

3 Q. Are you the same Courtney Waites that has
4 previously presented direct testimony in this case?

5 A. Yes, I am.

6 Q. Have you had the opportunity to review the
7 pre-filed direct testimony of Community Action Partnership
8 Association of Idaho's ("CAPAI") witness Ms. Ottens,
9 Industrial Customers of Idaho Power's ("ICIP") witness Dr.
10 Reading, and Commission Staff's witnesses Mr. Hessing, Mr.
11 Elam, and Mr. Lanspery?

12 A. Yes, I have.

13 Q. What is the scope of your rebuttal
14 testimony?

15 A. My testimony will focus on issues raised by
16 the intervening parties and the Commission Staff regarding
17 the Company's rate design proposals as well as issues
18 raised by the Industrial Customers of Idaho Power with
19 regard to the virtual peaker program. It should be noted
20 that any omission on my part in addressing issues raised by
21 the parties does not indicate my concurrence with those
22 issues.

1 I. RATE DESIGN

2 A. CAPAI

3 Q. Ms. Ottens's testimony indicates on several
4 occasions (pages 3, 4, and 5) that the proposed rate
5 increase for residential customers is 15 percent. Is that
6 correct?

7 A. No. As shown on page 4 of 4 of Mr. Tatum's
8 Exhibit No. 70 of the Company's filing, the final revenue
9 allocation to the residential class results in an average
10 increase of 6.31 percent.

11 Q. Are there any other statements in Ms.
12 Ottens's testimony that are incorrect?

13 A. Yes. When discussing the baseline load,
14 CAPAI commends Idaho Power for recognizing the disparity
15 between actual baseline usage and the amount included in
16 the tier but states that "a movement to only 60% of actual
17 baseline load is not adequate" Ottens, DI, p. 5.
18 The first tier proposed by the Company at 600 kWh was set
19 at approximately 60 percent of average residential class
20 usage, not baseline usage.

21 Q. What is the difference between average usage
22 and baseline usage?

23 A. Average residential class usage includes all
24 end uses of customers in the residential class, which in

1 2007 was approximately 1,065 per month. As described in my
2 direct testimony, baseline usage refers to the basic
3 electric usage of lighting and home appliances. IPC-E-03-
4 13, Order No. 29505, p. 56. According to the Department of
5 Energy ("DOE") the end use consumption of lighting and home
6 appliances in 2001 is 512 kWh. The U.S. Department of
7 Housing and Urban Development's ("HUD") *Housing Choice*
8 *Voucher Program Guidebook* states that lighting and home
9 appliance usage is between 700-850 kWh. A first tier of
10 600 kWh as proposed by the Company would cover *more than*
11 the Department of Energy's estimation of baseline usage and
12 71-86 percent of the basic usage as defined by HUD. This
13 level is more in line with the Company's objectives of
14 encouraging energy efficiency for customers year-round.

15 Q. Do you agree with Ms. Ottens's assertion
16 that customer loads in the spring and fall determine a
17 baseline usage?

18 A. No. Using the end use consumption data from
19 HUD of 700-850 kWh for baseline load, Ms. Ottens
20 inaccurately states "Witness Waites believes that even this
21 is too low and estimates, by relying upon average spring
22 and fall usage, a baseline load for Idaho Power's customers
23 is 806-838 kWh/mo." On page 10 of my direct testimony, I
24 explain that looking at customers' loads during the spring

1 and fall months, which is the 806-838 kWh usage, would
2 result in an overstatement of baseline usage as it would
3 include other household appliances such as clocks,
4 stereos/radios, telephones, vacuum cleaners, televisions,
5 clothes washers and dryers, and may even include some
6 heating and cooling usage.

7 Q. When discussing the level at which the
8 Company set the first tier, Ms. Ottens states "if the level
9 is set at an unreasonably low level then low income
10 families generally will not benefit from this proposal."
11 Do you agree with this statement?

12 A. I agree that the level of the first tier
13 must be set appropriately. However, the Company's proposal
14 actually *raises* the level at which the first tier is set,
15 from 300 kWh to 600 kWh, which benefits most customers,
16 particularly the low use customers. As I described above,
17 the proposed first tier of 600 kWh will cover a larger
18 percentage, if not all, of a customer's baseline load.

