1 BOISE, IDAHO, TUESDAY, MAY 26, 1998, 9:30 A. M.

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 4 COMMISSIONER SMITH: Good morning, ladies

 5 and gentlemen. This is the time and place set for

 6 hearing in Idaho Public Utilities Commission Case

 7 No. IPC-E-97-12. This is the matter of the application

 8 of Idaho Power Company for authority to increase its

 9 rates and charges to recover demand side management and

 10 conservation expenditures.

 11 We'll begin this morning by taking the

 12 appearance of the parties. Mr. Ripley.

 13 MR. RIPLEY: Larry D. Ripley appearing on

 14 behalf of Idaho Power Company.

 15 COMMISSIONER SMITH: Mr. Purdy.

 16 MR. PURDY: Brad Purdy, Deputy Attorney

 17 General, appearing on behalf of the Commission Staff.

 18 COMMISSIONER SMITH: And Mr. Budge.

 19 MR. BUDGE: Randy Budge on behalf of Idaho

 20 Irrigation Pumpers Association.

 21 MR. RICHEY: Alan Richey on behalf of

 22 Micron Technology, Incorporated.

 23 MR. JAUREGUI: Paul L. Jauregui on behalf

 24 of the Rate Fairness Group.

 25 COMMISSIONER SMITH: Mr. Richardson.

 89

 CSB REPORTING COLLOQUY

 Wilder, Idaho 83676

 1 MR. RICHARDSON: Peter Richardson with the

 2 firm Davis Wright Tremaine on behalf of the Industrial

 3 Customers of Idaho Power and also Molly O'Leary of the

 4 firm Davis Wright Tremaine who will be sitting in for me

 5 tomorrow.

 6 COMMISSIONER SMITH: All right, thank you.

 7 Mr. Ward.

 8 MR. WARD: Conley Ward of the firm Givens,

 9 Pursley for FMC.

 10 COMMISSIONER SMITH: You came in for this?

 11 MR. WARD: Foolishly.

 12 COMMISSIONER SMITH: Mr. Gollomp.

 13 MR. GOLLOMP: Lawrence Gollomp of the

 14 United States Department of Energy on behalf of the

 15 Federal Executive Agencies.

 16 MR. FOTHERGILL: Al Fothergill for the

 17 Idaho Citizens Coalition.

 18 COMMISSIONER SMITH: I think I've gotten

 19 everyone. Let the record reflect that the Idaho Consumer

 20 Affairs was granted intervention, but no one appears on

 21 their behalf today and with that, it looks like we have

 22 everybody else.

 23 Are there any preliminary matters or

 24 motions that need to be taken up before we begin the

 25 presentation of the testimony?

 90

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 1 MR. RIPLEY: Just one, Madam Chair.

 2 COMMISSIONER SMITH: Mr. Ripley.

 3 MR. RIPLEY: Perhaps it would be well if we

 4 could have a line-up as to when the witnesses are to

 5 appear and in what order. Idaho Power has already

 6 received some inquiries. It makes no difference to us

 7 what the order is.

 8 COMMISSIONER SMITH: Well, it was my, I

 9 guess, thought that the Company would start with its

 10 direct case and I wasn't sure whether you intended to put

 11 your rebuttal on when you put your direct case on or if

 12 you're going to reserve it for the end.

 13 MR. RIPLEY: We'll put our rebuttal on at

 14 the end. I think procedurally it just makes more sense.

 15 COMMISSIONER SMITH: And you have

 16 Mr. Said?

 17 MR. RIPLEY: We have Mr. Said and

 18 Mr. Obenchain with direct and then we have Mr. Gale and

 19 Mr. Said with rebuttal.

 20 COMMISSIONER SMITH: And you'll save that

 21 for the end?

 22 MR. RIPLEY: Yes.

 23 COMMISSIONER SMITH: All right, and then

 24 the Staff had Ms. Carlock and Mr. Anderson.

 25 MR. RIPLEY: Correct.

 91

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 1 COMMISSIONER SMITH: And then I understood

 2 that Mr. Power had requested to be on today and then Rate

 3 Fairness has Mr. Arms.

 4 MR. JAUREGUI: Mr. Arms will go on today or

 5 tomorrow if we go into that.

 6 COMMISSIONER SMITH: You think we'll be

 7 done today? Mr. Peseau.

 8 MR. RICHARDSON: Madam Chair, Dr. Peseau is

 9 available all day today, but would need to leave early

 10 afternoon tomorrow if that comports with the Commission's

 11 ability.

 12 COMMISSIONER SMITH: And Mr. Yankel.

 13 MR. BUDGE: He'd be available any time.

 14 He'll be here through tomorrow, so I suppose he can be

 15 later, if necessary.

 16 COMMISSIONER SMITH: And Mr. Richey has

 17 Dr. Anderson.

 18 MR. RICHARDSON: Dr. Anderson for Micron is

 19 available today and tomorrow.

 20 MR. WARD: And Mr. Bonn would be available

 21 through about 2:00 o'clock tomorrow afternoon, so I guess

 22 through tomorrow morning.

 23 COMMISSIONER SMITH: All right. I'm

 24 assuming the Staff is available any time.

 25 MR. PURDY: All the time.

 92

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 1 COMMISSIONER SMITH: Okay. Well, then I

 2 propose that we start with the Company's witnesses

 3 Mr. Said and Mr. Obenchain and then we could do Dr. Power

 4 and Dr. Peseau and Mr. Bonn, and then we'll see where we

 5 are. How is that?

 6 We'll go to you, Mr. Ripley.

 7 MR. RIPLEY: I'm sorry, I can't hear you.

 8 COMMISSIONER SMITH: You can't hear me?

 9 Can you hear me now?

 10 MR. RIPLEY: Yes, I can. Do you want

 11 Mr. Said to take the stand?

 12 COMMISSIONER SMITH: Sure, we're ready.

 13 With our new sound system, if your mike is on and you're

 14 ruffling your papers, it picks it up very well, so if we

 15 can remember we'll keep our mikes off unless we're

 16 speaking and that would probably work better.

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 1 GREGORY W. SAID,

 2 produced as a witness at the instance of the Idaho Power

 3 Company, having been first duly sworn, was examined and

 4 testified as follows:

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 6 DIRECT EXAMINATION

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 8 BY MR. RIPLEY:

 9 Q Would state your full name for the record,

 10 please?

 11 A Gregory W. Said.

 12 Q Mr. Said, are you the same individual that

 13 has prefiled 16 pages of prefiled testimony?

 14 A Yes, I am.

 15 Q And you also in that testimony, you

 16 identify 10 exhibits that are prenumbered?

 17 A That's correct.

 18 Q If I asked you the questions that are set

 19 forth in your testimony, would your answers be the same

 20 today?

 21 A Yes.

 22 MR. RIPLEY: With that, we would ask that

 23 Mr. Said's testimony be incorporated into the record and

 24 his exhibits be identified as they are premarked and we

 25 would tender him for cross-examination.

 94

 CSB REPORTING SAID (Di)

 Wilder, Idaho 83676 Idaho Power Company

 1 COMMISSIONER SMITH: If there's no

 2 objection, the prefiled testimony of Mr. Said will be

 3 spread upon the record as if read and his exhibits will

 4 be identified as they have been premarked.

 5 (The following prefiled testimony of

 6 Mr. Gregory Said is spread upon the record.)

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 CSB REPORTING SAID (Di)

 Wilder, Idaho 83676 Idaho Power Company

 1 Q Please state your name and business

 2 address.

 3 A My name is Gregory W. Said and my business

 4 address is 1221 West Idaho Street, Boise, Idaho.

 5 Q By whom are you employed and in what

 6 capacity?

 7 A I am employed by Idaho Power Company as a

 8 Supervisor in the Pricing & Regulatory Services

 9 Department.

 10 Q Please describe your educational

 11 background.

 12 A In May of 1975, I received a Bachelor of

 13 Science Degree with honors in Mathematics from Boise

 14 State University.

 15 Q Please describe your work experience with

 16 Idaho Power Company.

 17 A I became employed by Idaho Power Company in

 18 1980. My first responsibilities with the Company

 19 involved developing power supply simulation models for

 20 use in resource planning and revenue requirement

 21 determinations.

 22 I have testified before this Commission on

 23 issues such as general revenue requirements, surcharges,

 24 establishment and changes in the Power Cost Adjustment

 25 (PCA), and line extension provisions.

 96

 SAID, DI 2

 IDAHO POWER COMPANY

 1 In 1994, I was asked to become the Meridian

 2 District Manager for a one year cross-training

 3 opportunity. After that I was promoted to lead a team of

 4 analysts in the Pricing & Regulatory Services Department,

 5 formerly known as the Rate Department. In this role, I

 6 prepare or direct the

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 SAID, DI 2A

 IDAHO POWER COMPANY

 1 preparation of analyses of pricing methods, revenue

 2 requirement determinations, line installation provisions,

 3 as well as other utility issues. In August, I was asked

 4 to be Project Manager for the recovery of Demand Side

 5 Management/Conservation (DSM) expenditures.

 6 Q What is the purpose of your testimony in

 7 this proceeding?

 8 A The purpose of my testimony is to obtain

 9 approval of a new tariff schedule to allow for recovery

 10 of outstanding DSM expenditures. In support of this, I

 11 will first quantify the revenue requirement associated

 12 with the outstanding DSM expenditures that the Company is

 13 entitled to recover in the Idaho jurisdiction. Second, I

 14 will discuss the allocation of the revenue requirement to

 15 customer classes. Finally, I will discuss rate design

 16 for collection of the revenue requirement.

 17 Q Has the Commission encouraged the Company

 18 to make such a filing?

 19 A Yes. In Order No. 27045 issued in Case

 20 No. IPC-E-96-26, the case in which Idaho Power Company

 21 applied for authority to implement a public purposes

 22 charge to fund the Company's participation in the

 23 Northwest Energy Efficiency Alliance, the Commission

 24 stated:

 25 "We encourage the Company to initiate a

 proceeding that would permit a

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 SAID, DI 3

 IDAHO POWER COMPANY

 1 comprehensive review of its existing DSM

 2 investment and recovery."

 3 Later in that same case, the Commission issued Order

 4 No. 27200 and stated:

 5 "In the meantime, the Company is free to

 6 make a proposal regarding the recovery of

 7 outstanding DSM investment."

 8 Revenue Requirement

 9 Q Have you quantified the Idaho

 10 jurisdictional revenue requirement associated with the

 11 outstanding DSM investment?

 12 A Yes. I have quantified a five year Idaho

 13 jurisdictional revenue requirement associated with the

 14 outstanding DSM investment amounting to $42,348,700.

 15 This amount is comprised of four major components; (1) an

 16 amount associated with accelerating the amortization of

 17 deferred program expenditures made prior to 1994,

 18 (2) deferred program expenditures made after 1993,

 19 (3) carrying charges on deferred DSM amounts and,

 20 (4) income tax impacts on the carrying charge component.

 21 I will discuss each of the components in detail.

 22 Q Why have you quantified the Idaho

 23 jurisdictional revenue requirement for a five year time

 24 period rather than quantifying an annual revenue

 25 requirement?

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 SAID, DI 4

 IDAHO POWER COMPANY

 1 A In this filing, the quantification of the

 2 revenue requirement is contingent upon acceptance of the

 3 amortization period length that I will discuss later in

 4 my testimony.

 5 Q What is the five year revenue requirement

 6 associated with accelerating the amortization of deferred

 7 program expenditures made prior to 1994 which you have

 8 called the first component?

 9 A Based upon changing the amortization period

 10 for deferred program expenditures made prior to 1994 from

 11 24 years to five years, the Idaho jurisdictional revenue

 12 requirement is $13,311,200 to be recovered in the five

 13 year period.

 14 Q Why has the Company selected a five year

 15 recovery period?

 16 A In recognition of the likelihood of changes

 17 in the electric industry, a five year recovery period

 18 seems like a reasonable time period for recovering

 19 expenditures from the customers for whom the expenditures

 20 were made. The current 24 year time period for recovery

 21 of DSM expenditures is no longer reasonable.

 22 Q Have you prepared an exhibit prepared to

 23 illustrate the determination of $13,311,200 as the five

 24 year Idaho jurisdictional revenue requirement associated

 25 with accelerating the amortization of deferred DSM program

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 SAID, DI 5

 IDAHO POWER COMPANY

 1 expenditures made prior to 1994?

 2 A Yes. Exhibit 1 was prepared for that

 3 purpose. As a result of Case No. IPC-E-94-5, the

 4 Company's last general revenue requirement proceeding,

 5 the Company began amortizing $19,863,300 of deferred DSM

 6 program expenditures incurred prior to 1994 at a rate of

 7 $68,970 per month after the first month. Exhibit 1

 8 demonstrates that this balance will decline to

 9 $17,449,400 on December 31, 1997. I propose amortizing

 10 the $17,449,400 balance over the next five years. The

 11 $17,449,400 can be recovered by 59 monthly payments of

 12 $290,825 and a final monthly payment of $290,725. The

 13 change in the monthly amortization amount is $221,855

 14 ($290,825 - $68,970). The total change in revenues to be

 15 collected over 60 months amounts to $13,311,200.

 16 Q What is the Idaho jurisdictional revenue

 17 requirement for the deferred program expenditures made

 18 after 1993 which you have called the second component?

 19 A The Idaho jurisdictional revenue

 20 requirement for the deferred program expenditures made

 21 after 1993 is $16,239,800.

 22 Q Have you prepared exhibits to demonstrate

 23 the determination of the Idaho jurisdictional revenue

 24 requirement for deferred program expenditures made after

 25 1993?

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 SAID, DI 6

 IDAHO POWER COMPANY

 1 A Yes. Exhibit 2 shows the detail of

 2 deferred DSM expenditures by program and by year. Total

 3 deferred DSM expenditures for all programs during the

 4 period January 1, 1994 through August 31, 1997 were

 5 $16,999,200.

 6 Exhibit 3 demonstrates the allocation of

 7 total deferred DSM program expenditures to the retail

 8 jurisdictions. Of the $16,999,200 total deferred DSM

 9 program expenditures, $16,239,800 are the responsibility

 10 of the Idaho jurisdiction.

 11 Q What are the carrying charges associated

 12 with the deferral of DSM expenditures?

 13 A The third component of the five year Idaho

 14 jurisdictional revenue requirement, carrying charges

 15 associated with the deferral of DSM expenditures, is

 16 $7,794,000.

 17 Q Please detail the derivation of the

 18 carrying charges associated with the deferral of DSM

 19 expenditures component of the Idaho jurisdictional

 20 revenue requirement.

 21 A The carrying charges component can be

 22 separated into two elements. The first element of the

 23 carrying charge component is historical carrying charges

 24 accrued on deferred DSM program expenditures during the

 25 January 1, 1994 through December 31, 1995 time period

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 SAID, DI 7

 IDAHO POWER COMPANY

 1 which amounts to $2,967,200 as shown on line 18 of

 2 Exhibit 3. Carrying charges have accumulated at a rate

 3 of 9.199 percent, the rate of return

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 SAID, DI 7A

 IDAHO POWER COMPANY

 1 authorized in Case No. IPC-E-94-5, Idaho Power Company's

 2 last general rate case.

 3 Q Why have you excluded carrying charges

 4 accrued in calendar years 1996 and 1997?

 5 A Carrying charges on deferred DSM

 6 expenditures accrued in 1996 amounting to $1,415,900 were

 7 not included because of specific treatment of this amount

 8 as a result of Order No. 26925 in Case No. IPC-E-97-5,

 9 the "revenue sharing" compliance filing. Likewise,

 10 carrying charges on deferred DSM expenditure accrued in

 11 1997 amounting to $1,096,300 as of August 31, 1997 have

 12 not been included. At this time it is anticipated that

 13 revenue sharing for 1997 will exceed the carrying charges

 14 that will accrue on deferred DSM expenditures in 1997.

 15 Idaho Power Company intends to request similar treatment

 16 for 1997 carrying charges on DSM as was ordered for 1996

 17 carrying charges on DSM.

 18 Q What is the second element of the carrying

 19 charge component?

 20 A The second element of the carrying charge

 21 component is future carrying charges during the

 22 amortization period. I recommend a simple mortgage

 23 approach to a five year amortization period. Exhibit 4

 24 has been created to illustrate this amortization. With a

 25 beginning balance of $19,207,000 ($16,239,800 of program

 costs and $2,967,200 of

 104

 SAID, DI 8

 IDAHO POWER COMPANY

 1 carrying charges to date) and an rate of equaling 9.199

 2 percent (the same rate at which carrying charges have

 3 been accruing) monthly payments for a five-year

 4 amortization would be $400,560 ($320,110 of levelized

 5 principal and $80,450 of levelized carrying charges).

 6 Fifty nine payments of $400,560 and a one month residual

 7 payment of $400,760 total $24,033,800 which includes

 8 $4,826,800 of future carrying charges.

