BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF IDAHO POWER COMPANY FOR AUTHORITY TO IMPLEMENT RATES FOR ELECTRIC SERVICE TO INCLUDE CAPITALIZED CUSTOM EFFICIENCY INCENTIVE PAYMENTS.	)	CASE NO. IPC-E-12-24

IDAHO POWER COMPANY

DIRECT TESTIMONY

OF

MATTHEW T. LARKIN

Q. Please state your name and business address.

A. My name is Matthew T. Larkin. My business address is 1221 West Idaho Street, Boise, Idaho.

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

A. I am employed by Idaho Power Company ("Idaho Power" or "Company") as a Regulatory Analyst II in the Regulatory Affairs Department.

Q. Please describe your educational background.

A. I received a Bachelor of Business Administration degree in Finance from the University of Oregon in 2007. In 2008, I earned a Master of Business Administration degree from the University of Oregon. I have also attended electric utility ratemaking courses including *The Basics: Practical Regulatory Training for the Electric Industry*, a course offered through New Mexico State University's Center for Public Utilities, and *Introduction to Rate Design and Cost of Service Concepts and Techniques*, presented by Electric Utilities Consultants, Inc.

Q. Please describe your work experience.

A. I began employment with Idaho Power as a Regulatory Analyst I in January 2009. As a Regulatory Analyst I, I provided support for the Company's regulatory activities including compliance reporting, financial

analysis, and the development of revenue forecasts for regulatory filings.

In January 2012, I was promoted to Regulatory Analyst II. As a Regulatory Analyst II, my responsibilities have expanded to include the development of complex cost-related studies and the analysis of various strategic regulatory issues.

Q. What is the Company requesting in this filing?

A. The Company is requesting authorization to begin amortization of a portion of the regulatory asset associated with the Custom Efficiency program.

Q. What is the primary objective of the Company's request?

A. The primary objective of the Company's request is to establish a ratemaking methodology that places investment in this demand-side resource ("DSR") on equal footing with investment in supply-side resources from a business evaluation perspective. As described later in my testimony, investment in DSR possesses inherently different qualities than investment in supply-side resources that must be recognized through unique ratemaking treatment in order to truly level the playing field between these varying resource types. The Company believes its proposal accomplishes this objective, and allows all stakeholders to

fully realize the benefits of an efficient business model that does not favor one type of resource over another.

Q. Please provide an outline of your testimony.

A. My testimony begins with a history of the regulatory proceedings that led to the capitalization of Custom Efficiency incentive payments, then proceeds to describe the program itself and its success in achieving cost-effective energy savings. My testimony continues to detail the components of the Company's proposed ratemaking treatment that appropriately account for the inherent differences in DSR and supply-side resources, addressing the proposed carrying charge rate, amortization period, rate of return ("ROR"), and rate implementation. My testimony concludes with the Company's proposed timeline for future amortization requests and outlines the long-term projected customer impact.

I. BACKGROUND

Q. Please describe the Company's 2010 filing in Case No. IPC-E-10-27.

A. The Company's filing in Case No. IPC-E-10-27 described the Company's preferred DSR business model. The Company did not request a rate change at the time of filing, but rather sought to gain approval of a regulatory framework that it believed would positively impact the business rationale for acquiring cost-effective DSR. Among

these requested changes was a proposal to begin capitalizing incentive payments associated with the Custom Efficiency program.

Q. Why did the Company request authorization to capitalize a portion of its energy efficiency expenditures?

A. As stated on page 12 of the Direct Testimony of Company witness John R. Gale in Case No. IPC-E-10-27, two key components of a successful DSR business model are (1) "timely recovery of out-of-pocket expenditures that appropriately recognizes the time value of money and does not negatively impact cash flow in a significant way," and (2) "the ability to earn on the energy efficiency investments just like any other business activity in which the Company is engaged."[1] The recovery mechanism in place at that time was insufficient in both of these areas, creating the need for the Company to seek several changes to the regulatory treatment of DSR. The proposed capitalization of Custom Efficiency incentive payments was requested as part of the Company's comprehensive solution.

At the time Case No. IPC-E-10-27 was filed, all prudently incurred energy efficiency expenditures were recovered through the Energy Efficiency Rider ("Rider") balancing account. The Company collected revenues

[1] Case No. IPC-E-10-27, Direct Testimony of John R. Gale, p. 12, ll. 8-11 and 14-16.

associated with this account through the then-current 4.75 percent Rider applied against total base charges on customer bills. In theory, this balancing account was established to provide the Company with timely recovery of expenditures associated with energy efficiency. In 2010, however, the Rider balancing account had become increasingly under-funded as expenditures in cost-effective energy efficiency outpaced collection through the Rider, indicating that the then-current 4.75 percent charge was not able to provide timely recovery of all cost-effective energy efficiency expenditures. The Company's proposal to capitalize incentive payments associated with the Custom Efficiency program served to relieve pressure on the Rider balancing account by shifting recovery of these expenditures from the Rider mechanism into base rates, improving the ability of the mechanism to provide timely recovery of prudently-incurred expenses while avoiding an increase in the level of the corresponding Rider charge.