19 Q. In her direct testimony, Ms. Ottens
20 recommends the first tier be set at a higher level. Do you
21 agree with her recommendation?

22 A. No. The Commission has stated that the
23 intent of the first block is to cover some basic electric
24 usage, such as lighting and home appliances. Case No. IPC-

1 E-03-13, Order No. 29505, p. 56. Using the DOE and HUD's
2 end use consumption data, a first tier higher than 600 kWh
3 would, in most cases, cover more than basic electric usage.

4 **B. Commission Staff**

5 Q. Staff Witness Lanspery proposes a three-
6 tiered rate structure rather than the two-tiered rate
7 structure the Company has proposed because he believes it
8 provides a stronger and more accurate price signal. He
9 also states on page 12 of his direct testimony that the
10 farther a customer is from the tier break point, the weaker
11 the price signal. Do you agree with Mr. Lanspery's three-
12 tiered rate structure?

13 A. No. The Company's research and past
14 experience with tiered rates indicate three-tiered rates
15 confuse and dissatisfy customers. Mr. Lanspery noted in
16 his testimony that PacifiCorp currently has a three-tiered
17 rate structure in Utah. However, in their last general
18 rate case filing, PacifiCorp rejected the three-tier
19 approach and proposed to go back to a two-tier rate
20 structure. A survey of their customers indicated they did
21 not understand tiered rates and therefore were not
22 responding to the price signals being sent.

23 Idaho Power experienced this same lack of
24 understanding when three-tiered rates were implemented in

1 May 2001. Customers were very confused and our customer
2 service representatives had a difficult time helping the
3 customers fully understand the rate structure. The Company
4 experienced its lowest customer satisfaction rating ever
5 and had a large number of PUC complaints relating to the
6 rate structure. Whether a two-tiered structure or a three-
7 tiered structure is in place, customers receive a price
8 signal indicating the more energy used, the higher the
9 price. Even though under a two-tiered structure you move
10 further away from the tier break as your consumption rises,
11 your average price per kWh continues to increase; a price
12 signal is still being sent.

13 Q. Did the Company face other challenges when a
14 three-tiered rate structure was in place?

15 A. Yes. In addition to the three-tiered rate
16 structure being confusing, customers who were owners of
17 all-electric homes felt the Company was now penalizing them
18 for their electric use. And, customers whose bill read
19 dates were further apart had usage falling in the third
20 tier when it may not have otherwise done so had their meter
21 been read sooner. Similarly, master-metered customers had
22 as much as 90 percent of their usage fall in the third tier
23 when it was likely only a portion of this usage should have
24 been priced at the higher rates. Two-tiered rates can

1 effectively send an adequate price signal for all usages
2 while minimizing dissatisfaction among customers.

3 Q. Staff Witness Lobb states that "Staff simply
4 believes that we can and should do more to send the most
5 appropriate price signal to as many residential customers
6 as possible." Does a two-tiered rate structure accomplish
7 this?

8 A. Yes. In fact, based on 2007 actual customer
9 usage, the Company's two-tiered rate structure proposal
10 sends a stronger price signal to a larger percentage of
11 residential customers than does the Staff's three-tiered
12 proposal. Under the Company's proposed rate structure, 68
13 percent of residential customers in the summer months and
14 66 percent of customers in the non-summer months fall into
15 the second tier and therefore would have experienced a
16 stronger price signal while the top two tiers of Mr.
17 Lanspery's three-tiered proposal combined would have only
18 impacted 43 percent and 41 percent of customers in the
19 summer and non-summer months, respectively.

20 Q. Why is there such a difference in the number
21 of customers impacted?

22 A. The primary reason is because of the level
23 at which Mr. Lanspery sets the first tier. He proposes a
24 first tier at 1000 kWh. Based on 2007 actual customer

1 usage, this would mean that 57 percent of customers would,
2 in essence, have a flat rate in the summer months. For the
3 non-summer months, 59 percent of customers would have all
4 of their usage fall in the first block. These customers
5 would receive no price signal at all.