 9 Q What is the sum of the historical carrying

 10 charges accrued on deferred DSM program expenditures

 11 during the January 1, 1994 through December 31, 1995 time

 12 period and the future carrying charges to be recovered

 13 during the amortization period?

 14 A The total carrying charge component is the

 15 sum of these two elements, $2,967,000 and $4,826,000,

 16 which total $7,794,000.

 17 Q What is the income tax impact that you have

 18 included as the fourth component of the five year Idaho

 19 jurisdictional revenue requirement associated with the

 20 deferral of DSM expenditures?

 21 A The income tax impact component of the five

 22 year Idaho jurisdictional revenue requirement associated

 23 with the deferral of DSM expenditures is $5,003,700.

 24 Q How was this amount determined?

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 SAID, DI 9

 IDAHO POWER COMPANY

 1 A The income tax impact of $5,003,700 was the

 2 rounded product computed by multiplying the carrying

 3 charge component, $7,794,000 by the tax gross up

 4 multiplier, 0.642. This tax gross up multiplier is the

 5 same value as was used in Case No. IPC-E-94-5. Recovery

 6 of carrying charges is not offset by an accompanying

 7 expense and results in income that will be taxed. In

 8 order to insure full recovery of carrying charges, a tax

 9 gross up amount must be collected to offset the resulting

 10 income tax expense.

 11 Q Please summarize the four components of the

 12 five year Idaho jurisdictional revenue requirement

 13 associated with the outstanding DSM investment.

 14 A The five year Idaho jurisdictional revenue

 15 requirement associated with accelerating recovery of the

 16 unamortized balance of deferred program expenditures made

 17 prior to 1994 is $13,311,200. The Idaho jurisdictional

 18 revenue requirement associated with deferred program

 19 expenditures after 1993 is $16,239,800. The five year

 20 Idaho jurisdictional revenue requirement associated with

 21 carrying charges on deferred DSM amounts is $7,794,000

 22 and the five year Idaho jurisdictional revenue

 23 requirement associated with income taxes on carrying

 24 charges is $5,003,700.

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 SAID, DI 10

 IDAHO POWER COMPANY

 1 Class Allocation

 2 Q What is your recommendation for allocating

 3 the five year Idaho jurisdictional revenue requirement to

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 SAID, DI 10A

 IDAHO POWER COMPANY

 1 customer classes?

 2 A I recommend treatment of the five year

 3 Idaho jurisdictional revenue requirement amounting to

 4 $42,348,700 as two separate amounts allocated to customer

 5 classes by separate methods. I recommend that the first

 6 amount, $13,311,200, which is the revenue requirement

 7 associated with accelerating amortization of deferred DSM

 8 expenditures made prior to 1994, be allocated to customer

 9 classes using the same allocations as were used in Case

 10 No. IPC-E-94-5, Idaho Power Company's last general

 11 revenue requirement case. This would allow for

 12 acceleration of amounts already allocated to classes.

 13 Exhibit 5 shows the previously approved allocation factor

 14 and resulting allocation to customer classes of the

 15 $13,311,200 portion of revenue requirement.

 16 I recommend that the remainder of the

 17 revenue requirement, $29,037,500, which includes

 18 (1) deferred program expenditures after 1993,

 19 (2) carrying charges and (3) income taxes, be allocated

 20 based upon the ability of the customer class to

 21 participate in programs. Exhibit 6 illustrates the

 22 results of this allocation method.

 23 Q Why do you recommend this hybrid approach

 24 to allocation?

 25 A My recommendation recognizes that in the

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 SAID, DI 11

 IDAHO POWER COMPANY

 1 past DSM expenditures have been viewed as system

 2 resources and as

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 IDAHO POWER COMPANY

 1 such, the costs have been allocated to classes based upon

 2 class use (demand and energy) of resources. My

 3 recommendation also recognizes that DSM is currently

 4 viewed from the perspective of the direct benefits

 5 (i.e., ability to participate in programs) that customers

 6 receive from expenditures made on their behalf.

 7 My hybrid approach to allocation blends

 8 these two concepts.

 9 Q Please describe Exhibit 6.

 10 A Exhibit 6 details the allocation of

 11 $29,037,500 portion of the revenue requirement to

 12 customer classes. The Design Excellence Award Program

 13 (line 1 DEAP) and the Commercial Lighting Program (line 6

 14 CLP) were available to Small General Service (Schedule 7)

 15 customers, Large General Service (Schedule 9) customers

 16 and Large Power Service (Schedule 19) customers. The

 17 Idaho jurisdictional revenue requirements of $793,900 for

 18 DEAP and $901,000 for Commercial Lighting were allocated

 19 to these three rate classes based upon their annual

 20 energy usage. Some programs (Manufactured Home

 21 Acquisition, Good Cents and Idaho Weatherization) were

 22 available only to Residential Service (Schedule 1)

 23 customers. Other programs (Agricultural Choices and Bell

 24 Rapids) were available only to Irrigation Service

 25 (Schedule 24) customers. The Partners in Industrial

 Efficiency (PIE) program was available to Large Power

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 SAID, DI 12

 IDAHO POWER COMPANY

 1 Service (Schedule 19) customers and Special Contract

 2 customers.

 3 Q How were the costs of the Low Income

 4 Weatherization Assistance program allocated to customer

 5 classes?

 6 A Even though the Low Income Weatherization

 7 Assistance program was not available to all customer

 8 classes, it has never been viewed as purely a DSM program

 9 and therefore should receive broadly based financial

 10 support from all customer classes.

 11 Q How were research expenditures allocated to

 12 customer classes?

 13 A The sums of the program costs allocated to

 14 customer classes were used to allocate Research

 15 Expenditures to customer classes. Likewise, carrying

 16 charges and income taxes were also allocated based upon

 17 the sums of allocated program costs. Line 16 of

 18 Exhibit 6 shows the sum of allocations of the $29,037,500

 19 to customer classes.

 20 Q Have you prepared an exhibit to reflect the

 21 combination of the allocation of $13,311,200 to customer

 22 classes based on Case No. IPC-E-94-5 allocation factors

 23 and the allocation of $29,037,500 to customer classes

 24 based on the "ability to participate" allocation factors?

 25 A Yes. Exhibit 7 shows the combination of

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 SAID, DI 13

 IDAHO POWER COMPANY

 1 the allocation of $13,311,200 to customer classes based

 2 on Case

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 SAID, DI 13A

 IDAHO POWER COMPANY

 1 No. IPC-E-94-5 allocation factors and the allocation of

 2 $29,037,500 to customer classes based on ability to

 3 participate allocation factors.

 4 Rate Design

 5 Q How do you propose recovering these revenue

 6 requirements from the various customer classes?

 7 A First, let me address the Special Contract

 8 customers. I recommend a monthly charge for Special

 9 Contract customers equal to one sixtieth (1/60) of their

 10 five year revenue requirement rounded to the nearest 100

 11 dollars. For Micron Technology, the monthly charge is

 12 $9,800. For FMC the monthly charge is $55,600. For

 13 Simplot Fertilizer in Pocatello, the monthly charge is

 14 $8,800. For the DOE, the monthly charge is $6,000.

 15 For all other customer classes, I recommend

 16 a percentage adjustment to their monthly bills. The

 17 percentage adjustment is determined by dividing the

 18 customer class monthly DSM revenue requirement by the

 19 1996 normalized monthly customer class revenue. The

 20 calculation of this percentage is shown in Exhibit 8.

 21 Q How long will these monthly charges remain

 22 in effect?

 23 A All of these monthly charges are intended

 24 to remain in effect for five years.

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 SAID, DI 14

 IDAHO POWER COMPANY

 1 Q Do you have an exhibit that reflects these

 2 charges in a rate schedule format?

 3 A Yes. Exhibit 9 is a proposed rate schedule

 4 entitled "Schedule 96, ADJUSTMENT FOR DEMAND SIDE

 5 MANAGEMENT COSTS."

 6 Q You have stated that the monthly charges

 7 are intended to remain in effect for five years. Do you

 8 envision circumstances where this would not be the case?

 9 A Yes. Customer growth from 1996 levels

 10 would suggest that the Company may recover the revenue

 11 requirement of specific customer classes prior to the end

 12 of the five year period. I recommend that the company

 13 track recovery of DSM related revenue requirement by

 14 class and discontinue collection as individual classes

 15 fully pay their revenue requirement. In addition, early

 16 payoff of revenue requirement should allow for avoidance

 17 of some future carrying charges and income tax.

 18 Q How can early payoff of revenue

 19 requirement be tracked?

 20 A The best way to track early payoff of

 21 revenue requirement will be to track recovery of future

 22 carrying charges and income taxes separately from

 23 recovery of program expenditures and historical carrying

 24 charges (principal). Monthly revenues would first be

 25 used to pay a fixed monthly amount toward future carrying

 charges and income tax. The

 114

 SAID, DI 15

 IDAHO POWER COMPANY

 1 remainder of the monthly payment would go to reduction of

 2 the principal amount by class. When the principal

 3 balance reaches zero the adjustment for that class will

 4 end.

 5 Q Have you prepared an exhibit that shows the

 6 separation of principal amounts from the future carrying

 7 charges and income taxes by class?

 8 A Yes. Exhibit 10 shows the separation of

 9 principal from the future carrying charges and income

 10 taxes by class.

 11 Q Will the Commission have additional

 12 opportunity to buy down the principal balance?

 13 A Yes. The Commission could decide to use

 14 additional "revenue sharing" dollars to reduce the DSM

 15 principal and/or future carrying charges.

 16 Q Would the reduction in future carrying

 17 charges also reduce future income taxes?

 18 A Yes.

 19 Q Have you created a billing comparison

 20 exhibit?

 21 A No. The charges themselves reflect the

 22 percentage change for all customer classes except the

 23 special contracts.

 24 Q Does this complete your prefiled testimony?

 25 A Yes, it does.

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 SAID, DI 16

 IDAHO POWER COMPANY

 1 (The following proceedings were had in

 2 open hearing.)

 3 COMMISSIONER SMITH: Mr. Purdy, do you have

 4 questions?

 5 MR. PURDY: Madam Chair, most my questions

 6 are pertinent to Mr. Said's rebuttal, the others can go

 7 either way, so I will defer until his rebuttal testimony.

 8 COMMISSIONER SMITH: Mr. Budge.

 9 MR. BUDGE: No questions.

 10 COMMISSIONER SMITH: Mr. Richey.

 11 MR. RICHEY: No questions at this time.

 12 COMMISSIONER SMITH: Mr. Richardson.

 13 MR. RICHARDSON: I'll give it a shot,

 14 Madam Chairman.

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 16 CROSS-EXAMINATION

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 18 BY MR. RICHARDSON:

 19 Q Mr. Said, with reference to the

 20 acceleration or the change in the amortization period for

 21 deferred DSM costs, I guess it's fair to say the heart of

 22 the Company's case is the move from 24 to five years; is

 23 that correct?

 24 A That is one aspect of our case, yes.

 25 Q Can you enlighten us as to what studies or

 116

 CSB REPORTING SAID (X)

 Wilder, Idaho 83676 Idaho Power Company

 1 what background the Company relied upon to recommend this

 2 change?

 3 A The Company essentially relied upon

 4 previous Commission orders, the two that I've cited in my

 5 testimony, encouraging us to come in for a review of

 6 demand side management expenditures, consideration of

 7 changes in the industry with regard to resource

 8 planning. There are no specific studies that I referred

 9 to.

 10 Q The orders you refer to in your testimony

 11 don't suggest that you shorten the amortization period

 12 for recovery of DSM, do they?

 13 A No. They just suggest there be a

 14 comprehensive review of a recovery of demand side

 15 management expenditures.

 16 Q And when you say you factored into the

 17 decision consideration of changes in the industry, what

 18 changes were you referring to?

 19 A Essentially, a change in perspective of how

 20 the time frames for collection in this case of DSM

 21 expenditures. In previous cases relating to line

 22 extensions and the like, the Commission has looked at the

 23 same sort of issues as to when recovery should occur and

 24 who should be responsible for that payment.

 25 Q So changes in the industry, you're

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 CSB REPORTING SAID (X)

 Wilder, Idaho 83676 Idaho Power Company

 1 referring to specifically this Commission's consideration

 2 of line extension charges?

 3 A Line extensions is a point. In addition,

 4 I've mentioned resource planning and the way that that

 5 has changed over time from individual company looks to

 6 regional perspectives and market influence.

 7 Q What specific changes in the Company's

 8 resource planning prompted the recommendation that the

 9 amortization period be shortened from 24 to five years?

 10 A I wouldn't say that specifically the change

 11 in resource. The planning horizon was the emphasis for

 12 changing the amortization period. The Company's position

 13 has always been that DSM was not the typical utility

 14 asset, but rather was a regulatory asset that should be

 15 recovered over a shorter period of time.

 16 Q Right, but you said there were changes in

 17 the industry that prompted your recommendation and you

 18 specifically referenced resource planning.

 19 A I think that change supports the position

 20 that the Company has held all along.

 21 Q The change to go to a regional planning

 22 basis?

 23 A The changes in the industry support what

 24 the Company has contended.

 25 Q And which changes are those? That's what

 118

 CSB REPORTING SAID (X)

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 1 I'm trying to get to.

 2 A Resource planning.

 3 Q And the change in resource planning was the

 4 change from a utility specific to a regional resource

 5 plan?

 6 A And shortened planning horizons, yes.

 7 Q And has Idaho Power gone to a regional

 8 resource plan?

 9 A Idaho Power has stated that they don't

 10 intend to build any additional resources and rather will

 11 rely on the market.

 12 Q And that's what you mean by a regional

 13 resource plan?

 14 A Essentially, looking at market influences

 15 in the region, yes.

 16 Q And what are those market influences that

 17 suggest that a shorter amortization period is more

 18 appropriate?

 19 A The reduced time frame for looking at

 20 resources and avoided costs.

 21 Q Do you know what the 24-year amortization

 22 period was based on?

 23 A Yes, I do.

 24 Q And what was that?

 25 A It was a review of the used and useful life

 119

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 Wilder, Idaho 83676 Idaho Power Company

 1 of DSM programs.

 2 Q And that was sort of an amalgamation of all

 3 the different DSM programs to arrive at an average of 24

 4 years?

 5 A Yes.

 6 Q So it was based upon an expected useful

 7 life of each individual DSM measure; correct?

 8 A That's correct.

 9 Q And is it your understanding that those

 10 expected useful lives has changed?

 11 A No. Essentially, again, the Company's

 12 contention has always been that those assets should be

 13 viewed differently. In the last case when the 24-year

 14 amortization was established, the Commission did decide

 15 to create an amortization period that looked at those

 16 costs as if they were utility assets and did not make a

 17 distinction between them as a utility asset or a

 18 regulatory asset.

 19 Q But nothing has changed with regard to the

 20 assets that the Commission found 24 years was appropriate

 21 to amortize; correct?

 22 A The assets are the same, yes.

 23 Q And their amortization, their useful lives

 24 are the same; correct?

 25 A Yes.

 120

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 1 Q Now, are you aware of any other precedent

 2 for the Company to depreciate Company-owned assets faster

 3 than they become obsolete?

 4 MR. RIPLEY: Objection. He's referring to

 5 depreciation which is entirely different than

 6 amortization.

 7 COMMISSIONER SMITH: Mr. Richardson.

 8 Q BY MR. RICHARDSON: Would you agree that

 9 the amortization period of 24 years was a surrogate for

 10 depreciation, the depreciable lives of the DSM measures

 11 that have been installed?

 12 MR. RIPLEY: Objection. The Order speaks

 13 for itself. Is he asking Mr. Said what he thinks or what

 14 the Commission said?

 15 MR. RICHARDSON: Mr. Said is here on the

 16 stand talking about the specific issue of the

 17 amortization of the DSM measures installed and I'm asking

 18 Mr. Said what his understanding of the basis for that

 19 24-year period was.

 20 MR. RIPLEY: If he's asking what Mr. Said's

 21 understanding is, then we obviously have no objection.

 22 MR. RICHARDSON: That's exactly what I'm

 23 asking him.

 24 COMMISSIONER SMITH: Thank you.

 25 Mr. Said.

 121

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 1 THE WITNESS: Yes, as I mentioned, I

 2 believe what the Commission did was look at those lives

 3 of the DSM expenditures and treat those as if they were

 4 like utility assets rather than making a distinction that

 5 they were a regulatory asset with potentially a different

 6 life.

 7 Q BY MR. RICHARDSON: So the amortization

 8 would be akin to a depreciation schedule on a

 9 Company-owned asset, would it not?

 10 A I think it would be similar, yes.

 11 Q Are you aware of any precedent for the

 12 Company to depreciate Company-owned assets at a faster

 13 rate than they become obsolete?