In addition to relieving pressure on the Rider balancing account, the proposed capitalization of Custom Efficiency incentive payments was intended to place investment in DSR on par with investment in supply-side resources by allowing the Company the opportunity to earn a fair rate of return on a portion of its DSR investment. While dollar-for-dollar recovery through the Rider

mechanism provides for timely recovery of energy efficiency expenditures, it does not provide for an earnings opportunity for DSR, which relegates these investments to an inferior status when compared to supply-side resources from a business investment perspective. Through capitalization, DSR and supply-side resources are essentially equivalent from the Company's perspective, resulting in a business model that promotes efficiency in resource selection and does not unduly favor investment in supply-side resources.

Q. Was an agreement of the parties reached in Case No. IPC-E-10-27 regarding the Company's proposed modifications to its DSR business model?

A. Yes. On March 3, 2011, the Company filed a motion to approve a settlement stipulation ("Stipulation") in Case No. IPC-E-10-27 addressing the issues raised in the Company's initial application. Signatories to the Stipulation included the Company, the Staff ("Staff") of the Idaho Public Utilities Commission ("Commission"), the Community Action Partnership Association of Idaho, the Idaho Conservation League, the NW Energy Coalition, and the Snake River Alliance, collectively referred to as the "Parties".

Q. Please describe the terms of the Stipulation related to the regulatory treatment of Custom Efficiency incentive payments.

A. Page 3, section 3, paragraph 8, of the Stipulation reads as follows:

> The Parties agree that the direct incentive payments of the Custom Efficiency program should be capitalized as a regulatory asset beginning January 1, 2011. A carrying charge equal to the current Commission authorized rate of return of 8.18 percent will be applied to the balance until the Commission includes the regulatory asset in Company rates as part of its next general rate case. The regulatory asset once placed in rates will earn the current Commission approved authorized rate of return and will be amortized over a seven-year period.

Q. Did the terms of the Stipulation reflect the Company's initial proposal in Case No. IPC-E-10-27 with respect to the capitalization of Custom Efficiency incentive payments?

A. Not entirely. The Company initially proposed a four-year amortization of the regulatory asset; however, in the spirit of compromise, the Company agreed to a seven-year amortization period. Although it agreed to the extended amortization period in the context of the overall settlement package, the Company noted that the risk profile

of DSR coupled with an extended amortization period was cause for concern.[2]

Q. Did the Commission approve the Stipulation submitted by the Parties in Case No. IPC-E-10-27?

A. No. In Order No. 32217, the Commission ultimately did not accept the Stipulation entered into by the Parties. The Commission instead provided temporary relief to the Rider balancing account through a one-time Power Cost Adjustment ("PCA") mechanism surcharge while leaving other issues raised by the Company to be addressed at a later time.

Q. Was the capitalization of Custom Efficiency incentive payments addressed in Order No. 32217?

A. No, not specifically.

Q. What was the Company's response to the issuance of Order No. 32217?

A. On April 22, 2011, the Company filed a Petition for Clarification ("Petition") regarding Order No. 32217 requesting further guidance on a number of issues, including the Commission's intent with regard to the treatment of Custom Efficiency incentive payments as a regulatory asset. In its Petition, the Company described the Parties' support for the concept of capitalizing energy efficiency investments to earn the Company's authorized

[2] Case No. IPC-E-10-27, Reply Testimony of John R. Gale, p. 15, ll. 5-6.

ROR, and noted that the sole point of disagreement between the Parties with regard to the capitalization of these expenditures was the length of the amortization period. The Company ultimately requested that the Commission "allow Idaho Power to account for incentives paid through the Custom Efficiency program as a regulatory asset beginning January 1, 2011, with an amortization period to be determined by the Commission."[3]

Q. What was the Commission's ruling in response to the Company's Petition for Clarification in Case No. IPC-E-10-27?

A. On May 17, 2011, the Commission issued Order No. 32245 in response to Idaho Power's Petition. With respect to the capitalization of Custom Efficiency incentive payments, the Commission ordered:

> [T]he Commission will allow Idaho Power to account for incentives paid through the Custom Efficiency program as a regulatory asset beginning January 1, 2011, with an amortization period to be determined later by the Commission.[4]

Q. Has the Company accounted for Custom Efficiency incentive payments as a regulatory asset in compliance with the Commission's directive in Order No. 32245?

[3] Petition for Clarification, Case No. IPC-E-10-27, p. 5, ¶2.
[4] Clarification Order No. 32245, Case No. IPC-E-10-27, p. 6, ¶1.

A. Yes. The Company has accounted for incentive payments associated with the Custom Efficiency program as a regulatory asset for all incentives paid on or after January 1, 2011.

II. PROGRAM DESCRIPTION

Q. Please describe the Custom Efficiency program.

A. The Custom Efficiency program is designed to provide financial incentives to commercial and industrial customers for implementing customized energy efficiency measures at their sites to reduce electrical usage. These projects include motor rewinds, variable frequency drives, and energy efficient refrigeration, among others.