6 Q. Do you agree with Mr. Lanspery's proposal to
7 set the first tier at 1000 kWh?

8 A. No. As I stated earlier, a first tier at
9 1000 kWh does not meet Staff's objective of sending the
10 appropriate price signal to as many residential customers
11 as possible nor does it meet the Company's objective of
12 encouraging increased energy efficiency.

13 Q. How would Staff's first block level
14 discourage energy efficiency?

15 A. Witness Lanspery proposes setting the first
16 block at 1000 kWh because this is 8 percent below the 2008
17 average usage and he believes an 8 percent reduction in
18 usage is more attainable for customers. However, this
19 approach ignores the fact that while 1000 kWh is 8 percent
20 below average *annual* usage, 1000 kWh is actually *above*
21 average monthly usage six out of twelve months a year. In
22 fact, the average monthly usage in July 2007 and July 2008
23 was 925 kWh and 922 kWh, respectively. This would mean
24 that during a time when the Company's electrical system is

1 typically constrained the most and when we are experiencing
2 our highest system coincident peak, the average residential
3 customer would not be sent an appropriate price signal
4 because all of their usage would fall in the first block.
5 The average residential customer would have no incentive to
6 conserve at a time when the Company would need load
7 reduction the most.

8 Q. Do you have any other issues regarding Mr.
9 Lanspery's proposal to set the first block at 1000 kWh?

10 A. Yes. When the Commission first established
11 the two-tiered rate structure in Case No. IPC-E-03-13, it
12 indicated the first block of energy usage should allow for
13 some basic electric usage, such as for lighting and home
14 appliances. Order No. 29505, p.56. In his rationale for
15 increasing the first block to 1000 kWh, Mr. Lanspery states
16 heating and cooling should also be included in the basic
17 electric use calculation. However, he also acknowledges
18 that heating and cooling usage is a point at which
19 residential customers begin to differ from one another in
20 their usage patterns, indicating that heating and cooling
21 usage can be somewhat discretionary. Discretionary usage,
22 Mr. Lanspery states, "serves as a poor basis for setting a
23 base." Lanspery, DI, p. 11. Yet, rather than using the
24 shoulder months of May and October as a basis for setting a

1 block level to cover basic electric usage as the Company
2 has in its proposal, Mr. Lanspery suggests August and
3 January are more appropriate months. In 2007, the
4 residential class usage peaked in the summer month of
5 August and peaked in the non-summer month of January,
6 driven primarily by customers' space cooling and electric
7 heat usage. The Company's proposal to base the level of
8 the first tier on the months that customers have the least
9 amount of discretionary energy use, May and October, is
10 more appropriate.

11 Q. Are there other reasons the Company believes
12 the shoulder months of May and October should be used as a
13 basis for setting the level of the first block?

14 A. Yes. In support of using May and October as
15 a basis for setting the first block level, Mr. Lanspery
16 appropriately notes that "what is generally considered
17 basic use, such as lighting, does not translate into
18 efficient use." By setting the first block level slightly
19 below the average May and October usage, the Company
20 attempts to adjust for inefficient use of electricity. It
21 is important to note, as I discussed earlier in my
22 testimony, end use consumption of lighting and home
23 appliances according to the DOE is 512 kWh, which falls
24 below the block level of 600 kWh proposed by the Company.

1 At this level, there is still some room for discretionary
2 use to be covered in the first tier and aligns with the
3 Company's objectives of encouraging increased energy
4 efficiency.