 14 A No, I'm not.

 15 Q So this would be a unique treatment, would

 16 it not?

 17 A No, because, again, I don't think this is a

 18 utility asset.

 19 Q If it were a utility asset, it would be a

 20 unique treatment, would it not?

 21 A If it were a utility asset, then it would

 22 be a little bit different than the treatment of other

 23 assets.

 24 Q It would be unique, wouldn't it?

 25 A I'm unaware of any other assets that might

 122

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 Wilder, Idaho 83676 Idaho Power Company

 1 be treated that way, but I'm not sure that there aren't

 2 any.

 3 Q It would be a singular type of treatment;

 4 correct?

 5 A Sure.

 6 Q As far as you know?

 7 A Sure.

 8 Q And when you picked five years, why did you

 9 go with five instead of seven or 10 or 15 or 20?

 10 A To an extent it was a rate shock-type

 11 evaluation, judgment call as to what the various customer

 12 classes could tolerate.

 13 Q And the reason for that is the shorter the

 14 amortization period the larger the rate increase?

 15 A That's true.

 16 Q And whose judgment was it that decided that

 17 the ratepayers could stand a five-year rate shock or rate

 18 increase versus any other time period?

 19 A That would have been my judgment along with

 20 input from Mr. Gale.

 21 Q What's the rate increase with the five-year

 22 amortization period that you've suggested on average?

 23 A The rate increases by class are shown on

 24 Exhibit 9.

 25 Q And the overall increase is what?

 123

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 Wilder, Idaho 83676 Idaho Power Company

 1 A I don't know that I computed that.

 2 Q About two percent?

 3 A That's probably close, yes.

 4 Q So you didn't compute the overall increase,

 5 you didn't even know what it was, but you think that that

 6 is not going to cause rate shock?

 7 A I looked at the individual classes to

 8 establish what the percentage increase would be by class.

 9 Q You didn't look at it on an overall

 10 Company-wide basis?

 11 A No, I concentrated on the more specific.

 12 Q Does each class have a different tolerance

 13 for rate shock?

 14 A They probably do, yes.

 15 Q And are you recommending that the different

 16 classes have different rate increases?

 17 A Yes.

 18 Q Is that based upon the amortization period

 19 or some other factor?

 20 A That's based primarily on the allocations.

 21 Q Which drove which? Did the allocations

 22 drive the rate increase or did you select the allocation

 23 to arrive at a predetermined rate increase?

 24 A No, there wasn't a predetermined rate

 25 increase that was a goal. In deciding on the five-year

 124

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 Wilder, Idaho 83676 Idaho Power Company

 1 amortization, I probably concentrated mostly on the

 2 residential class, but did take the allocations into

 3 consideration.

 4 Q Did you have a benchmark beyond which the

 5 residential class would be experiencing rate shock and,

 6 therefore, we won't have that large of an increase?

 7 A No.

 8 Q So how did you come up with the five

 9 years? You said that you used rate shock as the criteria

 10 for the size of the increase and you said that the length

 11 of time you amortized drives the size of the increase, so

 12 where was the benchmark or was there one?

 13 A There wasn't a benchmark when I looked at

 14 the various years and discovered that for the residential

 15 class a five-year amortization would result in about two

 16 percent.

 17 Q And what other amortization periods did you

 18 consider?

 19 A We looked at the rate impact of a number of

 20 years of amortization. I think we looked at three and

 21 seven.

 22 Q And what increases did those cause the

 23 residential class?

 24 A I don't recall. With a shorter

 25 amortization, as you had mentioned, the increase was

 125

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 Wilder, Idaho 83676 Idaho Power Company

 1 greater and with a longer it was less.

 2 Q And you concluded that three years caused

 3 rate shock?

 4 A Decided that three years was rapid and

 5 probably did push the limits a little.

 6 Q Pushed the limits of rate shock?

 7 A Yes.

 8 MR. WARD: Madam Chair, I'm having trouble

 9 hearing the witness. Can you get a little closer to the

 10 mike?

 11 COMMISSIONER SMITH: I've turned the

 12 control up here, what I can do, so we'll see if it's any

 13 better.

 14 THE WITNESS: I'll try and talk louder as

 15 well.

 16 Q BY MR. RICHARDSON: You said that three

 17 years was pushing the limits and I asked you if three

 18 years was pushing the limits of rate shock for the

 19 residential class?

 20 A In my judgment, it was.

 21 Q And what was the percentage increase caused

 22 by three years?

 23 A I don't recall.

 24 Q You don't recall. Do you have any idea

 25 what rate shock would be for the residential class? What

 126

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 Wilder, Idaho 83676 Idaho Power Company

 1 percentage increase would be in your view rate shock?

 2 A In terms of the residential class and what

 3 they've experienced over the recent years, I think maybe

 4 they could tolerate more than at other times. The last

 5 couple of years all of the classes have benefited from

 6 rate reductions related to the power cost adjustment and

 7 they've really not seen any rate increases for a

 8 considerable period of time, so I don't know that

 9 entirely rate shock was the only consideration.

 10 In addition, considering what the Company

 11 had proposed previously as an amortization period, and

 12 that was seven years, five years would be a quicker

 13 acceleration and still not create rate shock, so it was a

 14 little bit of a combination of rate shock and consistency

 15 with what the Company had proposed in the past.

 16 Q But what the Company proposed in the past

 17 wasn't adopted by the Commission, was it?

 18 A No, it wasn't.

 19 Q So you wanted to be consistent in terms of

 20 your treatment of the ratepayers based upon your prior

 21 recommendations or based upon what this Commission has

 22 ordered in the past?

 23 A There are some of both. We certainly like

 24 to maintain consistency in what we propose and in this

 25 case we didn't abandon what we had proposed solely

 127

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 Wilder, Idaho 83676 Idaho Power Company

 1 because the Commission had seen it in a different light.

 2 Q Was there anything else that factored into

 3 your decision other than rate shock and consistency with

 4 prior Company proposals to recommend five years?

 5 A A desire to see DSM expenditures be paid

 6 for.

 7 Q And were they not being paid for -- are

 8 they not being paid for now?

 9 A They are being paid for over a longer

 10 period of time.

 11 Q So that hasn't changed? They're still

 12 being paid for; correct?

 13 A The time frame is what's different.

 14 Q Does the Company have a concern that with

 15 the 24-year time frame that its DSM expenditures will not

 16 be paid for?

 17 A No, my attorneys tell me that the DSM

 18 expenditures will be paid for.

 19 Q Even if it's a 24-year amortization period?

 20 A Yes. The question then arises as to who

 21 pays.

 22 Q Who would pay under a 24-year amortization

 23 period?

 24 A Whichever customers are around 24 years

 25 from now.

 128

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 Wilder, Idaho 83676 Idaho Power Company

 1 Q And who pays in a five-year amortization

 2 period?

 3 A The customers that are here today.

 4 Q You said that different, stepping back just

 5 for a moment, different classes have different tolerances

 6 for rate shock; is that correct?

 7 A I'm sure that's true, yes.

 8 Q And you said that the rate shock tolerance

 9 for the residential class was five years. It is

 10 possible, isn't it, the rate shock tolerance for another

 11 class might be 23 years?

 12 A Probably not in this instance.

 13 Q How do you know that?

 14 A Based on the percentage increases in that

 15 same exhibit.

 16 Q Is it possible to have a customer class

 17 that is experiencing economic difficulty and any rate

 18 increase no matter how small would be a burden?

 19 A Yes.

 20 Q Is it typical utility ratemaking policy to

 21 set rates based upon what the customers want to pay?

 22 A There's a consideration of what customers

 23 can afford to pay, yes.

 24 Q You said that one of the reasons that five

 25 years was more appropriate than 24 was because you were

 129

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 Wilder, Idaho 83676 Idaho Power Company

 1 uncertain of the ratepayers who would be paying for the

 2 amortization at 24 years; is that correct?

 3 A Yes, the customer base could change.

 4 Q The customer base could change, and which

 5 customers are benefiting by the conservation?

 6 A Today's customers.

 7 Q And will tomorrow's customer also benefit

 8 by the installed conservation measures to the extent they

 9 still have a useful life?

 10 MR. RIPLEY: What customer is counsel

 11 referring to, the customer that owns the particular asset

 12 that has been installed?

 13 MR. RICHARDSON: I've been following your

 14 witness' lead. The word is his word.

 15 COMMISSIONER SMITH: Mr. Richardson, could

 16 you be specific in your questions and maybe if you need

 17 clarification, ask the witness.

 18 Q BY MR. RICHARDSON: You stated, Mr. Said,

 19 that it's unclear which customers would be around to pay

 20 for the DSM beyond five years.

 21 A Yes.

 22 Q Which customers were you referring to,

 23 Mr. Said?

 24 A I was referring to today's customers of

 25 Idaho Power.

 130

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 Wilder, Idaho 83676 Idaho Power Company

 1 Q And beyond five years, you don't know whose

 2 customers those will be; is that your concern?

 3 A Or whether or not the customers will be

 4 customers. Businesses close or change locations is

 5 always a possibility.

 6 Q And when you talk about businesses closing

 7 and changing locations, I assume you're talking about the

 8 businesses Idaho Power serves, not Idaho Power.

 9 A That's correct.

 10 Q Okay. What about the specter of

 11 competition in the electric industry, what influence has

 12 that had on your decision to move to five years?

 13 A I don't know that competition necessarily

 14 has a direct influence, although if competition were to

 15 arise, that would potentially allow customers to leave

 16 the system as well.

 17 Q So that's one of the Company's concerns in

 18 moving the five years from 24 is that its customers today

 19 may not be its customers tomorrow because of competition?

 20 A The concern is that the customers who have

 21 had DSM expenditures made on their behalf may not be the

 22 customers that pay for those DSM measures.

 23 Q And which customers are those that have had

 24 DSM measures expended on their behalf?

 25 A The current customers of Idaho Power

 131

 CSB REPORTING SAID (X)

 Wilder, Idaho 83676 Idaho Power Company

 1 Company.

 2 Q All of them?

 3 A Under the treatment in terms of

 4 allocations, yes.

 5 Q Okay; so you're concerned that any one of

 6 those customers leaves the system, if any one of your

 7 customers leave the system, because of competition, that

 8 is a reason for moving to a shorter time period; correct?

 9 A In terms of trying to match who's receiving

 10 benefits and who pays, that's the motivation of moving to

 11 a five-year period of time.

 12 MR. RIPLEY: Mr. Said, you're going to have

 13 to speak up.

 14 THE WITNESS: The air conditioning just

 15 came on?

 16 Q BY MR. RICHARDSON: Assuming that you have

 17 a stable customer base, that is, your customers don't

 18 leave you for competition or whatever, isn't the Company

 19 indifferent as to five years' or 24 years' amortization

 20 period?

 21 A If the customer base were never to change,

 22 then collection over five or 24 years would --

 23 Q I'm sorry?

 24 A -- then collection over five or 24 years

 25 would no longer be an issue, I guess that's true.

 132

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 Wilder, Idaho 83676 Idaho Power Company

 1 That's, however, not a realistic hypothetical.

 2 Q But it is true, if you have a stable or

 3 even a growing customer base, the Company is indifferent

 4 with 24 or five years; correct?

 5 A A stable or growing is different than

 6 having the same customers in place.

 7 Q The specific identified customers or the

 8 same number and size of system?

 9 A I think it's the same customers that is the

 10 interest.

 11 Q What difference does that make to you, to

 12 the Company, whether it's Alan Richey or Peter Richardson

 13 who is your customer as long as you have the same number

 14 of customers? Why do you care if you're still recovering

 15 over the 24 years your DSM costs?

 16 A Well, if I've incurred a cost for

 17 Mr. Richardson and then later Mr. Richey takes his place,

 18 I'm aware that Mr. Richey will not want to pay for

 19 Mr. Richardson's costs.

 20 Q But didn't you say that the DSM measures

 21 were to benefit all of the customers?

 22 A All of today's customers and in your

 23 hypothetical --

 24 Q And they're not benefiting any customer

 25 beyond today?

 133

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 Wilder, Idaho 83676 Idaho Power Company

 1 A Potentially not.

 2 Q None of your -- how could they not be

 3 benefiting customers beyond today? Explain that to me.

 4 A If I install equipment for you today --

 5 Q Now, you said earlier that the DSM measures

 6 that have been installed have been to benefit all of the

 7 customers; is that true or not?

 8 A They have been viewed from the standpoint

 9 of being allocated to customer classes in the past based

 10 on resource planning criteria and the ability to defer

 11 resources. In today's planning horizon where there are

 12 no future resources to be deferred, the calculation of

 13 avoided costs has changed from a resource deferral method

 14 to more of a market price approach.

 15 From that standpoint, Mr. Richey as a new

 16 customer does not see a benefit from deferring resources

 17 and he also does not have need of the demand side

 18 management programs at his facility, so I would say no,

 19 he's not benefited.

 20 Q So it's your view that if a new customer

 21 comes on to Idaho Power's system today, it should not

 22 share in any of the DSM deferral costs?

 23 A No, I'm not saying that.

 24 Q Wouldn't that be logical, though, if you

 25 assumed that a new customer today is not relying on any

 134

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 Wilder, Idaho 83676 Idaho Power Company

 1 of these deferred demand side management costs, then that

 2 new customer should not be responsible for paying for any

 3 of those; correct?

 4 A No, that's not my proposal.

 5 Q I didn't say it was your proposal, but it's

 6 logical based upon what you just said, isn't it?

 7 A If you were to decide to isolate customers

 8 and decide that only people in existence today should

 9 have to pay for demand side management, then that would

 10 be a possible result, but that's not my recommendation.

 11 Q Your recommendation is that as of five

 12 years from today future customers will not be required to

 13 pay for any DSM measures; correct?

 14 A Any of today's expenditures, yes.

 15 Q Five years from today if your proposal is

 16 adopted, after five years everyone beyond that time

 17 period will reap no benefits whatsoever from any of your

 18 DSM programs; correct?

 19 A It would be hard to say that they do

 20 receive benefits.

 21 Q So when this Commission three years ago

 22 said that these deferred demand side management

 23 expenditures have useful lives of 30, 20 years because

 24 they would be producing conservation savings for that

 25 long, they were wrong?

 135

 CSB REPORTING SAID (X)

 Wilder, Idaho 83676 Idaho Power Company

 1 A I think the Company's opinion at that time

 2 was that a shorter period would be more correct and the

 3 Commission utilized its judgment which was different from

 4 that of the Company.

 5 Q But you don't agree that many of these

 6 conservation measures have useful lives way beyond five

 7 years?

 8 A They do, but not to the Company,

 9 necessarily.

 10 Q Even though they're saving the Company the

 11 need to go out and acquire resources to meet load?

 12 A The Company has no plans to build

 13 additional resources.

 14 Q Would you agree that the shorter time

 15 period for amortization of these DSM costs makes the

 16 Company financially healthier?

 17 A It creates both a revenue and an expense

 18 stream that are approximately offsetting, so it won't

 19 have a large impact.

 20 Q Is it a cash expense stream?

 21 A No, it's not.

 22 Q So it's a non-cash expense that you now

 23 have a cash revenue to cover?

 24 A Yes.

 25 Q And doesn't that make the Company

 136

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 1 healthier?

 2 A In terms of cash flow.

 3 Q And what else does cash flow inure to the

 4 benefit of? Doesn't it assist you in terms of you need

 5 to go to the market to borrow money, it reduces that

 6 need, doesn't it?

 7 A It could, yes.

 8 Q And doesn't it increase retained earnings,

 9 possibly?

 10 MR. RIPLEY: If you know, Mr. Said.

 11 THE WITNESS: I don't believe so.

 12 Q BY MR. RICHARDSON: Well, if you've got

 13 more money in your pocket today than you did yesterday,

 14 you're better off today than you were yesterday, aren't

 15 you?

 16 A Again, in terms of cash, but there's also

 17 an expenditure, a paper expenditure, that would impact

 18 earnings.

 19 Q Doesn't your proposal also reduce the

 20 Company's risk in terms of the financial markets?

 21 A Looking ahead and knowing that Mr. Gale has

 22 rebuttal testimony in that area and having read that, I

 23 would say that it has the benefit of reduced risk if the

 24 amounts that we're talking about were to be securitized.

 25 Q So are you deferring to Mr. Gale or are you

 137

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 Wilder, Idaho 83676 Idaho Power Company

 1 capable to answer that question?

 2 A Mr. Gale would probably be the better

 3 witness.

 4 Q All right. Let's assume, just getting back

 5 to that one point just for a quick moment, let's assume

 6 that five years from now you've recovered all of your DSM

 7 deferrals and the Company's prediction was wrong and you

 8 have to go to the market to build a new generating

 9 resource and that new generating resource costs more than

 10 your embedded cost of power, do you have that assumption

 11 in mind?

 12 A Yes.

 13 Q And that's not a wildly unreasonable

 14 assumption, is it?