Q. Has the Custom Efficiency program successfully achieved cost-effective energy savings?

A. Yes. As detailed in the Demand-Side Management ("DSM") 2011 Annual Report, filed with the Commission on March 15, 2012, the Custom Efficiency program is the Company's largest energy efficiency program in terms of annual kilowatt-hour ("kWh") savings, with approximately 68 million kWh saved in 2011 alone. The program is also very attractive from a cost-effectiveness perspective, with a total Utility Cost Test ("UCT") ratio of 7.27 and a Total Resource Cost ("TRC") ratio of 3.09 realized over the life of the program.[5] From a one-year perspective, in 2011 the

[5] Demand-Side Management 2011 Annual Report, p. 77.

program had a UCT ratio of 4.42 and a TRC ratio of 2.37.[6] The large amount of kWh savings coupled with favorable cost-effectiveness measures indicates that the Custom Efficiency program is one of the Company's most robust and effective programs in its energy efficiency portfolio.

Third-party evaluations have recognized the success of the Custom Efficiency program as well. In 2010, the Company commissioned the services of The Cadmus Group, Inc., to perform a process evaluation of the Custom Efficiency program. In addition to providing invaluable information for potential improvements to the program, page 2 of the final report noted, "In many ways, the Custom Efficiency program exemplifies a quality efficiency program compared to similar efforts across the country."[7] In 2011, Idaho Power contracted with ADM Associates, Inc., to conduct an impact evaluation and review of the Company's reported energy savings from the Custom Efficiency program for the 2010 calendar year. In conclusion, page 6-2 of the final report noted, "Overall, the Custom Efficiency Program received a high realization rate." Further, on page 1-1,

[6] Demand-Side Management 2011 Annual Report, Supplement 1: Cost-Effectiveness, p. 89.

[7] Final Report: Custom Efficiency Process Evaluation Findings and Recommendations, The Cadmus Group, Inc., February 4, 2011.

this report states a 94 percent overall energy savings realization rate.[8]

Staff also acknowledged the success of the Custom Efficiency program in its most current review of the Company's 2011 energy efficiency expenditures in Case No. IPC-E-12-15. On page 5, section 1, paragraph 3, of its comments filed June 25, 2012, Staff recommended that the Commission approve expenditures in the Custom Efficiency program as prudently incurred.

III. REQUEST FOR RECOVERY

A. Amount To Be Amortized.

Q. What portion of the Custom Efficiency regulatory asset is the Company requesting to include in rates at this time?

A. The Company is proposing to include in rates the portion of the Custom Efficiency regulatory asset associated with incentive payments made during the 2011 calendar year plus associated carrying charges. As reported on page 135 of the DSM 2011 Annual Report, incentive payments made in 2011 totaled $7,018,385 prior to the application of carrying charges, which I will discuss later in my testimony.

[8] Impact Evaluation of 2010 Custom Efficiency Program, ADM Associates, Inc., November 29, 2011.

Q. What was the Commission's decision regarding the prudence of 2011 expenditures in the Custom Efficiency program?

A. On October 22, 2012, the Commission issued Order No. 32667 in Case No. IPC-E-12-15, approving 2011 expenditures in the Custom Efficiency program as prudently incurred. As stated on page 11 of Order No. 32667, "Based on our review of the record and the agreement of Staff and the Company, we find that the Company prudently incurred $7,018,385 in Custom Efficiency Program incentive expenses."

Q. Why is the Company proposing to include only the portion of the regulatory asset associated with incentive payments made in 2011?

A. In accordance with Order No. 32245 issued in Case No. IPC-E-10-27, the Company has accounted for incentive payments associated with the Custom Efficiency program as a regulatory asset for all payments made to date since January 1, 2011. Consequently, the total current balance of this account reflects payments made in both 2011 and 2012. While incentive payments made in 2011 were deemed prudent in Order No. 32667 in Case No. IPC-E-12-15, prudence has not yet been determined for incentive payments made in 2012. Therefore, a request for amortization of the full regulatory asset balance would require the question of

prudence of 2012 incentive payments to be answered in this proceeding prior to the authorization of amortization. The Company believes that introducing the question of prudence to its request for amortization would add an additional element of complexity and detract from the primary intent of this filing. By requesting to only include in rates incentive payments that have already been deemed prudent, the scope of this filing is limited to the mechanics of rate recovery, leaving the issue of prudence to be addressed in the Company's currently-established DSM review process.

B. Carrying Charge.

Q. What does the Company believe the Commission should authorize as the carrying charge for the Custom Efficiency regulatory asset?

A. Consistent with the Company's proposal in Case No. IPC-E-10-27 and the subsequent Stipulation of the Parties in that case, the Company has calculated associated carrying charges by applying its full authorized ROR to the balance of the Custom Efficiency regulatory asset. The calculated carrying charges reflect the change in the Company's authorized ROR resulting from the Company's 2011 general rate case, Case No. IPC-E-11-08.

Q. Why does the Company believe the full authorized ROR is the appropriate carrying charge for this asset prior to the commencement of amortization?

A. The full authorized ROR is the appropriate carrying charge for this asset because it allows the Company to begin applying its full authorized ROR at the time when investment in DSR becomes used and useful. From an earnings perspective, this places investment in DSR on equal footing with investment in supply-side resources.