5 Q. Were there any other issues or
6 inconsistencies in Staff's rate design proposal you would
7 like to discuss?

8 A. Yes. Mr. Lanspery states another of his
9 objectives was to "design a tiered rate structure that
10 provides meaningful signals to customers that incent
11 efficient usage but does not unduly punish a subset of
12 residential customers." Lanspery, DI, p. 7. He goes on to
13 say that rates should be higher for higher consumption
14 levels, but not to the point that some residential customer
15 face excessively large increases. However, if adopted, the
16 three-tiered rate structure Mr. Lanspery has proposed would
17 result in a rate for customers whose usage falls in the
18 three-tier that is 21 percent higher than the current rate
19 in the summer months and 29 percent higher than the current
20 rate in the non-summer months. Despite Mr. Lanspery's
21 objectives, this proposal appears to unduly punish higher
22 use customers and raises a significant risk for revenue
23 erosion. Mr. Lanspery agrees with this risk stating that
24 "by pricing it too high there is a significant risk that

1 the Company will be unable to collect its Commission-
2 approved costs." Lanspery, DI, p. 7.

3 Q. While the price signal may unduly punish a
4 subset of residential customers, how is Mr. Lanspery's
5 proposal inconsistent in giving the desired price signal?

6 A. As shown on Mr. Lanspery's Exhibit No. 136,
7 Staff's proposal gives a rate decrease for all customers
8 using less than an average of 1500 kWhs per month, which,
9 based on our 2007 actual billing data, impacts 89 percent
10 of residential customers. The result: a rate design that
11 gives a price signal encouraging energy use. Because
12 tiered rates are not able to send a price signal based on
13 the time of day, the risks raised by Staff's rate design
14 could have significant impacts on the Company's revenue
15 recovery while potentially giving the exact opposite price
16 signal desired.

17 Q. Staff has not proposed any adjustments to
18 Schedule 4, the Energy Watch Program, and Schedule 5, the
19 Time-of-Day Program, but commented on the rate
20 differentials. Do you agree with these comments?

21 A. No. Mr. Lanspery states that the rate
22 differentials of these programs have remained the same
23 since the advent of the pilot programs. This is incorrect.
24 As described in the Company's response to Staff's

1 Production Requests Nos. 40 and 108, the differentials
2 between the on-peak and mid-peak rate of the Time-of-Day
3 program were initially set at 11 percent and 30 percent
4 between the on-peak and off-peak rate. The Commission
5 later approved differentials of 36 percent between the on-
6 peak and mid-peak and 85 percent between the on-peak and
7 off-peak. Mr. Lanspery further states the Company should
8 address the rate differentials in these programs in a
9 different venue than a general rate case because these are
10 still considered pilot programs. However, Schedule 4 and
11 Schedule 5 were approved as optional pricing programs by
12 the Commission on April 12, 2007, and no longer have pilot
13 status.

14 Q. Are there any other topics regarding Staff's
15 rate design proposals you would like to discuss?

16 A. Yes. Mr. Gale stated in his direct
17 testimony, "Idaho Power has consistently advocated for the
18 principle that rate spread among the customer classes and
19 for component pricing within the customer classes should be
20 primarily cost-based." Gale, DI, p. 23. Subsequently, all
21 of the Company's rate design witnesses have utilized this
22 underlying principle in their class and rate component
23 pricing proposals. Staff also supports the principle of
24 cost-of-service; Witness Lobb states that rate design

1 should "move toward, but not all the way to cost of service
2 as indicated in the study." Lobb, DI, p. 19. He also
3 states "Staff believes the Company has done a good job of
4 proposing customer rates that meet the Staff objectives."
5 Lobb, DI, p. 20.

6 Furthermore, on page 12 of Staff Witness Hessing's
7 direct testimony, he states "I propose that Cost of Service
8 results be used as a guide in establishing class revenue
9 requirements for the various rate classes" while Staff
10 Witness Lanspery states "effective rate design should be
11 based on sending cost-based price signals that promote
12 efficient consumption of energy." Lanspery, DI, p. 2.
13 Whether it is a Company or Staff witness, all concur that
14 energy efficiency as well as customer equity and
15 effectiveness are all best served when pricing is cost-
16 based.

17 Q. If both Staff and Company witnesses concur
18 that energy efficiency and customer equity are best served
19 when pricing is cost based, what is the Company's concern?