 15 A It's not consistent with the current plan.

 16 Q It's not consistent with your current plan?

 17 A That's correct.

 18 Q Okay. With that assumption in mind,

 19 wouldn't the future ratepayers be getting benefits

 20 without having to pay for those benefits of the DSM

 21 measures that were paid for over the five-year period

 22 between now and then?

 23 A Your assumption was that the DSM

 24 expenditures helped defer the need for a resource that

 25 now you're saying is needed, so I don't -- I have trouble

 138

 CSB REPORTING SAID (X)

 Wilder, Idaho 83676 Idaho Power Company

 1 figuring out what the benefit is.

 2 Q The assumption was that you are now five

 3 years down the road and your projection that you would

 4 never need to acquire another resource was wrong in order

 5 to serve your customers and so Idaho Power is faced with

 6 the decision of going out to acquire a new resource, the

 7 cost of which is higher than your embedded cost, and you

 8 have DSM in place, that we have in place today that is

 9 presumably effecting some savings of energy and putting

 10 off into the future the need for new resources, meaning

 11 that you would have had to acquire new resources sooner

 12 were it not for the DSM measures, now, the question is

 13 with that premise in mind, wouldn't those ratepayers

 14 after five years be reaping the benefits of the costs

 15 that were amortized over five years rather than 24?

 16 A It would require a change in the resource

 17 planning methodology that the Company currently has in

 18 place which would be to go out and purchase the power on

 19 the market rather than to acquire its own physical

 20 resources.

 21 Q And the assumption was that the Company's

 22 resource plan, that is, that you're never going to build

 23 anything ever again, was wrong and that you had to build

 24 something to meet load?

 25 A I don't know that you could say that the

 139

 CSB REPORTING SAID (X)

 Wilder, Idaho 83676 Idaho Power Company

 1 resource plan was wrong. Again, the approach would then

 2 be that the region has the need for a resource rather

 3 than necessarily Idaho Power specific, in which case

 4 Idaho Power could still purchase the output of a new

 5 facility from another entity.

 6 Q Let me ask it again.

 7 MR. RIPLEY: Objection. He's arguing with

 8 the witness. First, he's assuming facts that are not in

 9 the record, postulating a hypothetical. Mr. Said has

 10 done his best to answer it and now he wants to argue with

 11 him.

 12 MR. RICHARDSON: Madam Chairman, I'd ask

 13 that you instruct the witness to answer the question

 14 which he has been artfully dodging now for two times.

 15 COMMISSIONER SMITH: Okay, Mr. Richardson,

 16 try one more time and let's see if we get an answer.

 17 Please don't be argumentative.

 18 MR. RICHARDSON: Thank you,

 19 Madam Chairman.

 20 Q BY MR. RICHARDSON: Mr. Said, I'd like you

 21 to assume with me for one moment that your application in

 22 this case is approved and your DSM expenditures have been

 23 amortized and completely paid for within five years. I'd

 24 like you to also assume that the Company five years hence

 25 is faced with a situation in which it is required to

 140

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 Wilder, Idaho 83676 Idaho Power Company

 1 build a new resource, to acquire a new resource, to serve

 2 its native load customers. Do you have that?

 3 A Yes.

 4 Q And that the cost of that new resource is

 5 higher than your embedded cost. Do you have that?

 6 A Uh-huh.

 7 Q Wouldn't it be true in that situation that

 8 the customers five years hence would be reaping some

 9 reward, some benefit, however measured, from the DSM

 10 measures that had been installed and that are under

 11 discussion today?

 12 A It would depend on the size of the resource

 13 that under your hypothetical was required to be

 14 constructed and whether or not it was reduced in size to

 15 any extent by DSM measures that created less of a need

 16 for additional load than the load that drove the need for

 17 the new resource.

 18 Q You trailed off.

 19 A That was less than the load needed for, by

 20 the new resource.

 21 Q And if that were true, then, the answer to

 22 my question would be that those ratepayers are benefiting

 23 from the DSM measures installed today; correct?

 24 A There might be some benefit.

 25 Q Is that a yes or a no?

 141

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 1 COMMISSIONER SMITH: Mr. Richardson, I

 2 think he answered your question.

 3 MR. RICHARDSON: All right, thank you,

 4 Madam Chairman, I'll move on.

 5 Madam Chairman, I think that's all I have.

 6 Thank you, Mr. Said.

 7 COMMISSIONER SMITH: Thank you.

 8 Mr. Jauregui.

 9 MR. JAUREGUI: Yes, I have a few.

 10

 11 CROSS-EXAMINATION

 12

 13 BY MR. JAUREGUI:

 14 Q In your direct testimony, you indicated, I

 15 believe, that you were asked to be the project manager to

 16 recover the demand side management expenditures?

 17 A That is correct.

 18 Q As a part of that program, were you given

 19 numbers or how did you start that? You talked about the

 20 numbers that you were going to recover. Was there an

 21 examination made by you of those or were you given that

 22 number of the DSM expenditures?

 23 A There was a team created to assist me in

 24 this project and the team provided the numbers that we as

 25 a team reviewed before making this filing.

 142

 CSB REPORTING SAID (X)

 Wilder, Idaho 83676 Idaho Power Company

 1 Q With respect to those numbers, was there an

 2 examination by that team of the prudency of those

 3 expenditures?

 4 A There was a look to see whether or not the

 5 expenditures had been appropriately booked to a deferred

 6 account or an expense account and the ongoing prudency of

 7 the programs had been reviewed elsewhere.

 8 Q I believe that you indicated that customer

 9 consideration was one of the considerations in developing

 10 the cost, the price customers would be willing to pay,

 11 rate shock, in response to Mr. Richardson's question; is

 12 that correct?

 13 A That was a consideration in our final

 14 recommendation, yes.

 15 Q Was any consideration given in your group's

 16 development of the numbers of any credits or adjustments

 17 to customers or customer classes for reduced carrying

 18 costs that were occurring during the interim period of

 19 time or effects of termination of programs?

 20 A With regard to the carrying costs, those

 21 were being booked according to prior Commission orders.

 22 In terms of the reduction of programs, the discontinuance

 23 of programs, the deferred expenditures naturally dropped

 24 off as the programs were discontinued.

 25 Q If you know, isn't it a fact that the

 143

 CSB REPORTING SAID (X)

 Wilder, Idaho 83676 Idaho Power Company

 1 carrying costs of the programs were reducing due to

 2 refinancings, efforts of the Company during the period

 3 from '95 through '97; is that correct?

 4 A I'm not aware.

 5 Q In your direct testimony, you indicated

 6 that it was not changes in the electric industry but the

 7 likelihood of changes. Those were in the future, was it

 8 not? Isn't likelihood of changes speaking to the

 9 future? What changes had occurred in the past at the

 10 time that you submitted your prepared testimony that you

 11 were looking at?

 12 A Essentially, the changes that I've

 13 discussed with Mr. Richardson.

 14 Q Those were the likelihood of changes or the

 15 changes?

 16 A Both.

 17 Q With respect to customers and the customer

 18 allocation that you proposed in your direct testimony and

 19 the rate shock issue, you indicated that two percent was

 20 the rate shock threshold; is that correct?

 21 A I didn't establish a threshold, but I did

 22 say the two percent for the residential class would not

 23 constitute rate shock.

 24 Q Isn't it true that your filing in Oregon

 25 has a 2.62 percent uniform percentage increase across

 144

 CSB REPORTING SAID (X)

 Wilder, Idaho 83676 Idaho Power Company

 1 classes?

 2 A That is probably true. In Oregon we had an

 3 existing surcharge in place that was for 2.62 percent

 4 which we proposed cease and the DSM recovery begin at the

 5 same expense and, therefore, there was no effective

 6 change in rates and, obviously, no rate shock.

 7 Q But your proposal here is different than

 8 your proposal in Oregon and you're the witness in both

 9 cases?

 10 A Yes, and in this jurisdiction we are

 11 actually proposing a rate increase; whereas, in Oregon,

 12 we can recover the expenditures with no impact on rates.

 13 Q With respect to the DSM measures, if at the

 14 time that the DSM programs were instituted there was a

 15 five-year amortization of the costs of those, would any

 16 of those have been cost effective at that time?

 17 A The cost effectiveness of the program I

 18 don't know is necessarily tied to the revenue collection

 19 for those expenditures on the part of the Company.

 20 Q If I understand you, then, the time frame

 21 for recovery has nothing to do with the value of the DSM

 22 program?

 23 A As we've mentioned, the DSM lives for the

 24 customers actually having those measures in place have

 25 effective lives that don't necessarily have to tie to the

 145

 CSB REPORTING SAID (X)

 Wilder, Idaho 83676 Idaho Power Company

 1 amortization period that is established for recovery.

 2 Q But if you do not match the life of the

 3 program with the life -- with the payment of the DSM

 4 program, aren't you then shifting costs from one customer

 5 to another customer; isn't that true?

 6 A I believe there's definitely cost shifting

 7 that goes on regardless of the recovery that you set up

 8 since not all customers within a class reap the same

 9 level of benefits from the programs and yet all are

 10 expected to pay.

 11 Q Isn't it true that at the time that the

 12 programs were instituted the programs were looked at as a

 13 deferral of the construction of other Company resources?

 14 A That's true.

 15 Q And isn't what you're proposing, then --

 16 and that they would be paid for over a longer period of

 17 time like Company resources?

 18 A That's what the Commission ruled, yes.

 19 Q I beg your pardon?

 20 A That's what the Commission found.

 21 MR. JAUREGUI: I have no further questions

 22 at this time.

 23 COMMISSIONER SMITH: Thank you,

 24 Mr. Jauregui.

 25 Mr. Ward.

 146

 CSB REPORTING SAID (X)

 Wilder, Idaho 83676 Idaho Power Company

 1 MR. WARD: My questions will be directed to

 2 rebuttal. I have no questions.

 3 COMMISSIONER SMITH: Mr. Gollomp.

 4 MR. GOLLOMP: No questions.

 5 COMMISSIONER SMITH: Mr. Fothergill.

 6 MR. FOTHERGILL: Yes, I have a couple of

 7 questions.

 8

 9 CROSS-EXAMINATION

 10

 11 BY MR. FOTHERGILL:

 12 Q On page 12, lines 2 to 6 of your testimony,

 13 Mr. Said, you've said that the DSM is currently viewed

 14 from the perspective of the "ability to participate in

 15 programs" and that's in opposition to what we've usually

 16 thought that's a system resource and I was wondering, who

 17 is viewing it that way?

 18 A Well, obviously, the Company is in its

 19 proposal. As I've mentioned in my testimony, I believe

 20 that the Commission has recognized changes in planning

 21 criteria, the regional approach as opposed to a system

 22 look necessarily and as a result, it's my belief that

 23 perhaps the Commission views it in this light as well.

 24 Q I didn't catch that exactly. Is it your

 25 belief that the Commission now views it that way?

 147

 CSB REPORTING SAID (X)

 Wilder, Idaho 83676 Idaho Power Company

 1 A I guess we'll find out when they rule, but,

 2 yes, I envision that it might be.

 3 Q In the testimony of David Bonn for FMC, he

 4 indicates that with this kind of a classification, the

 5 ability to participate in programs being the way to go,

 6 these have now become social programs. Is that also your

 7 opinion, that DSM now are social programs?

 8 A I think they're certainly no longer viewed

 9 purely as resource planning offsets.

 10 Q Is your answer yes?

 11 A I guess I don't know that they're solely --

 12 I forget your term or Mr. Bonn's term -- social

 13 programs. I don't know as I'd say that they're purely

 14 social programs either. I've not contended that.

 15 Q If they are social programs, don't we

 16 usually finance such programs with the broadest possible

 17 spectrum of the community participating in that, such as

 18 Medicaid, AFUDC, unemployment insurance and such things?

 19 A That's what we've proposed with the low

 20 income weatherization assistance.

 21 Q That's five percent of what we're talking

 22 about. How about the generality of it?

 23 MR. RIPLEY: Well --

 24 COMMISSIONER SMITH: Mr. Ripley.

 25 MR. RIPLEY: -- I'm going to have to

 148

 CSB REPORTING SAID (X)

 Wilder, Idaho 83676 Idaho Power Company

 1 interpose an objection simply because, again, I think

 2 Mr. Fothergill is assuming facts that are not in the

 3 record and I don't mean that simply as a technicality.

 4 The programs that the Company is here requesting recovery

 5 on have all been discontinued but ag choices, so if he's

 6 asking what the Company views as far as the future is

 7 concerned and yet is tying them to the DSM programs that

 8 the Company has discontinued, I think he's confusing the

 9 witness, so I think we need some predicates so that

 10 Mr. Said can answer the questions. They're so vague and

 11 general that it's difficult, I think, for the witness to

 12 respond.

 13 MR. FOTHERGILL: Let me put it a different

 14 way.

 15 Q BY MR. FOTHERGILL: What I'm talking about

 16 here and what I'm asking you about is the decision to

 17 allocate the expenses to customer classes on the basis of

 18 their ability to participate and ability to participate

 19 means that some people in that class will not

 20 participate; would you agree with that?

 21 A That's true.

 22 Q So as Mr. Arms has pointed out in his

 23 testimony for the Rate Fairness Group, some of these such

 24 as if you had a DSM program for mobile homes, you would

 25 expense these to all customers, all the customers, in the

 149

 CSB REPORTING SAID (X)

 Wilder, Idaho 83676 Idaho Power Company

 1 residential class; is that accurate?

 2 A Under our proposal, yes.

 3 Q Or, alternatively, to people who bought new

 4 houses under your program; correct?

 5 A We don't have that alternative.

 6 Q Well, should it be as Mr. Arms says, should

 7 it be such a thing as just people who bought new houses?

 8 A I don't think from our records we would

 9 have the ability to single those individuals out.

 10 Q So what you propose is to charge,

 11 regardless of whether people really have the ability to

 12 participate, to charge the entire class for these

 13 expenditures; true?

 14 A We do view the individual classes as being

 15 treated as a homogeneous group, yes.

 16 Q Okay. Well, let's go to another subject

 17 here. In your application, in the Company's application,

 18 and in your testimony you've said that the principal

 19 reason for your application and your testimony is to

 20 accelerate the recovery expenditures for DSM. That's

 21 accurate, is it not?

 22 A For demand side management, yes.

 23 Q Then in this case what objection would you

 24 have to recovering these expenditures with a uniform

 25 percentage rate as the Staff has indicated in its

 150

 CSB REPORTING SAID (X)

 Wilder, Idaho 83676 Idaho Power Company

 1 testimony?

 2 A The principal reason for our proposal of a

 3 new allocation method was based on knowledge of different

 4 customer classes wondering about their cost

 5 responsibility when they may not have had the ability to

 6 participate in programs or having demand side management

 7 programs that were all targeted towards one class or

 8 another that was not theirs and rather than suggest that

 9 we go in one fell swoop to allocating all of the demand

 10 side management expenditures based on an ability to

 11 participate, we proposed what we thought was more of a

 12 middle-of-the-road approach where we would continue to

 13 allocate those expenditures that had already been

 14 approved in the past under the same allocation method

 15 that had been used in the past and any expenditures that

 16 had not already been approved and included in rates could

 17 be allocated under the new proposed allocation method, so

 18 it was kind of a blend of accepting the past for the past

 19 and proposing something new for the new expenditures that

 20 would be reviewed in the future.

 21 Q It is a complicated way to get to two

 22 percent, is it not?

 23 A The two percent wasn't what drove the

 24 allocation method if that's what you're implying.

 25 MR. FOTHERGILL: Thank you.

 151

 CSB REPORTING SAID (X)

 Wilder, Idaho 83676 Idaho Power Company

 1 That's all I have, Madam Chair.

 2 COMMISSIONER SMITH: Thank you,

 3 Mr. Fothergill.

 4 Do we have questions from the

 5 Commissioners?

 6 COMMISSIONER NELSON: I will pass. Thank

 7 you.

 8 COMMISSIONER HANSEN: I have none.

 9 COMMISSIONER SMITH: I just have one,

 10 Mr. Said.

 11

 12 EXAMINATION

 13

 14 BY COMMISSIONER SMITH:

 15 Q Did you look at other proposals, I mean

 16 other time lengths, between 24 and five?

 17 A Yes, we actually looked at just about every

 18 possibility, probably more on the one- to ten-year frame

 19 than the above ten, but we did look at those years.

 20 Q So if I asked you what your rate proposal

 21 would look like for a ten-year amortization, you could

 22 give me that?

 23 A We could certainly generate that

 24 information. I don't know as we've retained what we had

 25 as we were going along. We looked at the one- through

 152

 CSB REPORTING SAID (Com)

 Wilder, Idaho 83676 Idaho Power Company

 1 ten-year time frame before we had finalized all of our

 2 numbers and I don't know that we recalculated the

 3 individual years, but it's not a very complex process.