Q. Please explain further.

A. While supply-side resources are being constructed, the Company accrues carrying charges on its investment in the form of the allowance for funds used during construction ("AFUDC") rate. As construction nears completion, the Company has the opportunity to file a request to move the investment from AFUDC into rate base and begin earning its full authorized ROR with an effective date corresponding to the online date of the project. This results in virtually no lag between the completion date of a supply-side resource and the Company's ability to begin earning its full authorized ROR on its investment. In the case of the newly constructed Langley Gulch power plant, for example, official commercial operation began on June 29, 2012, with a corresponding rate change effective July 1, 2012, reflecting a lag of two days between the used and

useful date of the plant and the Company's ability to begin earning its full authorized ROR.

With capitalized investment in DSR, however, an inherent lag exists between project completion and rate recovery, causing investment in completed projects to remain on the Company's books for a much longer period of time prior to the commencement of amortization. Using 2011 expenditures as an example, projects associated with the Custom Efficiency program became used and useful in each month of 2011, while the prudence of associated incentive payments was not determined until the issuance of Order No. 32667 on October 22, 2012. This reflects a lag of ten months (for projects completed in December 2011) to twenty-one months (for projects completed in January 2011) between the completion date of the projects and the determination of prudence. Allowing for a full seven-month procedural schedule for the Company's request for amortization, the earliest effective date for an associated rate change is June 1, 2013. This represents a lag between project completion and the commencement of rate recovery that varies between 1.5 and 2.5 years. Without the ability to apply its full authorized ROR as a carrying charge throughout the deferral period, investment in DSR would experience an increased lag between project completion and the ability to begin earning its full authorized ROR, thus

making these investments inferior to supply-side resources from the perspective of earnings potential.

Q. Why is it appropriate to use the full authorized ROR as a carrying charge for the Custom Efficiency regulatory asset while the Rider balancing account that funds other energy efficiency programs accrues interest at the customer deposit rate, currently one percent?[9]

A. In theory, the Rider mechanism is designed to offer real-time recovery of expenses associated with the Company's energy efficiency programs. While it could be argued that the full ROR is the appropriate carrying charge for the Rider balance, the Commission has determined that it is more appropriate to apply the customer deposit rate of one percent. As described above, the capitalization of Custom Efficiency incentive payments results in a lag between project completion and recovery that is years greater than that realized by both Rider-funded energy efficiency programs and supply-side generation resources, which should appropriately be reflected in a higher carrying charge.

C. Amortization Period.

Q. What is the Company's proposed amortization period for the Custom Efficiency regulatory asset?

[9] Case No. GNR-U-11-01, Order No. 32109.

A. The Company proposes an amortization period of four years.

Q. Why does the Company believe a four-year amortization period is appropriate?

A. The need for a four-year amortization period is primarily driven by the lack of physical Company-owned property backing the non-physical assets on the Company's books. Investment in DSR is inherently different from investment in supply-side resources in that the ownership of physical assets is retained by the customer, not the Company. In the case of supply-side resources, the Company invests in physical assets and retains ownership once the assets are placed in service. This property is tangible, possessing a marketable value throughout its life as well as a potential salvage value upon retirement. Ownership provides the added benefit of tangible valuable assets should the Company be subject to any event that impacts its ability to recover the return of and return on its investment through rates. With DSR, however, the Company invests in customer-specific projects rather than physical assets, and retains no ownership of tangible project-related assets upon completion. While these projects provide cost-effective energy savings, the Company is left with no salvageable assets when the projects are retired, nor does it possess any marketable assets throughout the

useful life of the projects. This lack of ownership makes investment in DSR inherently riskier than investment in supply-side resources because the assets on the Company's books are not backed by physical property. To account for this risk, the Company is requesting an amortization period of four years to limit the period of time over which these non-physical assets remain on the Company's books. Extending the amortization period beyond four years would compound the risk of eventual recovery and fail to appropriately recognize the unique characteristics of these assets.

Q. Why is it inappropriate to amortize the Custom Efficiency regulatory asset over the useful life of the associated Custom Efficiency projects?

A. The regulatory asset on the Company's books is not comparable from a ratemaking perspective to the customer-owned physical assets associated with the various Custom Efficiency projects. Through the Custom Efficiency program, the Company is not procuring physical assets; rather, it is purchasing a cost-effective, albeit non-physical, demand-side resource. Its investment does not result in the ownership of long-lived physical assets with a marketable value that depreciate over time, but rather the accrual of a non-physical regulatory asset with no marketable value. If the Company is negatively impacted by

an event that prevents it from placing the investment in rates, it is left with no marketable asset or method to recoup any of its investment. As described above, this lack of ownership of a physical asset increases the risk of recovery and distinguishes the risk profile of DSR investment from that of the customer-owned physical assets associated with the Custom Efficiency program. For this reason, any parallels drawn between the appropriate amortization period of a physical, customer-owned asset and a non-physical, non-marketable regulatory asset are invalid.

Q. Why is it appropriate to apply a shorter amortization period to demand-side assets when the Company believes that DSR and supply-side resources should be on equal footing from a business investment perspective?