20 A. While it is easier to move pricing
21 components closer to cost when a significant overall
22 revenue increase is being proposed, it is still possible to
23 move closer to cost of service even in a situation when
24 there is no change at all to the rate class's proposed

1 revenues. The Company's cost of service model clearly
2 illustrates that many rate classes' cost components are out
3 of sync with the current pricing structure. As a result,
4 Company Witnesses Nemnich, Bowman, and I all proposed
5 individual rate components for rate classes that would move
6 pricing closer to cost of service. However, contrary to
7 stated objectives of moving closer to cost of service, the
8 Staff witnesses' recommendations sometimes propose no
9 changes at all or they exacerbate the current inequities.
10 For example, in the residential and small commercial
11 classes, the Company's cost of service model clearly
12 indicates there is currently an over-reliance on energy
13 charges and an under-reliance on customer charges. Yet,
14 the Staff recommends no change to the service charges.

15 Even in cases where there is no change in the
16 class's overall revenue requirement, there is still an
17 opportunity to move the pricing components within the class
18 closer to cost of service. As an illustration of this
19 principle, see page 2 of Witness Bowman's workpapers in
20 which Ms. Bowman moves all the rate components 7 percent
21 closer to the cost of service. Whether or not a class's
22 overall revenue requirement increases significantly or not
23 at all, movement toward cost of service should occur within

1 the rate class's individual rate components when the
2 opportunity to do so exists.

3 **II. VIRTUAL PEAKER**

4 Q. On page 26 of his direct testimony, ICIP
5 witness Dr. Reading states the Company has been "less than
6 enthusiastic about implementing a shared interest in
7 customer owned generation for purposes of meeting peak or
8 providing stand-by reserves." Do you agree with this
9 statement?

10 A. No, I do not. The Company has done
11 substantial research into a virtual peaker program,
12 presenting potential program designs, soliciting input from
13 customers, making on-site visits to customers' premises for
14 interconnection cost studies, and performing financial
15 analyses to determine the feasibility of such a program.
16 Unfortunately, the Company has not found a program design
17 that offers a material economic benefit to the Company or
18 its customers.

19 Q. Has the Company shared its findings with the
20 ICIP?

21 A. Yes. The Company has held several meetings
22 with the ICIP and Commission Staff discussing our research
23 and findings. However, none of those meetings resulted in

1 an answer that produced a filing for a virtual peaker
2 program.

3 Q. Have any conclusions been drawn from the
4 meetings that were held?

5 A. Yes. The Company has agreed to further
6 analyze a virtual peaker resource option targeting new
7 installations fueled by natural gas as part of its 2009
8 Integrated Resource Plan. Idaho Power has also expressed
9 its willingness to work with interested parties to convene
10 workshops to discuss the possibility of an interruptible
11 rate option.

12 Q. Were there any other issues or
13 inconsistencies in Dr. Reading's testimony you would like
14 to discuss?

15 A. Yes. On page 27 of his direct testimony,
16 Dr. Reading indicates that if emergency generators are
17 installed to operate on natural gas rather than diesel
18 fuel, the cost of energy would be equal to that of Idaho
19 Power's industrial gas turbines. Furthermore, he states
20 that the cost of the capacity would be much lower than that
21 of the gas turbines.

22 Q. Do you agree with Dr. Reading's statement?

23 A. No. In talking with Idaho Power's Power
24 Supply department, it is my understanding that Dr.

1 Reading's assumption is incorrect. Due to the lower
2 compression ratio required in a spark ignition engine
3 (natural gas), the displacement of the engine must increase
4 by at approximately 25 percent to produce the same amount
5 of power as a diesel generator.

6 Q. Does this increase in engine size cause any
7 issues?

8 A. Yes. According to our Power Supply
9 department, this increase in engine size for the same power
10 output causes several issues. First, the larger, natural
11 gas engine costs nearly double when compared to its diesel
12 counterpart. Second, the larger engines have much more
13 mass and require a longer period of time to startup and
14 begin producing power. Finally, even though the natural
15 gas reciprocating engines have made advances in emission
16 technologies, the lower emission models currently available
17 still produce nearly five times more nitrogen oxides per
18 kilowatt hour than Idaho Power's new Danskin gas turbine.

19 Q. Does this conclude your testimony?

20 A. Yes, it does.