 4 Q It wouldn't take long to do a number of

 5 scenarios?

 6 A No, we could do that.

 7 COMMISSIONER SMITH: All right, thank you.

 8 Mr. Ripley, do you have any redirect?

 9 MR. RIPLEY: Yes, just a few.

 10

 11 REDIRECT EXAMINATION

 12

 13 BY MR. RIPLEY:

 14 Q Counsel for the Industrial Customers asked

 15 you a number of questions as to the life of the facility,

 16 referring to the demand side management expenditure, for

 17 a particular asset. Do you recall that?

 18 A Yes.

 19 Q Now, who owns that asset after it has been

 20 installed and paid for by the Company?

 21 A The individual who owns the facility that

 22 the DSM equipment has been installed in.

 23 Q So that it is the customer of Idaho Power

 24 Company that owns that facility?

 25 A That's correct.

 153

 CSB REPORTING SAID (Di)

 Wilder, Idaho 83676 Idaho Power Company

 1 Q Does that customer dictate how long that

 2 facility will remain in existence?

 3 A Yes.

 4 Q Now, when you were looking at rate shock

 5 and you were asked questions from the Industrial

 6 Customers with reference to percentage increases, which

 7 is more important, Mr. Said, the actual mill increase or

 8 the percentage increase that you were looking at when you

 9 were going to increase a customer's charges?

 10 A I would say that the mill increase is

 11 probably the more significant just from the standpoint

 12 that if you start with a very low base rate and see an

 13 absolute mill increase, you will come up with a larger

 14 percentage than if you had that same absolute mill

 15 increase for a higher beginning charge.

 16 Q Now, in reference to the installation of

 17 demand side management expenditures by the Company that

 18 in essence is then given to the customer, do customers of

 19 Idaho Power Company change from a physical standpoint?

 20 They move away? They die? They go out of business?

 21 A Yes, they do.

 22 Q Now, if a particular customer has received

 23 a DSM, has received the benefit of a DSM, expenditure

 24 and, say, it's an industrial customer and after three

 25 years that industrial customer goes out of business, who

 154

 CSB REPORTING SAID (Di)

 Wilder, Idaho 83676 Idaho Power Company

 1 has received the basic benefit of that expenditure during

 2 the three-year period of time that the industrial

 3 customer was in existence?

 4 A The industrial customer that was in

 5 existence for the three years.

 6 Q Now, the longer the period of time that you

 7 recover that DSM expenditure, does that place at risk the

 8 fact that the customer that received the particular

 9 benefit will not be the customer that pays for it?

 10 A Yes, that's true.

 11 Q Is that what you're referring to when you

 12 say you have to look at the customer make-up and how it

 13 changes?

 14 A Yes. The Company proposal is essentially

 15 trying to match the receiver of the benefit with, at

 16 least in terms of the time frame with, the costs.

 17 Q Now, does that become more important if the

 18 Company has discontinued the DSM programs that it is now

 19 attempting to recover the expenditures on?

 20 A I'm sorry, would you repeat it, Larry?

 21 Q Yes. If a customer of tomorrow, let's say,

 22 comes on the system, he's new, and that customer is not

 23 entitled to participate in a DSM program because it has

 24 been discontinued, does that dictate to you the fact that

 25 the period of time for the recovery of the expenditure

 155

 CSB REPORTING SAID (Di)

 Wilder, Idaho 83676 Idaho Power Company

 1 should be shortened?

 2 A It does suggest that tomorrow's customers

 3 may not have the ability to participate in programs that

 4 existing customers have already had the opportunity to

 5 participate in and yet will be saddled with some of the

 6 cost burden.

 7 MR. JAUREGUI: Madam Chairman, I can't hear

 8 Mr. Said's answers.

 9 COMMISSIONER SMITH: Well, Mr. Said, just

 10 speak into that as best you can.

 11 MR. RIPLEY: That's all the redirect we

 12 have.

 13 COMMISSIONER SMITH: All right.

 14 (The witness left the stand.)

 15 COMMISSIONER SMITH: Let's take a

 16 ten-minute break right now and we'll go off the record.

 17 (Recess.)

 18 COMMISSIONER SMITH: All right, now we'll

 19 try again. Okay, Mr. Ripley.

 20 MR. RIPLEY: We call Mr. Obenchain.

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 156

 CSB REPORTING SAID (Di)

 Wilder, Idaho 83676 Idaho Power Company

 1 PHIL A. OBENCHAIN,

 2 produced as a witness at the instance of the Idaho Power

 3 Company, having been first duly sworn, was examined and

 4 testified as follows:

 5

 6 DIRECT EXAMINATION

 7

 8 BY MR. RIPLEY:

 9 Q Mr. Obenchain, would you please state your

 10 name for the record?

 11 A Phil A. Obenchain.

 12 Q And did you have cause to be prepared for

 13 this proceeding four pages of direct testimony?

 14 A I did.

 15 Q And also did you identify a multi-page

 16 exhibit as RS1?

 17 A I did.

 18 MR. RIPLEY: Could we have that remarked as

 19 Exhibit No. 11 for this proceeding?

 20 COMMISSIONER SMITH: That would be very

 21 good. We'll call that Exhibit 11.

 22 Q BY MR. RIPLEY: And with the change in his

 23 testimony to Exhibit No. 11, I would ask Mr. Obenchain,

 24 you don't have any changes in the exhibit either?

 25 A I do not.

 157

 CSB REPORTING OBENCHAIN (Di)

 Wilder, Idaho 83676 Idaho Power Company

 1 MR. RIPLEY: We would tender Mr. Obenchain

 2 for cross-examination and request that his testimony be

 3 spread upon the record as if read.

 4 COMMISSIONER SMITH: Without objection, it

 5 is so ordered. I would tell you, Mr. Ripley, I spent

 6 some time trying to figure out what "RS" stood for since

 7 I knew it wasn't Phil Obenchain.

 8 MR. RIPLEY: Revenue sharing.

 9 (The following prefiled testimony of

 10 Mr. Phil Obenchain is spread upon the record.)

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 CSB REPORTING OBENCHAIN (Di)

 Wilder, Idaho 83676 Idaho Power Company

 1 Q. Please state your name and business

 2 address.

 3 A. My name is Phil A. Obenchain and my

 4 business address is 1221 West Idaho Street, Boise, Idaho.

 5 Q. By whom are you employed and in what

 6 capacity?

 7 A. I am employed by the Idaho Power Company as

 8 an Senior Analyst in the Pricing and Regulatory Services

 9 Department.

 10 Q. Please describe your educational

 11 background.

 12 A. In May of 1979, I received a Bachelor of

 13 Arts Degree in Economics from Boise State University in

 14 Boise, Idaho.

 15 In August of 1981, I attended the University of

 16 Idaho at Moscow, Idaho to pursue a Masters of Science

 17 Degree in Economics, with emphasis in Regulatory

 18 Economics. I completed the necessary course work in the

 19 spring of 1982.

 20 Q. Please describe your professional

 21 experience.

 22 A. In January of 1983, I accepted a position

 23 of Rate Analyst with Idaho Power Company. My duties as

 24 Rate Analyst included the preparation of cost-of-service

 25 information for use in the development of jurisdictional

 159

 OBENCHAIN, DI 1

 IDAHO POWER COMPANY

 1 separation studies and class cost-of-service studies.

 2 More specifically, I am responsible for gathering and

 3 analyzing data from various sources to carry out

 4 cost-of-service analyses to determine the jurisdictional

 5 revenue requirement in each of the four jurisdictions

 6 regulating Idaho Power Company.

 7 In 1994 I performed the jurisdictional separation

 8 study which produced the Idaho jurisdictional revenue

 9 requirement in Case No. IPC-E-94-5.

 10 Q. What is the scope of your testimony in this

 11 proceeding?

 12 A. My testimony will identify the Idaho

 13 jurisdictional revenue sharing amount for 1997.

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 OBENCHAIN, DI 1A

 IDAHO POWER COMPANY

 1 Q. Have you prepared or supervised the

 2 preparation of an exhibit for this proceeding?

 3 A. Yes, I have prepared or supervised the

 4 preparation of Revenue Sharing Exhibit RS1. Exhibit RS1

 5 is the Earnings Test Jurisdictional Separation Study for

 6 the twelve months ending December 31, 1997.

 7 Q. Is the methodology used to determine the

 8 1997 Idaho jurisdictional earnings the same as that

 9 utilized in previous compliance filings?

 10 A. Yes. The 1997 Idaho jurisdictional

 11 earnings test calculation follows the same methodology

 12 established in prior earnings test compliance filings.

 13 Q. Does the earnings test result in an Idaho

 14 jurisdictional amount to be shared for 1997?

 15 A. Yes. The total amount to be shared is

 16 $15,143,891 which can be found on page 2 of 34, line 91,

 17 of Exhibit RS1. As ordered by the Commission in Order

 18 No. 26216 in Case No. IPC-E-95-11, Idaho jurisdictional

 19 earnings above 11.75 percent of common equity are to be

 20 shared equally between the shareholders of Idaho Power

 21 Company and the Company's Idaho retail customers. The

 22 customer revenue sharing amount of $7,571,946 is found on

 23 page 2 of 34, line 92, of Exhibit RS1.

 24 Q. Is this customer revenue sharing amount

 25 less than earlier estimates indicated?

 161

 OBENCHAIN, DI 2

 IDAHO POWER COMPANY

 1 A. Yes it is. The final customer revenue

 2 sharing amount is lower than the preliminary estimate.

 3 The preliminary estimate was determined by allocating

 4 total system year-end financial information to the Idaho

 5 jurisdiction based on the 1996 test year's aggregated

 6 jurisdictional allocation factors. The final revenue

 7 sharing value, as determined by the 1997 Earnings Test

 8 Jurisdictional

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 OBENCHAIN, DI 2A

 IDAHO POWER COMPANY

 1 Separation Study, allocates total system costs by each

 2 FERC account utilizing current jurisdictional allocation

 3 factors.

 4 Q. Do you propose an adjustment to the

 5 customer revenue sharing amount related to 1997 carrying

 6 charges on deferred demand-side management ("DSM")

 7 expenses.

 8 A. Yes. I propose that the customer revenue

 9 sharing amount be offset by $2,623,188 which is the

 10 grossed-up amount of 1997 carrying charges on the DSM

 11 deferred expenses for 1994 through 1997.

 12 Q. Why is the 1997 carrying charge expense on

 13 deferred DSM expenses grossed-up?

 14 A. Last year, the Idaho Commission authorized

 15 the use of customer revenue sharing dollars to pay the

 16 Company's 1996 carrying charge on the deferred DSM

 17 expenses. The Company is required to pay taxes on this

 18 recovery amount and thus needs to collect from customers

 19 an amount sufficient to cover the Company's tax liability

 20 as well as the carrying charge amount. The Company

 21 erroneously failed to include taxes in last years

 22 computation. The carrying charge expense of $1,597,556

 23 when grossed-up by the net-to-gross multiplier of 1.642

 24 results in a $2,623,188 reduction to the customer revenue

 25 sharing amount.

 163

 OBENCHAIN, DI 3

 IDAHO POWER COMPANY

 1 Q. Are there any additional adjustments to the

 2 total customer revenue sharing amount?

 3 A. Yes there are. The Rate Fairness Group was

 4 awarded $5,400 of intervenor funding, plus interest, in

 5 Order No. 27267, Case No. IPC-E-96-26. The total award

 6 plus carrying charges that have been grossed-up by the

 7 net-to-gross multiplier of 1,642, results in a $5,647

 8 reduction to the customer sharing amount.

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 OBENCHAIN, DI 3A

 IDAHO POWER COMPANY

 1 Q. What is the net customer revenue sharing

 2 amount after 1997 grossed-up DSM carrying charges and

 3 intervenor funding are removed?

 4 A. The total customer revenue sharing amount

 5 is $4,943,111.

 6 Q. What does the Company propose with regard

 7 to this $4,943111 amount?

 8 A. The Company has proposed that the

 9 $4,943,111 be used as a reduction in the DSM revenue

 10 requirement.

 11 Q. Does this conclude your testimony?

 12 A. Yes, it does.

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 OBENCHAIN, DI 4

 IDAHO POWER COMPANY

 1 (The following proceedings were had in

 2 open hearing.)

 3 COMMISSIONER SMITH: All right, I assume

 4 he's ready for cross-examination.

 5 MR. RIPLEY: Yes.

 6 COMMISSIONER SMITH: Mr. Purdy, do you have

 7 any questions?

 8 MR. PURDY: No questions, Madam Chair.

 9 COMMISSIONER SMITH: Mr. Budge.

 10 MR. BUDGE: No questions.

 11 COMMISSIONER SMITH: Mr. Richey.

 12 MR. RICHEY: No questions at this time.

 13 COMMISSIONER SMITH: Mr. Richardson.

 14 MR. RICHARDSON: No questions,

 15 Madam Chairman.

 16 COMMISSIONER SMITH: Mr. Jauregui.

 17 MR. JAUREGUI: No questions.

 18 COMMISSIONER SMITH: Mr. Ward.

 19 MR. WARD: No questions.

 20 COMMISSIONER SMITH: Mr. Gollomp.

 21 MR. GOLLOMP: No questions.

 22 COMMISSIONER SMITH: Mr. Fothergill.

 23 MR. FOTHERGILL: No questions.

 24 COMMISSIONER SMITH: My goodness, we could

 25 have done him before the break.

 166

 CSB REPORTING OBENCHAIN

 Wilder, Idaho 83676 Idaho Power Company

 1 Do we have questions from the Commission?

 2 COMMISSIONER NELSON: I do not have any.

 3 Thank you.

 4 COMMISSIONER SMITH: There being no

 5 questions, there can be no redirect.

 6 Thank you for your help, Mr. Obenchain.

 7 (The witness left the stand.)

 8 COMMISSIONER SMITH: It looks like next

 9 we'll have Dr. Power.

 10

 11 THOMAS MICHAEL POWER,

 12 produced as a witness at the instance of the Idaho

 13 Citizens Coalition, having been first duly sworn, was

 14 examined and testified as follows:

 15

 16 DIRECT EXAMINATION

 17

 18 BY MR. FOTHERGILL:

 19 Q For the record, would you please state your

 20 name and your occupation?

 21 A Yes, my name is Thomas Michael Power. I'm

 22 a professor of economics and chairman of the economics

 23 department at the University of Montana, but I'm

 24 appearing here as an independent consultant on behalf of

 25 the Idaho Citizens Coalition.

 167

 CSB REPORTING POWER (Di)

 Wilder, Idaho 83676 Idaho Citizens Coalition

 1 Q Are you the same Thomas Michael Power who

 2 prepared 18 pages of testimony for filing in this

 3 proceeding?

 4 A Yes, I am.

 5 Q Are there any changes you would want to

 6 make in the written testimony that's been submitted?

 7 A Yes, there's one that may affect the

 8 meaning of the testimony. On page 3, line 13, I'm

 9 referring to the utility, but I simply say "Idaho," so

 10 line 13 should read, "Yes. In April of this year, Idaho

 11 Power submitted its Conservation Plan...."

 12 Q Do you have any other changes?

 13 A Not that affect the meaning of the

 14 testimony.

 15 Q With this change, would your answers to the

 16 questions be the same as they are in your written

 17 testimony?

 18 A Yes.

 19 MR. FOTHERGILL: With this, we would ask

 20 that his testimony be spread upon the record.

 21 COMMISSIONER SMITH: Without objection, it

 22 is so ordered.

 23 MR. FOTHERGILL: And we would submit him

 24 for cross-examination.

 25 COMMISSIONER SMITH: I was just looking,

 168

 CSB REPORTING POWER (Di)

 Wilder, Idaho 83676 Idaho Citizens Coalition

 1 Mr. Fothergill, I believe what we ought to do with his

 2 attachment is give that an exhibit number. I think for

 3 the purpose of the transcript that would be clearer, so

 4 can we call that Exhibit 701?

 5 MR. FOTHERGILL: The qualifications?

 6 COMMISSIONER SMITH: Yes, he called it

 7 Appendix A.

 8 MR. FOTHERGILL: All right. Well, let's

 9 see if I can find it and you'd rather that be

 10 Exhibit 701?

 11 COMMISSIONER SMITH: If you don't mind.

 12 MR. FOTHERGILL: No, we don't mind and so

 13 with the 15 pages of testimony and Exhibit 701, we would

 14 ask that that be spread upon the record.

 15 COMMISSIONER SMITH: So ordered.

 16 (The following prefiled testimony of

 17 Mr. Thomas Michael Power is spread upon the record.)

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 CSB REPORTING POWER (Di)

 Wilder, Idaho 83676 Idaho Citizens Coalition

 1 DIRECT TESTIMONY OF THOMAS MICHAEL POWER

 2

 3 1. Introduction, Qualifications and Outline

 4 Q Please state your name and occupation.

 5 A My name is Thomas Michael Power. I am

 6 Professor of Economics and Chairman of the Economics

 7 Department at the University of Montana, Missoula,

 8 Montana, 59812. I am appearing in these proceedings,

 9 however, as an independent consulting economist on behalf

 10 of the Idaho Citizens Coalition.