A. The Company's desire to level the playing field between DSR and supply-side resources is precisely why a shorter amortization period is appropriate for investment in DSR. Supply-side resources offer the ability to immediately modify rates upon project completion and result in Company ownership of physical assets. Alternatively, investment in DSR experiences a prolonged delay between project completion and amortization and does not result in Company ownership of valuable physical assets. These inherent differences must be addressed

through unique ratemaking treatment in order to put these varying resource types on equal footing within the context of the Company's investment decisions.

D. Rate of Return.

Q. What is the Company's proposed ROR to be applied at the time of amortization?

A. The Company believes that once placed in rates the unamortized balance of the regulatory asset should earn the then-current authorized ROR.

Q. Why is the then-current authorized ROR appropriate at the time of amortization?

A. The full authorized ROR results in equal treatment between the Company's supply-side and demand-side resources at the time of amortization. Applying an ROR that is anything less than the Company's then-current ROR would devalue investment in DSR relative to investment in supply-side resources with respect to the Company's earnings potential. Additionally, the use of the then-current authorized ROR allows for rates to adjust over time as modified by the Commission to reflect changing circumstances.

E. Revenue Requirement Determination.

Q. After applying the Company's proposed ratemaking treatment, what is the annual revenue requirement associated with the amortization of this asset?

A. After applying the Company's proposed carrying charges, rate of return, and amortization period, the resulting annual revenue requirement associated with the amortization of this asset is $2,949,340.

Q. Have you prepared an exhibit detailing the calculation of this amount?

A. Yes. Exhibit No. 1 details the determination of the annual revenue requirement resulting from the Company's request.

Q. Please describe Exhibit No. 1.

A. Exhibit No. 1 is comprised of two tables. Table 1 details the accrual of carrying charges at the Company's full authorized ROR between January 2012 and May 2013. As listed at the top of column A, the balance as of January 2012 in this account totaled $7,230,724, representing the $7,018,385 of incentive payments made between January and December 2011 plus $212,339 of carrying charges that would have been accrued throughout 2011. As listed at the bottom of column B, 2011 expenditures with associated carrying charges as of May 31, 2013, will total $8,126,504.

Table 2 calculates the annual revenue requirement associated with the $8,126,504 regulatory asset balance. The Company is proposing to use the same mid-year rate base convention utilized in rate case filings of calculating the

return on rate base levels as of the mid-point of the test period. As detailed in columns B through D, this is accomplished by first calculating six months of accumulated amortization according to a 48-month amortization period, calculated at $1,015,813 as listed in column C. This amount is then subtracted from the principal balance of $8,126,504, to determine the mid-year unamortized rate base balance of $7,110,691, listed in column D. The Company's full authorized ROR is then applied to this mid-year amount to calculate a total annual return of $917,714 after tax-gross up, listed in column G. When combined with the annual amortization expense based on a four-year amortization period, the total annual revenue requirement amount associated with the Company's proposal is $2,949,340, listed in column I.

F. Allocation and Rate Implementation.

Q. What is the Company's proposed jurisdictional allocation of this asset?

A. Because this asset reflects amounts paid to Idaho-specific projects, the Company has allocated 100 percent of the associated revenue requirement to the Idaho jurisdiction.

Q. How does the Company propose to collect the requested amount from customer classes?

A. The Company proposes to collect the revenue requirement associated with the amortization of this asset through a uniform cents-per-kWh charge. This charge will be included as part of the "Annual Adjustment Mechanism" line item on customer bills, which currently contains charges associated with the PCA and the Fixed Cost Adjustment ("FCA") mechanism.

Q. What is the rationale for collecting these expenditures through a uniform energy rate?

A. As previously stated, the Custom Efficiency program is intended to provide cost-effective energy savings. Because these savings are realized through foregone net power supply expenses associated with a reduction in energy, the appropriate recovery method for investment in this program is through a cents-per-kWh charge. In other words, because the program is energy-related, it logically follows that associated costs should be recovered through an energy rate.

Q. Have you prepared an exhibit detailing the calculation of the proposed energy rate and the subsequent customer impact of the Company's proposal?

A. Yes. Exhibit No. 2 contains the energy rate and revenue impact by class of the Company's proposal. The resulting rate is 0.0220 cents-per-kWh, representing an overall average increase of 0.32 percent.

Q. What is the requested effective date for the Company's proposed rate change?

A. The Company is requesting an effective date of December 1, 2012, with the expectation that the Commission will suspend that date to provide for additional time to review and implement rates on June 1, 2013. A final effective date of June 1, 2013, will coincide with rate changes associated with the PCA and the FCA.

Q. Is the sales and load forecast used to set rates in this initial filing the same forecast that will be used in the upcoming PCA and FCA filings?

A. The Company cannot say at this time if the sales and load forecast used in this filing will be the same as that used to prepare the 2013/2014 PCA and FCA filings. The sales and load forecast utilized in the current proposal reflects the most current forecast available, prepared in August 2012 for use in the Company's 2013 Integrated Resource Plan. If this forecast changes prior to the Company's PCA and FCA filings in the first quarter of 2013, the Company may request to update Exhibit No. 2 to reflect these changes in order to maintain consistency between the forecasts utilized to set rates effective June 1, 2013.

Q. Please describe the accounting entries that will be utilized to record the amortization of the Custom Efficiency regulatory asset.

A. The Custom Efficiency regulatory asset is currently recorded in Account 182.317. Commencing June of 2013, the Company will credit $169,302 to this account on a monthly basis, and debit Account 908, Energy Efficiency Expenses, by the same amount, for a period of four years.

IV. FUTURE RATEMAKING TREATMENT

Q. What is the Company's proposal for requesting amortization of this regulatory asset in future years?

A. The Company proposes to request amortization of prudently incurred Custom Efficiency incentive payments on an annual basis in the same manner as requested in this case. These filings will be made in the first quarter of each year requesting amortization of Custom Efficiency incentive payments deemed prudent by the Commission in the previous year through the Company's separate DSM review process. Additionally, future filings will be simplified to request the inclusion of prudent investment in rates according to the methodology established in this proceeding, eliminating the need to address rate mechanics in the future. This simplified process will allow the Company to file amortization requests associated with Custom Efficiency incentive payments in accordance with

other annual adjustment mechanisms in early spring, consolidating rate changes and customer communication to correspond with a simultaneous effective date of June 1.

Q. What are the advantages of filing amortization requests on an annual basis?

A. There are several advantages of filing amortization requests on an annual basis. First, the Company's proposal does not compromise the currently-established process for prudence review of energy efficiency expenditures. Introducing the question of prudence to the request for amortization would overly complicate these proceedings and undermine the separate prudence review process that is already in place.

Second, filing each year allows the Company to update rate base amounts annually to reflect accumulated amortization and incremental investment. Rate base will be adjusted downward as unamortized balances decline year-over-year, while corresponding increases to rate base will occur to recognize incremental investment. Additionally, the Company will be able to remove fully amortized assets from rates immediately upon the completion of amortization. This effectively keeps rates current and in-line with fluctuating rate base balances on the Company's books.

Third, regular filings limit the lag between expenditure and recovery as much as possible, allowing the

request for recovery to occur on a consistent basis rather than sporadically at the time of general rate case filings. This will limit carrying charges and promote rate stability by avoiding lumpy requests for recovery of this asset.

Q. Please describe the expected rate impact of the Company's proposal over time.

A. Under the Company's proposal, the combination of a four-year amortization period and annual filings will result in the stabilization of rates within four years if expenditures in the Custom Efficiency program remain level. As described above, annual adjustments will take into account reductions to rate base due to accumulated amortization, as well as rate base increases associated with incremental investment. After four years, the amortization associated with the Company's initial filing will be removed from rates and a new four-year amortization period will begin for incremental investment made in 2015. Beyond four years, each annual filing will reflect the removal of the full amortization of one year's investment while beginning amortization of a new year's investment, thus stabilizing rates after the initial four-year ramp-up period.

Q. Have you prepared an exhibit demonstrating the customer impact of the Company's proposal over time?

A. Yes. Exhibit No. 3 details the long-term rate impact of the Company's proposal assuming investment in the Custom Efficiency program remains at 2011 levels. As shown on the line labeled "Total Annual Revenue Requirement," in 2016 the revenue requirement included in rates associated with this asset levels off at approximately $10.2 million.

Q. How will the Custom Efficiency regulatory asset be treated in future general rate case proceedings?

A. To avoid double-counting, the Company will exclude the Custom Efficiency regulatory asset from rate base in future general rate case filings.

Q. How does the Company propose to collect future revenue requirement associated with the amortization of Custom Efficiency incentive payments?

A. The Company proposes to annually update the cents-per-kWh charge to be applied to customer bills in the same manner as described on pages 23 and 24 of my testimony.

V. CONCLUSION

Q. Do you have any concluding thoughts regarding the Company's proposal?

A. Yes. As stated by Mr. Gale in Case No. IPC-E-10-27, "The cleanest, most efficient resource in the

Company's portfolio is the one it does not have to build."[10] Through the Custom Efficiency program, the Company has been able to attain verified cost-effective energy savings that benefit the Company and customers through lower net power supply expenses. Unfortunately, current ratemaking standards actually discourage investment in energy efficiency relative to supply-side resources by not taking into account the financial circumstances unique to investment in DSR. The Company believes its proposal addresses this problem with a methodology that strikes a balance between the interests of customers, intervenors, and shareholders. This methodology allows for timely recovery of expenditures and the opportunity to earn a fair and reasonable return, while limiting the long-term impact on customer rates and year-over-year rate fluctuations. The Company believes that its proposal financially encourages an efficient allocation of limited investment dollars and promotes an optimal resource balance that will benefit all of the Company's stakeholders.

Q. Does this conclude your testimony?

A. Yes.

[10] Case No. IPC-E-10-27, Direct Testimony of John R. Gale, p. 9, ll. 10-12.