 11 Q Have you previously testified before this

 12 and other regulatory commissions as an expert witness?

 13 A Yes. I have testified before this

 14 Commission on numerous occasions in the past. I have

 15 also testified before federal and state regulatory

 16 commissions throughout the country on more than

 17 seventy-five occasions. A brief summary of my

 18 professional experience and training is attached as an

 19 Appendix A to this testimony.

 20 Q What issues will you address in your

 21 testimony?

 22 A My testimony will deal with the following

 23 topics:

 24 a. The appropriateness of reducing the

 25 amortization period for DSM to five years.

 170

 POWER DI 1

 IDAHO CITIZENS COALITION

 1 b. The appropriate adjustment of DSM financing in

 2 the light of increasing competition in the electric

 3 utility industry.

 4 c. The appropriateness of collecting DSM costs

 5 from specific customer "beneficiaries."

 6 Q Can you summarize your conclusions and

 7 recommendations?

 8 A Yes. Let me simply list the conclusions

 9 that follow from the analysis that is provided in my

 10 testimony below.

 11 i. The Commission should not approve the

 12 reduction of the DSM amortization period from 24 years to

 13 5 years. The 24 year amortization

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 POWER DI 1A

 IDAHO CITIZENS COALITION

 1 period almost perfectly matches the expected life of the

 2 DSM investments that Idaho Power reported to the

 3 Commission in April of this year.

 4 ii. To the extent that the combination of

 5 deferrals and amortization does not exceed the expected

 6 lives of the DSM investments, a reduction in the

 7 amortization period to match those expected lives would

 8 be appropriate.

 9 iii. Given the changed size and nature of Idaho

 10 Power's ongoing DSM expenditures, it may be appropriate

 11 to begin expensing current and future DSM expenditures.

 12 iv. Increased electric supply competition does

 13 not threaten the value or recovery of Idaho Power's DSM

 14 regulatory assets. There are regulatory arrangements

 15 that are consistent with electric supply competition that

 16 can assure the recovery of the DSM investments if that is

 17 the appropriate regulatory outcome.

 18 v. The potential for electric supply competition

 19 should not be used to raise customers' rates before those

 20 customers are given access to any of the benefits of that

 21 competition. In particular, the collection of positive

 22 stranded costs that burden customers should not be

 23 approved before the offsetting negative stranded costs

 24 that would benefit customers are taken into account.

 25 vi. The allocation of DSM costs among customers

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 POWER DI 2

 IDAHO CITIZENS COALITION

 1 should not be changed from the demand and energy

 2 allocator to a DSM-beneficiary basis. To do so changes

 3 the rules of the game retroactively and leads to absurd

 4 and unfair results.

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 6 2. The Appropriate Amortization Period for DSM Investments

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 8 Q What justification does Idaho Power present

 9 for shortening the amortization of DSM investments from

 10 24 years to five years?

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 IDAHO CITIZENS COALITION

 1 A Almost none. Idaho Power says that changes

 2 in the electric utility industry make a shortening of the

 3 amortization period necessary and says that Mr. Said came

 4 up with the proposed five year period by using his

 5 judgment. Idaho Power does not specify what changes in

 6 the electric utility industry make this change necessary

 7 nor how an analysis of those changes supports a five year

 8 amortization of DSM investments. In that sense, Idaho

 9 Power has provided absolutely no evidence in support of

 10 its proposal. It simply asserts what it wants and goes

 11 no further than stating that wish.

 12 Q Has Idaho Power recently provided evidence

 13 to the Commission that directly indicates the appropriate

 14 amortization period for DSM investments?

 15 A Yes. In April of this year, Idaho Power

 16 submitted its Conservation Plan to the Commission. That

 17 Conservation Plan indicates the expected lives of the

 18 various DSM measures in which IPC has invested since

 19 1989. Those expected lives and the Idaho DSM

 20 expenditures are found in Appendix C, Data Tables,

 21 pp. 7-9 of the 1998 Conservation Plan. The table below

 22 reproduces that data in summary form.

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 POWER DI 3

 IDAHO CITIZENS COALITION

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 9 (Chart can be found in the Transcript.)

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 POWER DI 3A

 IDAHO CITIZENS COALITION

 1 Q In the 1998 Conservation Plan, what did

 2 Idaho Power recently report to the Commission as the

 3 expected life of its DSM investments?

 4 A The expected lives associated with the

 5 various Idaho DSM programs varied from 10 years to 30

 6 years. If one weights the expected life by the number of

 7 dollars spent on each program, the weighted average life

 8 of an Idaho Power DSM investment in Idaho is about 23

 9 years as shown in the table above. That average life is

 10 very close to the 24 year amortization period now being

 11 used for DSM investments in Idaho.

 12 Q Does Idaho Power argue that the expected

 13 life of its DSM investments is only five years?

 14 A No. When asked by the Industrial Customers

 15 of Idaho Power Company (ICIPC) if Idaho Power had any

 16 studies indicating that the DSM investments would "become

 17 physically obsolete and useless" or "technologically

 18 obsolete and useless" or "economically obsolete and

 19 useless" in less than 24 years, Idaho Power responded

 20 that it was not claiming any of those things about the

 21 lives of its DSM investments. (ICIPC Data Requests 2, 3,

 22 and 4)

 23 Q If the DSM investments did have only five

 24 year useful lives, would this have implications for

 25 whether Idaho Power should be allowed to recover the DSM

 176

 POWER DI 4

 IDAHO CITIZENS COALITION

 1 costs?

 2 A Absolutely. If Idaho Power invested in

 3 these measures expecting a ten to thirty year useful life

 4 but was only able to achieve a five year useful life, the

 5 Idaho Power DSM programs must have been badly designed

 6 and implemented. The measured cost effectiveness of

 7 programs that turned out to only have a five year useful

 8 life would be very, very low. Such gross failure of a

 9 company investment program would justify serious

 10 financial penalties being imposed on Idaho Power.

 11 Q What is the standard utility practice when

 12 it comes to recovering utility investments in rates?

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 IDAHO CITIZENS COALITION

 1 A The standard practice is to recover those

 2 capitalized investment costs over the expected useful

 3 life of the equipment or facility. This allows the

 4 collection of the costs to be timed to match the

 5 realization of the benefits. If the recovery of the

 6 costs is not timed in this way, there is a timing

 7 mismatch.

 8 Q But Idaho Power has claimed that when

 9 lengthy amortization periods are used the cost of the

 10 equipment or facility to customers is significantly

 11 raised. Is this true?

 12 A No, except in some financially and

 13 economically naive sense. This is like saying that

 14 because the investment cost of the Valmy facility is

 15 being collected over the life of the facility, customers

 16 are being forced to pay more for the electricity than if

 17 the plant had been expensed as it was built. If

 18 capitalizing and amortizing investments raises costs,

 19 then cost minimization would require that we operate in a

 20 world without capitalization of investments. It is hard

 21 to imagine a modern economy operating on that basis.

 22 Capitalization and amortization raises costs to

 23 customers only if you assume that there is no time value

 24 of money for customers, that a dollar paid out today is

 25 seen as the equivalent of a dollar paid out in thirty

 178

 POWER DI 5

 IDAHO CITIZENS COALITION

 1 years. We know that this is not the case. Households

 2 and businesses have significantly positive internal

 3 discount rates: A dollar today is worth significantly

 4 more than a dollar thirty years from now. For households

 5 this is especially the case. The 15 to 20 percent

 6 interest rates that households pay on their credit card

 7 balances clearly indicates the time value of money to

 8 them. For Idaho Power to raise customers' rates now so

 9 that it can save those customers a nine percent carrying

 10 charge is not to do those customers a favor. Such a

 11 tradeoff leaves customers worse, not better off.

 12 Q What conclusion do you reach from this

 13 analysis?

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 POWER DI 5A

 IDAHO CITIZENS COALITION

 1 A Normal regulatory treatment of these DSM

 2 investments supports the capitalization and amortization

 3 over 24 years that is currently being used. Idaho Power

 4 has provided no evidence that conflicts with this. In

 5 fact, it has recently submitted evidence to this

 6 Commission that supports the 24 year amortization period.

 7 If the Commission wants to fine tune the amortization, it

 8 could have the amortization match the projected life of

 9 each program's investments. Those programs with a ten

 10 year life would be amortized over ten years; those with a

 11 30 year life would be amortized over 30 years, etc. The

 12 Commission may also wish to take into account the

 13 relatively long deferral period caused by the infrequent

 14 rate cases. If DSM investments are deferred for five

 15 years and only then amortized for ratemaking purposes,

 16 the effective amortization period may exceed the expected

 17 life of the measures. Some adjustment of the

 18 amortization period may be appropriate to correct this.

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 20 3. The Impact of an Increasingly Competitive Electric

 21 Utility Industry

 22 Q Idaho Power seems to be arguing that

 23 because the electric utility business is becoming more

 24 competitive customers' rates have to be raised. Is this

 25 what the advocates of competition usually suggest about

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 POWER DI 6

 IDAHO CITIZENS COALITION

 1 the impact of competition?

 2 A No. Competition is supposed to bring

 3 customers lower rates overall, not higher rates. What

 4 Idaho Power is trying to do in this case is protect

 5 itself against the dangers of competition while it not

 6 only does not offer customers any of the benefits of

 7 competition but it also raises customers' rates to fund

 8 that protection from competition for itself. This is

 9 likely to leave customers more than a little cynical

 10 about electric industry restructuring.

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 POWER DI 6A

 IDAHO CITIZENS COALITION

 1 Q In your discussion above you have ignored

 2 one of the main points that Idaho Power has made: The

 3 electric utility business is changing and DSM financing

 4 has to adjust to meet those changes. Why have you not

 5 focused upon that concern?

 6 A Because Idaho Power has not explained what

 7 it is talking about. That makes it very hard to respond

 8 or discuss appropriate policy. I suspect Idaho Power is

 9 relatively silent on this issue, relying instead on

 10 general "hints" and "suggestions" because to discuss

 11 competitive pressures directly would cast the issue in

 12 "stranded cost" terms and reduce the likelihood of Idaho

 13 Power obtaining the accelerated amortization that it

 14 seeks in this case.

 15 Q How can we clarify what the competitive

 16 issue is when it comes to DSM investments?

 17 A One can turn to recent Commission orders

 18 for one expression of those concerns. The Commission,

 19 apparently, feels more confident spelling out the issue

 20 than Idaho Power does.

 21 Last July the Commission, in discussing the costs

 22 of Idaho Power's participation in the Northwest Energy

 23 Efficiency Alliance, expressed the concern that almost

 24 certainly lies behind Idaho Power's current application:

 25 "...the restructuring of the electric industry had

 182

 POWER DI 7

 IDAHO CITIZENS COALITION

 1 begun and it was well known that Idaho Power,

 2 along with all other investor-owned utilities, was

 3 becoming increasingly concerned about the future

 4 recovery of its regulatory assets, especially its

 5 capitalized and deferred investment in

 6 conservation." (Order No. 27045, p. 4)

 7 Q Is this a legitimate concern when it comes

 8 to DSM investments?

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 IDAHO CITIZENS COALITION

 1 A That depends upon whether retail electric

 2 competition is going to be allowed in Idaho and the

 3 arrangements that are made to facilitate and control the

 4 impact of that retail competition.

 5 DSM investments are "regulatory assets," meaning

 6 that their recovery relies upon the continuation of some

 7 type of regulation that imposes upon customers the

 8 obligation to make payments for these DSM investments.

 9 In addition, those payments for DSM have to be collected

 10 from customers in a way that is not undercut by a

 11 competitive commodity market. If, for instance, a

 12 utility tried to collect them in the charge for electric

 13 commodity where retail electric supply competition was

 14 allowed, market pressures would eliminate either the DSM

 15 charge or the sales that would have contributed to paying

 16 the DSM costs.

 17 It is possible to imagine scenarios where DSM

 18 investment costs cannot be recovered because of the ways

 19 in which the electric industry and regulation have

 20 changed. It is just as easy, however, to specify a

 21 regulatory structure that assures recovery of the DSM

 22 investments.

 23 Q Is increased electric supply competition

 24 likely to strip Idaho Power of the regulatory protection

 25 that assures the value of its regulatory assets?

 184

 POWER DI 8

 IDAHO CITIZENS COALITION

 1 A No. The competition that is being

 2 discussed in the electric industry is largely competition

 3 among electric suppliers for customers. Almost no

 4 observers expect the transmission and distribution system

 5 to be deregulated and left to competitive markets.

 6 Almost all utility analysts expect distribution and

 7 transmission to remain "natural monopolies" regulated by

 8 state and federal agencies. Electric restructuring is

 9 more appropriately labeled "re-regulation" rather than

 10 deregulation. Because regulation of Idaho Power's

 11 distribution and transmission systems is almost a

 12 certainty, the value of Idaho Power's regulatory assets

 13 can continue to be protected.

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 POWER DI 8A

 IDAHO CITIZENS COALITION

 1 Q If markets in the future will dictate the

 2 price that customers pay for electric commodity, how can

 3 regulators assure that those prices will allow Idaho

 4 Power to recover its DSM investments?

 5 A In retail electric markets open to electric

 6 supply competition, DSM recovery should not be tied to

 7 market determined commodity charges. Instead, DSM

 8 recovery should take place through the distribution and

 9 transmission charges that remain regulated. DSM

 10 investments would be recovered through non-bypassable

 11 wires charges that all of Idaho Power's current customers

 12 would be required to pay regardless of from whom they

 13 purchase their electric supply. That arrangement assures

 14 ongoing regulatory protection of that recovery and

 15 assures that competition does not block the recovery.

 16 Q If the accelerated amortization being

 17 recommended for DSM were applied to other Idaho Power

 18 investments, would it also lead to inappropriate results?

 19 A Yes. Assume, for instance, that during the

 20 late 1980s when the south Idaho boom got under way, Idaho

 21 Power had invested in a generating facility that had

 22 total embedded generation costs of 3.5 cents per kwh so

 23 that adequate electric energy would be available in south

 24 Idaho at a reasonable cost. Given that coal-fired plants

 25 had been built in the 1980s with embedded costs of about

 186

 POWER DI 9

 IDAHO CITIZENS COALITION

 1 5 cents per kwh, such a facility might have looked like a

 2 good deal. Assume also that as of 1998, electric energy

 3 was available at market rates of 1.5 to 2.5 cents per

 4 kwh. "In an increasingly competitive electric industry,"

 5 the new 3.5 cent facility might begin to look uneconomic.

 6 In that setting Idaho Power might worry about the future

 7 recovery of its investment in that facility. Following

 8 the logic of what is being proposed in this case, Idaho

 9 Power could propose to accelerate recovery of the

 10 investment in that generating facility from 30 years to 5

 11 years. I am absolutely certain

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 IDAHO CITIZENS COALITION

 1 that this Commission would never seriously consider such

 2 a proposal. It should not do so for the DSM investments

 3 either.

 4 Q What conclusion do you reach from the above

 5 analysis?

 6 A The possibility that Idaho may at some

 7 point open its electric retail markets to competitive

 8 electric supply should not be used to justify the

 9 accelerated amortization of DSM investments. There are

 10 regulatory arrangements readily available to assure the

 11 recovery of these investments over the existing

 12 amortization periods. The recovery of DSM investments

 13 are not threatened by the changes taking place in the

 14 electric utility industry.

 15 Q Are you recommending that such a

 16 non-bypassable DSM charge be established at this time?

 17 A No. Idaho has not authorized electric

 18 retail competition and it may not do so in the immediate

 19 future or ever. If and when Idaho seeks to accommodate

 20 some degree of electric retail competition, DSM

 21 investments will be only one category of utility

 22 investments and regulatory assets that have to be

 23 evaluated. There are many others. Taken collectively,

 24 the evaluation of these past utility costs has come to be

 25 labeled "stranded cost" analysis. Just as Idaho Power

 188

 POWER DI 10

 IDAHO CITIZENS COALITION

 1 insists that it has a right to recover its DSM

 2 investments no matter what changes take place in the

 3 electric utility industry, Idaho Power's customers will

 4 insist that they have a claim on any above book asset

 5 value associated with the generating facilities that

 6 Idaho Power purchased or constructed under regulation.

 7 In addition, there are QF contracts, deferred taxes, and

 8 other costs to be taken into account. One cannot take

 9 these potential stranded costs one at a time and make a

 10 decision about their recovery. An overall analysis of

 11 all above and below market costs is required. Effective

 12 mitigation of these costs by the utility has to be

 13 demanded. Only then can a decision be made about

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 POWER DI 10A

 IDAHO CITIZENS COALITION

 1 what, if any, stranded costs are appropriately collected

 2 from customers. Until that type of rigorous stranded

 3 cost analysis is carried out, it would be inappropriate

 4 to specify the equivalent of DSM stranded costs and

 5 authorize recovery of them. To do so would be to focus

 6 on the above-market costs that potentially will burden

 7 customers while ignoring the benefits of below-market

 8 costs on which customers have a claim.

 9 Q Does that mean that you oppose all changes

 10 in how DSM investments are recovered?

 11 A Not necessarily. Idaho Power has been

 12 significantly reducing its DSM expenditures on its own

 13 system and shifting dollars towards a regional effort,

 14 the Northwest Energy Efficiency Alliance that was the

 15 subject of hearings before this Commission last year.

 16 The Manufacture Home Acquisition, Partners in Industrial

 17 Efficiency, Design Excellence Award, Commercial Lighting,

 18 and Agricultural Choices programs are all being

 19 terminated in Idaho. That will leave a reduced Low

 20 Income Weatherization Program and the Northwest Energy

 21 Efficiency Alliance as the primary remaining DSM

 22 programs. The total annual Idaho jurisdictional cost of

 23 ongoing DSM programs may be about one million dollars

 24 compared to as much as $5.8 million in years past (1994).

 25 It is possible that at the reduced level of

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 POWER DI 11

 IDAHO CITIZENS COALITION

 1 spending, future DSM expenditures could be expensed

 2 annually rather than being deferred and capitalized. Low

 3 income weatherization is not just a DSM resource

 4 acquisition program. It is also heavily a social program

 5 aimed at making household energy services affordable to

 6 low income households. The NEEA is likely to be engaged

 7 in a mix of relatively short term activities including

 8 public education, research and development, and marketing

 9 as well as initial subsidization of new technologies. In

 10 both cases, the money being spent is not solely or

 11 primarily investments in resource acquisition. That

 12 change in the focus

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 POWER DI 11A

 IDAHO CITIZENS COALITION

 1 of the remaining DSM programs may also justify a shift to

 2 annual expensing of these costs. Such a shift, of

 3 course, would allow the Commission and Idaho Power to

 4 avoid the deferral and capitalization of costs on a going

 5 forward basis. The deferral and capitalization of costs

 6 is something the Commission has expressed some concern

 7 about and has acted to try to reduce through the use of

 8 the revenue sharing amounts to offset DSM carrying

 9 charges (Order No. 26925, p. 4).

 10 Q Have you attempted to estimate the impact

 11 on rates if this change were implemented for the current

 12 and future cost of the ongoing DSM programs?

 13 A No, I have not. If the immediate impact

 14 were to be substantial, that would counsel for caution in

 15 moving in this direction.

 16 Q Given that Idaho Power does not have annual

 17 rate cases and that this Commission has always insisted

 18 in reviewing DSM expenditures before they were granted

 19 ratemaking treatment, how could the expensing of DSM

 20 costs be implemented?

 21 A I am not a utility accountant, so I cannot

 22 answer that in any detail. I see two possibilities. The

 23 first is that the Commission take a close look at the

 24 remaining DSM programs and assure itself that those

 25 programs are well run and appropriately pursuing public

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 POWER DI 12

 IDAHO CITIZENS COALITION

 1 purposes. It could then authorize a rate increase to

 2 cover an approved annual level of expenditure on these

 3 programs. This would not be much different than the

 4 inclusion of other test year expenditures in the

 5 utility's revenue requirement. The utility would be

 6 expected to continue expenditures at that level in

 7 between rate cases.

 8 Alternatively, the Commission could authorize a

 9 rate increase to cover the annual expected level of

 10 ongoing DSM expenditures, but these revenues would go

 11 into a DSM account along with the utility's deferred

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 IDAHO CITIZENS COALITION

 1 DSM costs until the next rate case. At that time the

 2 Commission could review the DSM programs and expenditures

 3 and authorize utility recovery of its DSM expenditures

 4 from that account. If rates had to be adjusted upward or

 5 downward because of changes in DSM program expenditures,

 6 that could also be done at that time.

 7 4. Changing the Allocation of DSM Costs Among Customer

 8 Classes

 9 Q Idaho Power is proposing that the

 10 allocation of DSM costs among customers be changed for

 11 those DSM investment that took place after 1993. Mr.

 12 Said proposes that these post-1993 DSM costs "be

 13 allocated based upon the ability of the customer class to

 14 participate in programs" (p.11 at 19). Do you agree?

 15 A Absolutely not.

 16 Q What justification does Mr. Said give for

 17 this shift in the allocation of these costs among

 18 customer classes?

 19 A All he offers is the assertion that "DSM is

 20 currently viewed from the perspective of the direct

 21 benefits (i.e., ability to participate in programs) that

 22 customers receive from expenditures made on their

 23 behalf." (Said, p. 12 at 3) He does not specify who

 24 views it that way or when they started viewing it that

 25 way. He cites no sources in support of that assertion.

 194

 POWER DI 13

 IDAHO CITIZENS COALITION

 1 A data request to Idaho Power (ICC No. 5) seeking

 2 citations to Commission orders, regional authorities,

 3 past Idaho Power policy statement, etc. that would

 4 support this assertion resulted in no additional evidence

 5 or citations. In that sense, Mr. Said's assertions and

 6 proposal are completely unsupported by any evidence.

 7 Q What is the justification of allocating DSM

 8 investments to classes based upon their electric usage?

 9 A The DSM investments were resource

 10 acquisition investments that sought to pursue the most

 11 cost effective sources of additional electric supply.

 12 For that reason, the DSM investment costs have been

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 POWER DI 13A

 IDAHO CITIZENS COALITION

 1 allocated to customer classes in approximately the same

 2 way that other electric supply costs are allocated.

 3 Q What is the impact on different classes of

 4 customers of Idaho Power's proposal to shift from a

 5 demand and energy allocator to a potential beneficiary

 6 basis?

 7 A The share of the DSM costs assigned to the

 8 residential class increases by 50 percent and that to the

 9 irrigation class increases by 67 percent. For most other

 10 customer classes, their responsibility for the DSM

 11 investments is cut in to a half or a third of what it

 12 otherwise would have been.

 13 Q Why do you object to this change in the

 14 basis of the cost allocation from a demand and energy

 15 allocator to a "potential class benefit" allocator?

 16 A First, four years after some of these

 17 program costs were incurred, Idaho Power is proposing to

 18 retroactively change the allocation. This amounts to

 19 retroactively changing the rules of the game. When those

 20 costs were incurred, there was a clear expectation by

 21 customers about how those costs would be collected from

 22 customers. For the utility, based on its current

 23 subjective judgment, to cast backward and change the

 24 allocation formula is simply inappropriate. It comes

 25 close to breaking faith with its customers.

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 POWER DI 14

 IDAHO CITIZENS COALITION

 1 In addition, the proposed new allocation would

 2 lead to absurd results if applied to individual programs.

 3 For instance, it would call for low income customers to

 4 pay for the Low Income Weatherization Program. It would

 5 recommend that only those customers living in

 6 manufactured housing pay for the manufactured housing

 7 program. In fact, carried to its logical conclusion, it

 8 would call for those customers on whose property DSM

 9 investments were made to pay for the DSM themselves. If

 10 the new principle is that those who get the "direct

 11 benefits" pay for

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 POWER DI 14A

 IDAHO CITIZENS COALITION

 1 the DSM, we should be going back to all of those

 2 customers who got the direct benefit of the DSM

 3 investment and retroactively billing them for those DSM

 4 measures. Clearly the new allocation principle being

 5 proposed by Idaho Power is not reasonable. It leads to

 6 absurd and unfair results. The allocation formula that

 7 was assumed at the time the investments took place should

 8 continue to be used.

 9 Q Does this conclude your prefiled direct

 10 testimony?

 11 A Yes, it does.

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 POWER DI 15

 IDAHO CITIZENS COALITION

 1 (The following proceedings were had in

 2 open hearing.)

 3 MR. FOTHERGILL: And we submit the witness

 4 for cross-examination.

 5 COMMISSIONER SMITH: Mr. Gollomp, do you

 6 have any questions?

 7 MR. GOLLOMP: No questions.

 8 COMMISSIONER SMITH: Mr. Ward.

 9 MR. WARD: No questions.

 10 COMMISSIONER SMITH: Mr. Jauregui.

 11 MR. JAUREGUI: No questions.

 12 COMMISSIONER SMITH: Mr. Richardson.

 13 MR. RICHARDSON: No questions, Madam Chair.

 14 COMMISSIONER SMITH: Mr. Richey.

 15 MR. RICHEY: No questions.

 16 COMMISSIONER SMITH: Mr. Budge.

 17 MR. BUDGE: No questions.

 18 COMMISSIONER SMITH: Mr. Purdy.

 19 MR. PURDY: No questions.

 20 COMMISSIONER SMITH: Mr. Ripley.

 21 MR. RIPLEY: Yes, Dr. Power, just a few.

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 199

 CSB REPORTING POWER

 Wilder, Idaho 83676 Idaho Citizens Coalition

 1 CROSS-EXAMINATION

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 3 BY MR. RIPLEY:

 4 Q If you could direct your attention to

 5 page 8 of your prepared testimony.

 6 A Yes.

 7 Q On line 4 you refer to the fact that DSM

 8 investments are regulatory assets.

 9 A Yes.

 10 Q Meaning that their recovery relies upon the

 11 continuation of some type of regulation; is that a

 12 correct paraphrasing?

 13 A Yes.

 14 Q Based upon your experience in the

 15 regulatory field, how does the accounting industry look

 16 at regulatory assets, do you know?

 17 A Yes. Well, I'm not an accountant, so I'm

 18 speaking from some distance, but in terms of a variety of

 19 hearings in various jurisdictions, regulatory assets that

 20 involve delayed recovery of utility expenditures in

 21 general as I recall the standards need to be recovered,

 22 first of all, there has to be a very definite statement

 23 by the commission that they are recoverable and then the

 24 limit is that they be recovered within a 10-year time

 25 frame.

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 CSB REPORTING POWER (X)

 Wilder, Idaho 83676 Idaho Citizens Coalition

 1 Q Now, when you talk about the delayed

 2 recovery, is that the fact that the accounting industry

 3 looks at the expenditures as being expenses unless the

 4 regulatory agency defers the recovery of that expense?

 5 A I should be careful in what I profess to

 6 know in those terms. What's at issue are assets created

 7 by the regulatory process where the utility does not have

 8 a physical asset itself that it could sell or its

 9 bondholders could sell in order to recover their original

 10 investment. We're talking about an expense that's been

 11 capitalized or that the utility is trying to capitalize.

 12 I shouldn't really say anything more than that I don't

 13 think.

 14 Q But it's your understanding from your

 15 testimony and also I assume from your experience and I'll

 16 only ask your own opinion and judgment, the only reason

 17 that DSM expenditures are regulatory assets is because

 18 the Commission has stated that it will permit the

 19 recovery of those expenditures over a period of time?

 20 A Yes, exactly.

 21 Q And if Idaho Power Company were not

 22 regulated and it made these expenditures, it would simply

 23 expense them in the year that it incurs those costs?

 24 A Well, I'm not sure that businesses never

 25 accumulate expenses and amortize them, but there's a much

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 CSB REPORTING POWER (X)

 Wilder, Idaho 83676 Idaho Citizens Coalition

 1 shorter time frame that accountants are willing to accept

 2 in that sort of setting, but in general, it certainly

 3 would be, any amortization would be, over a much briefer

 4 period of time.

 5 Q Now, again in your testimony on page 8, you

 6 point out that the regulatory asset itself is dependent

 7 upon the fact that the regulator will permit the recovery

 8 of that expenditure.

 9 A Yes, sir.

 10 Q Now, is it the position of the Idaho

 11 Citizens Coalition that Idaho Power Company should

 12 recover its demand side management expenditures that it

 13 has accrued and is the subject matter of this proceeding?

 14 A If these are cost-effective investments

 15 that were prudently made, my position is that they should

 16 be recoverable.

 17 Q So really all that we're arguing about in

 18 this proceeding from your perspective is who should pay

 19 to permit the utility to recover those expenditures?

 20 A Well, that was my position coming in, but

 21 this morning I've been very confused by the Company's

 22 testimony. As I understood it, the verbal testimony

 23 given this morning was that the utility now doubts that

 24 from a system point of view there are any benefits or

 25 only short-term benefits associated with these DSM

 202

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 1 investments, that although there may be benefits to the

 2 individual households or businesses in which these

 3 investments were made, there are no system benefits. If

 4 that's the case, that raises a serious question that I

 5 didn't think was at issue in this case as to whether

 6 these investments were cost effective, are cost-effective

 7 investments. I'm somewhat confused as to what the

 8 Company's current position is about the legitimacy of

 9 these as systemwide investments.

 10 Q All right, but coming in at least into this

 11 proceeding, it was your position, as I understand it from

 12 your testimony, that really all that was at issue is who

 13 should pay for the accumulated DSM expenditures?

 14 A Yeah, the time period over which they

 15 should be collected which is a matter of who and when

 16 they should be paid for as well as then how those costs

 17 should be allocated across customer classes.

 18 Q But, again, that all goes back to the same

 19 issue and that is who should pay for the recovery of that

 20 DSM expenditure by the utility?

 21 A Yes.

 22 Q How you allocate it, who pays for it, that

 23 all boils down to the same issue?

 24 A Well, the Company has divided it between

 25 the length of the amortization period and the allocation

 203

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 1 of the costs across customer classes. I think that's a

 2 useful division that it helps clarify. To stick to that

 3 division, one could try to reduce it to just who is going

 4 to pay for it, but I think that stirs two quite separate

 5 questions together.

 6 Q What are those two separate questions?

 7 A One is the time period over which those

 8 costs are going to be collected and, as I say, you could

 9 say that's only a matter of who, but it really isn't. I

 10 mean, it's a matter of how intensively, if you want,

 11 those investments are going to be collected by the

 12 Company from customers, and then the other question is

 13 the allocation across classes of customers.

 14 Q And as you point out, any customer that has

 15 his choice between paying something now or deferring it

 16 will select to defer it?

 17 A As long as the carrying cost is reasonable,

 18 yes.

 19 Q Now, if the customer thinks that it's a

 20 good idea to defer it as long as possible, then,

 21 conversely, that must not be a very good idea for the

 22 utility.

 23 A No, I don't think that's the case.

 24 Although utilities sometimes forget it, they do operate

 25 in a market and they do have customers whose demand is

 204

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 1 elastic, customers who have alternatives, so rate

 2 increases aren't necessarily an unmixed blessing for the

 3 utility. They tee off their customers, they discourage

 4 use, they may lead to the loss of customers, so I think

 5 the utility also, as Mr. Said said this morning, is

 6 concerned about rate shock, not just because it's

 7 good-hearted, but because rate shock is a very real

 8 business concern.

 9 Q So you'd agree with Mr. Said that we should

 10 look at the impact of the proposal on the particular

 11 customers?

 12 A Impact is definitely important, has always

 13 been in regulation.

 14 Q Have you read any of the testimony of any

 15 of the other witnesses?

 16 A Yes, I have.

 17 Q Have you read the testimony of Mr. Bonn for

 18 FMC?

 19 A Yes.

 20 Q Now, Mr. Bonn urges that because of a

 21 change in the contract between Idaho Power and FMC that

 22 FMC's obligation to pay for previously incurred DSM

 23 programs should be reduced. Do you think that's a fair

 24 paraphrase of his position as you understand it?

 25 A Yes. I think he was keying off Idaho

 205

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 1 Power's position that it's ability to benefit from the

 2 program that should determine the allocation of costs and

 3 given a change in the contract limited their ability to

 4 benefit from the system benefits of DSM, they shouldn't

 5 have to pay for that part.

 6 Q Now, that same argument could be used by

 7 any large customer of Idaho Power Company if it changed

 8 its method of operating, reduced its consumption and

 9 decided to internally generate power or whatever, would

 10 that be accurate? That same customer could come in and

 11 say I do not want to pay for the previously incurred

 12 expenditures of DSM because now I can demonstrate that

 13 I'm not benefiting as much, does that follow?

 14 A Well, yes, but that would be true not just

 15 of large customers, any customer that reduced their

 16 consumption given the way in which, given that these are

 17 allocated on the basis of demand and energy, any customer

 18 that reduced their usage, their electric usage, would

 19 avoid some of the costs associated with those DSM

 20 programs. That's just the nature of the way in which

 21 we're collecting those resources and I don't know how the

 22 DSM responsibility that the Commission has decided that

 23 FMC has, how that is collected.

 24 In theory, as I understand what the

 25 Commission has been trying to do, those DSM expenses or

 206

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 1 costs have been collected as if these were costs

 2 associated with generating facilities. If FMC has part

 3 of its load interruptible, I assume that typically it's

 4 forgiven some of the fixed costs associated with

 5 generation. If one was being completely symmetrical here

 6 in how DSM was being handled, I would assume that FMC

 7 would avoid some of the DSM costs, too, but the

 8 arrangement may not be symmetrical in that way.