BEFORE THE

IDAHO PUBLIC UTILITIES COMMISSION

CASE NO. IPC-E-12-24

IDAHO POWER COMPANY

LARKIN, DI
TESTIMONY

EXHIBIT NO. 1

IDAHO POWER COMPANY
TABLE 1
ACCRUED CARRYING CHARGES: 2011 CUSTOM EFFICIENCY INCENTIVE PAYMENTS
IDAHO JURISDICTION
JANUARY 2012 THROUGH MAY 2013

Account 182.317 - Interest Accrual

	(A)	(B)	(C)	(D)	(E)	(F)
			(A+B)/2			
MONTH	Beginning Balance	Ending Balance	AVG BAL	Idaho Allowed Rate of Return	Carrying Charges	Cumulative Interest Charges
Jan, 2012*	7,230,724	7,275,420	7,253,072	7.86%	47,508	304,543
Feb	7,275,420	7,322,928	7,299,174	7.86%	47,810	352,353
Mar	7,322,928	7,370,738	7,346,833	7.86%	48,122	400,474
Apr	7,370,738	7,418,859	7,394,798	7.86%	48,436	448,910
May	7,418,859	7,467,295	7,443,077	7.86%	48,752	497,662
June	7,467,295	7,516,047	7,491,671	7.86%	49,070	546,733
July	7,516,047	7,565,118	7,540,583	7.86%	49,391	596,124
Aug	7,565,118	7,614,509	7,589,813	7.86%	49,713	645,837
Sep	7,614,509	7,664,222	7,639,365	7.86%	50,038	695,875
Oct	7,664,222	7,714,260	7,689,241	7.86%	50,365	746,239
Nov	7,714,260	7,764,624	7,739,442	7.86%	50,693	796,933
Dec	7,764,624	7,815,318	7,789,971	7.86%	51,024	847,957
Jan, 2013	7,815,318	7,866,342	7,840,830	7.86%	51,357	899,314
Feb	7,866,342	7,917,699	7,892,021	7.86%	51,693	951,007
Mar	7,917,699	7,969,392	7,943,546	7.86%	52,030	1,003,037
Apr	7,969,392	8,021,422	7,995,407	7.86%	52,370	1,055,407
May	8,021,422	8,073,792	8,047,607	7.86%	52,712	1,108,119

Balance with Interest through May 2013	**$8,126,504**

* Reflects prudently-incurred 2011 Custom Efficiency incentive payments of $7,018,385 plus accrued 2011 carrying charges of $212,339.

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IDAHO POWER COMPANY
TABLE 2
CUSTOM EFFICIENCY AMORTIZATION ANNUAL REVENUE REQUIREMENT
IDAHO JURISDICTION
AMORTIZATION BEGINNING JUNE 1, 2013

A	B	C	D	E
Account Balance as of May 31, 2013	Monthly Amortization	Six Months Accumulated Amortization	Mid-Year Unamortized Balance	Idaho Authorized ROR
Table 1, Column B	A / 48	B X 6	A - C	Case No. IPC-E-11-08
$8,126,504	$169,302	$1,015,813	$7,110,691	7.86%

F	G	H	I
Pre-Tax Return on Rate Base	Return with Tax Gross-Up	Annual Amortization Expense	Annual Revenue Requirement
D X E	F X 1.642	A / 4	G + H
$558,900	$917,714	$2,031,626	$2,949,340

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BEFORE THE

IDAHO PUBLIC UTILITIES COMMISSION

CASE NO. IPC-E-12-24

IDAHO POWER COMPANY

LARKIN, DI
TESTIMONY

EXHIBIT NO. 2

Idaho Power Company
Calculation of Revenue Impact
Class Allocated Custom Efficiency Amortization
State of Idaho
Filed October 31, 2012

Line No	Tariff Description	Rate Sch. No.	(A) Average Number of Customers	(B) Normalized Energy (kWh)	(C) Revenue Requirement Allocation	(D) Cents per kWh Rate	(E) Current Billed Revenue	(F) Proposed Billed Revenue	(G) Percent Revenue Change
	Uniform Tariff Rates:								
1	Residential Service	1	404,785	4,823,318,996	$1,059,335	0.0220	$417,352,464	$418,411,799	0.25%
2	Master Metered Mobile Home Park	3	23	4,889,668	$1,074	0.0220	$402,015	$403,089	0.27%
3	Residential Service Energy Watch	4	0	0	$0	0.0000	$0	$0	0.00%
4	Residential Service Time-of-Day	5	1,152	13,721,181	$3,014	0.0220	$1,216,033	$1,219,047	0.25%
5	Small General Service	7	27,998	148,988,687	$32,722	0.0220	$16,233,672	$16,266,394	0.20%
6	Large General Service - Secondary	9S	32,283	3,140,350,716	$689,709	0.0220	$195,058,611	$195,748,320	0.35%
7	Large General Service - Primary	9P	189	431,899,796	$94,857	0.0220	$23,086,186	$23,181,043	0.41%
8	Large General Service - Transmission	9T	2	2,712,595	$596	0.0220	$145,088	$145,683	0.41%
9	Dusk to Dawn Lighting	15	0	6,481,376	$1,423	0.0220	$1,231,311	$1,232,735	0.12%
10	Large Power Service - Secondary	19S	1	6,678,959	$1,467	0.0220	$354,845	$356,312	0.41%
11	Large Power Service - Primary	19P	105	2,050,443,491	$450,335	0.0220	$97,221,416	$97,671,750	0.46%
12	Large Power Service - Transmission	19T	3	44,485,107	$9,770	0.0220	$1,998,342	$2,008,112	0.49%
13	Agricultural Irrigation Service	24	17,013	1,695,350,452	$372,346	0.0220	$116,053,614	$116,425,961	0.32%
14	Unmetered General Service	40	1,288	15,807,753	$3,472	0.0220	$1,189,372	$1,192,844	0.29%
15	Street Lighting	41	1,197	23,165,568	$5,088	0.0220	$3,327,180	$3,332,268	0.15%
16	Traffic Control Lighting	42	412	2,981,282	$655	0.0220	$155,372	$156,027	0.42%
17	Total Uniform Tariffs		486,451	12,411,275,627	$2,725,862		$875,025,522	$877,751,384	0.31%
18									
19	Special Contracts								
20	Micron	26	1	587,867,669	$129,112	0.0220	$23,828,078	$23,957,190	0.54%
21	J R Simplot	29	1	192,687,586	$42,320	0.0220	$7,389,321	$7,431,641	0.57%
22	DOE	30	1	236,974,493	$52,046	0.0220	$9,390,916	$9,442,963	0.55%
23	Hoku	32	1	0	$0	0.0000	$0	$0	0.00%
24	Total Special Contracts		4	1,017,529,748	$223,478		$40,608,315	$40,831,793	0.55%
25									
26	Total Idaho Retail Sales		486,455	13,428,805,375	$2,949,340		$915,633,837	$918,583,177	0.32%

Note:
June 1, 2013 - May 31, 2014, Forecast

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BEFORE THE

IDAHO PUBLIC UTILITIES COMMISSION

CASE NO. IPC-E-12-24

IDAHO POWER COMPANY

LARKIN, DI
TESTIMONY

EXHIBIT NO. 3

IDAHO POWER COMPANY
LONG-TERM CUSTOMER IMPACT
PROPOSED CUSTOM EFFICIENCY AMORTIZATION
IDAHO JURISDICTION
2013 - 2018

	June 1, 2013	June 1, 2014	June 1, 2015	June 1, 2016	June 1, 2017	June 1, 2018
2011 Expenditures with Carrying Charges	$8,126,504	$8,126,504	$8,126,504	$8,126,504	$0	$0
Mid-Year Amortization Adjustment	$1,015,813	$1,015,813	$1,015,813	$1,015,813	$0	$0
Accumulated Amortization	$0	$2,031,626	$4,063,252	$6,094,878	$0	$0
Rate Base Amount	$7,110,691	$5,079,065	$3,047,439	$1,015,813	$0	$0
Annual Revenue Requirement	$2,949,340	$2,687,136	$2,424,932	$2,162,728	$0	$0
2012 Expenditures with Carrying Charges		$8,126,504	$8,126,504	$8,126,504	$8,126,504	$0
Mid-Year Amortization Adjustment		$1,015,813	$1,015,813	$1,015,813	$1,015,813	$0
Accumulated Amortization		$0	$2,031,626	$4,063,252	$6,094,878	$0
Rate Base Amount		$7,110,691	$5,079,065	$3,047,439	$1,015,813	$0
Annual Revenue Requirement		$2,949,340	$2,687,136	$2,424,932	$2,162,728	$0
2013 Expenditures with Carrying Charges			$8,126,504	$8,126,504	$8,126,504	$8,126,504
Mid-Year Amortization Adjustment			$1,015,813	$1,015,813	$1,015,813	$1,015,813
Accumulated Amortization			$0	$2,031,626	$4,063,252	$6,094,878
Rate Base Amount			$7,110,691	$5,079,065	$3,047,439	$1,015,813
Annual Revenue Requirement			$2,949,340	$2,687,136	$2,424,932	$2,162,728
2014 Expenditures with Carrying Charges				$8,126,504	$8,126,504	$8,126,504
Mid-Year Amortization Adjustment				$1,015,813	$1,015,813	$1,015,813
Accumulated Amortization				$0	$2,031,626	$4,063,252
Rate Base Amount				$7,110,691	$5,079,065	$3,047,439
Annual Revenue Requirement				$2,949,340	$2,687,136	$2,424,932
2015 Expenditures with Carrying Charges					$8,126,504	$8,126,504
Mid-Year Amortization Adjustment					$1,015,813	$1,015,813
Accumulated Amortization					$0	$2,031,626
Rate Base Amount					$7,110,691	$5,079,065
Annual Revenue Requirement					$2,949,340	$2,687,136
2016 Expenditures with Carrying Charges						$8,126,504
Mid-Year Amortization Adjustment						$1,015,813
Accumulated Amortization						$0
Rate Base Amount						$7,110,691
Annual Revenue Requirement						$2,949,340
TOTAL ANNUAL REVENUE REQUIREMENT	**$2,949,340**	**$5,636,477**	**$8,061,409**	**$10,224,137**	**$10,224,137**	**$10,224,137**

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