 9 MR. RIPLEY: That's all the questions that

 10 I have. Thank you, Doctor.

 11 COMMISSIONER SMITH: Do we have questions

 12 from the Commissioners?

 13 COMMISSIONER HANSEN: No.

 14 COMMISSIONER NELSON: I don't.

 15 COMMISSIONER SMITH: Dr. Power, I just had

 16 one.

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 18 EXAMINATION

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 20 BY COMMISSIONER SMITH:

 21 Q On page 5 of your testimony at the top, you

 22 talk about the standard practice of recovering these

 23 investment costs over the expected useful life and I'm

 24 curious whether you have any familiarity with what other

 25 state public utilities commissions have done with this

 207

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 1 issue and any idea of how many years they're using to

 2 amortize or how they've dealt with it.

 3 A Well, I think in recent years commissions

 4 have been moving towards shorter periods of amortization

 5 or no amortization at all, simply expensing DSM, but

 6 there's a difference between what those states have been

 7 doing, including Montana, which went from useful life to

 8 ten years to expensing over the last four years in the

 9 sense that they've done that on a going forward basis,

 10 not a casting backward basis, so that DSM that had

 11 already been approved and was already, the amortization

 12 period had already been set or measures already, adopted

 13 that the utility had already invested in, the previous,

 14 whatever previous rule applied to that and it was only on

 15 a going forward basis that the rules have changed.

 16 Now, Idaho is in a somewhat unusual

 17 circumstance here given the lengthy deferral that leaves

 18 a significant chunk of DSM that the Commission hasn't

 19 ruled on yet. The other, the pre-'94, the Commission

 20 has ruled on. There is a useful life basis for the

 21 amortization period. I'm not aware of states that have

 22 gone back and changed those amortization periods, so

 23 there is something significantly different about what is

 24 being proposed here.

 25 Idaho Power isn't just proposing on a going

 208

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 1 forward basis we should be using five years or we should

 2 be using expensing. There might be general agreement in

 3 this room if that's what was being proposed, but

 4 something quite different is being proposed here.

 5 COMMISSIONER SMITH: Okay, thank you.

 6 Do you have redirect Mr. Fothergill?

 7 MR. FOTHERGILL: No, we have no redirect.

 8 Thank you.

 9 COMMISSIONER SMITH: Thank you for your

 10 help, Dr. Power.

 11 (The witness left the stand.)

 12 COMMISSIONER SMITH: Dr. Peseau.

 13 MR. RICHARDSON: Madam Chairman, the

 14 Industrial Customers of Idaho Power call Dr. Peseau to

 15 the stand.

 16 COMMISSIONER SMITH: Thank you,

 17 Mr. Richardson.

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 1 DENNIS PESEAU,

 2 produced as a witness at the instance of the Industrial

 3 Customers of Idaho Power, having been first duly sworn,

 4 was examined and testified as follows:

 5

 6 DIRECT EXAMINATION

 7

 8 BY MR. RICHARDSON:

 9 Q Dr. Peseau, will you please state your name

 10 and business address for the record, please?

 11 A Yes. My name is Dennis is E. Peseau,

 12 P-e-s-e-a-u. My business address is 1500 Liberty

 13 Street SE, Salem, Oregon.

 14 Q By whom are you employed and in what

 15 capacity?

 16 A I'm the president of Utility Resources,

 17 Inc.

 18 Q Are you the same Dr. Peseau who caused

 19 prefiled testimony and exhibits marked 501 and 502 to be

 20 prepared and filed in this case?

 21 A Yes.

 22 Q And do you have any corrections or

 23 additions to make to your prefiled testimony or exhibits?

 24 A Yes, I have a couple.

 25 Q Will you please make those on the record

 210

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 1 now?

 2 A On page 2, line 9 begins an answer, a three

 3 sentence answer, I'd like the second two sentences to be

 4 removed so that the answer is "This is nothing more than

 5 an unsupported opinion."

 6 Q And that would conclude the answer for that

 7 question?

 8 A Yes. The other correction is at page 5,

 9 line 5. The word "that" should have an "n." It should

 10 be "than." That concludes my corrections.

 11 MR. RIPLEY: I'm sorry, Pete, I didn't get

 12 that one.

 13 MR. RICHARDSON: The second correction?

 14 MR. RIPLEY: Yes.

 15 Q BY MR. RICHARDSON: Would you please state

 16 that again, Dr. Peseau?

 17 A Yes, on page 5, line 5, there's the word

 18 "t-h-a-t." That word should be spelled "t-h-a-n," than.

 19 MR. RICHARDSON: With that, I'd ask that

 20 Dr. Peseau's testimony be spread upon the record as if it

 21 were read in full and that Exhibits 501 and 502 be marked

 22 for identification purposes.

 23 COMMISSIONER SMITH: Mr. Richardson, there

 24 had been a prefiled Exhibit 503. Has that been

 25 abandoned?

 211

 CSB REPORTING PESEAU (Di)

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 1 MR. RICHARDSON: Pardon me, Madam Chairman,

 2 thank you, and Exhibit 503. That has not been abandoned.

 3 COMMISSIONER SMITH: If there's no

 4 objection, we will spread the prefiled testimony of

 5 Dr. Peseau upon the record as if it had been read and

 6 identify Exhibits 501, 502 and 503.

 7 (The following prefiled testimony of

 8 Dr. Dennis Peseau is spread upon the record.)

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 CSB REPORTING PESEAU (Di)

 Wilder, Idaho 83676 ICIP

 1 Q PLEASE STATE YOUR NAME AND BUSINESS

 2 ADDRESS.

 3 A My name is Dennis Peseau and my business

 4 address is 1500 Liberty Street SE, Salem, Oregon.

 5 Q BY WHOM ARE YOU EMPLOYED AND IN WHAT

 6 CAPACITY?

 7 A I am President of Utility Resources, Inc.

 8 Q ON WHOSE BEHALF ARE YOU PROVIDING

 9 TESTIMONY?

 10 A I have been asked by the Industrial

 11 Customers of Idaho Power to testify in this matter.

 12 Q WHAT ARE YOUR QUALIFICATIONS AND

 13 EXPERIENCE?

 14 A My resume is attached as Exhibit No. 501.

 15 Q WHAT IS THE PURPOSE OF YOUR TESTIMONY?

 16 A The purpose of my testimony is to express

 17 the objections of the ICIP to Idaho Power's attempted

 18 acceleration of the amortization of its deferred Demand

 19 Side Management (DSM) expenses.

 20 Q WHAT EVIDENCE DOES IDAHO POWER OFFER TO

 21 SUPPORT ITS REQUESTED FIVE-YEAR AMORTIZATION RATE?

 22 A None.

 23 Q HOW CAN THAT BE?

 24 A Amazingly enough, Idaho Power has offered

 25 not a single objective reason in its testimony or

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 Peseau, Di 1

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 1 exhibits to support its requested five-year amortization

 2 period.

 3 Q I THOUGHT IDAHO POWER ADDRESSED THE LENGTH

 4 OF THE AMORTIZATION PERIOD IN ITS APPLICATION AND

 5 TESTIMONY?

 6 A It does. In the application Idaho Power

 7 states:

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 1 Since the issuance of that order [Order No.

 25880], it has become apparent that a 24-year

 2 amortization period for DSM expenditures is far

 too long.

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 In Mr. Said's prefiled testimony, he states at page 5,

 4 lines 16 through 21:

 5 In recognition of the likelihood of changes in the

 electric industry, a five year recovery period

 6 seems like a reasonable time period for recovering

 expenditures from the customers from whom the

 7 expenditures were made. The current 24-year time

 period for recovery of DSM expenditures is no

 8 longer reasonable.

 9 Q ISN'T THAT EVIDENCE OF THE REASONABLENESS

 10 OF THE FIVE-YEAR AMORTIZATION PERIOD?

 11 A This is nothing more than an unsupported

 12 opinion.

 13 Q WHAT WOULD SUFFICE AS EVIDENCE OF THE

 14 REASONABLENESS OF IDAHO POWER'S REQUESTED ACCELERATED

 15 AMORTIZATION OF ITS RECOVERY OF THE DEFERRED DSM

 16 EXPENSES?

 17 A In the last general rate case the

 18 Commission made specific findings that a 24-year

 19 amortization period is appropriate based on testimony

 20 from numerous witnesses. The Commission carefully

 21 weighed the various recommendations and determined that

 22 twenty-four years is the best approximation of the

 23 estimated useful lives of the DSM measures at issue. It

 24 is helpful to quote from the Commission's order here to

 25 fully understand the thought and reasoned balancing of

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 Peseau, Di 2

 ICIP

 1 the competing proposals offered to the Commission in that

 2 proceeding. This quote is taken from Commission Order

 3 No. 25880 at pages 16 and 17:

 4 IPCo proposed in its Application to amortize all

 DSM program expenditures over seven years. Staff

 5 recommended that the program expenditures be

 amortized over a period equal to the approximate

 6 effective life of each program,...

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 1 Similarly, FMC recommended an amortization period

 of 24 years for the accumulated DSM program

 2 expenditures, which is the average effective life

 projected for the DSM programs.... As Staff

 3 testified, the Commission has previously indicated

 it expects expenditures for DSM programs to be

 4 amortized over the expected useful life of the

 program. See, e.g. Order Nos. 22299 and 22893.

 5 Such an amortization properly spreads program

 costs over the expected useful life.

 6

 7 Q HAS IDAHO POWER SUGGESTED THAT THE EXPECTED

 8 USEFUL LIFE OF ITS PROGRAMS HAS CHANGED SINCE THE

 9 COMMISSION MADE THE ABOVE RULING?

 10 A No. Quite to the contrary. Idaho Power

 11 has responded to discovery questions propounded by the

 12 ICIP that the DSM measures under consideration will not

 13 become "physically obsolete and useless" prior to 24

 14 years; they will not "become technologically obsolete and

 15 useless" prior to 24 years; and they will not become

 16 "economically obsolete and useless" prior to 24 years.

 17 See Idaho Power's response to the First Production

 18 Request of the ICIP, Request Nos. 4, 5 and 6

 19 respectively. The identified production request is

 20 attached hereto as Exhibit No. 502.

 21 Q IN THE FACE OF THE PRIOR COMMISSION ORDER

 22 OUTLINING THE REASONED AND DETAILED RATIONALE FOR

 23 ADOPTING A 24-YEAR AMORTIZATION PERIOD, HOW CAN THE

 24 COMMISSION ADOPT FIVE YEARS IN THIS CASE?

 25 A Frankly, I don't see any basis in Idaho

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 Peseau, Di 3

 ICIP

 1 Power's application or testimony supporting anything

 2 other than the status quo. I will be the first to admit

 3 that the Commission does not have to have overwhelming or

 4 even compelling evidence to effect a change in rates or

 5 ratemaking policy. But I do think that the Commission

 6 needs something more than almost casual remarks by an who

 7 is not an accountant or depreciation expert that 5 years

 8 is appropriate.

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 1 Q DIDN'T THE COMMISSION INVITE IDAHO POWER TO

 2 INITIATE A PROCEEDING THAT WOULD PROVIDE FOR A

 3 COMPREHENSIVE REVIEW OF THE EXISTING DSM INVESTMENT AND

 4 RECOVERY?

 5 A It did.

 6 Q ISN'T THIS CASE A RESPONSE TO THAT REQUEST?

 7 A Mr. Said quotes the Commission's order on

 8 this issue at page 3 of his prefiled testimony. He noted

 9 that the Commission encouraged Idaho Power to file a

 10 "comprehensive review of its existing DSM investment and

 11 recovery." Clearly the Company has every right to seek a

 12 review of its DSM investment and method of recovery. But

 13 this case is any thing but comprehensive. It strikes me

 14 that Idaho Power simply assumes the Commission will

 15 approve its filing almost as a formality without

 16 questioning the underlying assumptions for the change,

 17 despite the significant rate increase it causes.

 18 Q SO I TAKE IT THAT YOUR ANSWER TO MY

 19 PREVIOUS QUESTION IS "NO?"

 20 A That is right.

 21 Q IS THE ICIP OPPOSED TO THE RECOVERY BY

 22 IDAHO POWER OF ITS DEFERRED DSM EXPENSES?

 23 A No. The ICIP is not requesting

 24 disallowance of approved and prudently incurred DSM

 25 expenditures. Ultimately, however, it is our

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 Peseau, Di 4

 ICIP

 1 recommendation to not exacerbate a problem.

 2 Q PLEASE EXPLAIN.

 3 A Accelerating the write off of "select"

 4 assets will lead to bigger problems upon the deregulation

 5 of the electric utility industry.

 6 Q WHAT ROLE SHOULD DEREGULATION PLAY IN THIS

 7 MATTER?

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 1 A No one knows for sure what the future

 2 holds. Deregulation does, however, clearly drive Idaho

 3 Power's application.

 4 Q HOW CAN YOU BE SURE THAT DEREGULATION IS

 5 DRIVING IDAHO POWER'S REQUEST IN THIS MATTER?

 6 A There is no reason for Idaho Power's

 7 application other than to clear its books in the event of

 8 deregulation. If there were no deregulation on the

 9 horizon, the issue before the Commission would simply be

 10 whether the lives of the DSM assets are closer to the

 11 current (24-year amortization rate) or the requested

 12 (five year amortization rate).

 13 Q PLEASE EXPLAIN.

 14 A If Idaho Power were seeking to change the

 15 amortization period for a reason other than pending

 16 deregulation of fear of stranded costs, it would have

 17 offered some rational basis for its requested five year

 18 amortization period. It has not done so. In fact, it

 19 appears to refuse to do so in light of its responses to

 20 the discovery requests propounded in this matter. See

 21 Exhibit No. 502.

 22 Q HOW CAN YOU BE SURE THAT DEREGULATION IS

 23 DRIVING IDAHO POWER'S REQUEST IN THIS MATTER?

 24 A There is no other reason for Idaho Power to

 25 make an application such as this. The Company is made

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 Peseau, Di 5

 ICIP

 1 whole regardless of which amortization method is

 2 used - assuming no deregulation or stranded cost issues

 3 down the road. If there are stranded cost issues down

 4 the road then Idaho Power risks not being able to fully

 5 recover its investment in this asset.

 6 Q ARE THERE OTHER INDICIA THAT IDAHO POWER IS

 7 CONCERNED WITH RESPECT TO ITS DSM INVESTMENT ABOUT

 8 STRANDED COSTS?

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 1 A Yes. I have attached as Exhibit No. 503

 2 Idaho Power's last two versions of its Partners in

 3 Industrial Efficiency Program Agreement. The first page

 4 of the exhibit is the iteration that was drafted or

 5 effective as of 4/94 as indicated in the notation in the

 6 lower left hand corner of the agreement. The second page

 7 of the exhibit is the version of the agreement that

 8 became effective on 1/13/97 also as indicated in the

 9 lower left hand corner notation. I would draw your

 10 attention to paragraph four on the second page of that

 11 exhibit.

 12 Q WHAT DOES PARAGRAPH FOUR INDICATE?

 13 A It most clearly indicates that Idaho Power

 14 was anticipating competition in the electric industry and

 15 was actually preparing for that competition in its PIE

 16 program agreements.

 17 Q PLEASE EXPLAIN.

 18 A Paragraph four of the 1997 iteration of the

 19 PIE agreement provides:

 20 If the customer obtains electrical service or

 energy from a supplier other than the Company, the

 21 Customer agrees to reimburse the Company the

 amount of the incentive payment which has not yet

 22 been amortized by the Company. Amortization of

 the incentive payment is based upon a 27-year

 23 period. Accordingly, the reimbursement amount

 will be calculated by reducing the original amount

 24 of the incentive payment, including any applicable

 interest, by 1/27 for each year following the year

 25 the Project commences operations.

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 Peseau, Di 6

 ICIP

 1 The effect of this amendment to the PIE contract very

 2 late in the program is clear.

 3 Q WHAT IS THAT EFFECT?

 4 A It would clearly discourage participation

 5 in the program due to the requirement that the

 6 participant incur a 27-year obligation to Idaho Power. I

 7 don't think many plant managers would be pleased with

 8 such a long-term liability. It also discourages

 9 participation in that it restricts the ability of these

 10 customers to have choice of electric

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 1 suppliers when competition arrives. It seems

 2 anticompetitive. In addition, it is clear evidence that

 3 Idaho Power is primarily motivated by a fear of

 4 competition and not by a conviction that a five-year

 5 amortization period is more appropriate than a 24-year

 6 amortization period.

 7 Q DO YOU HAVE ANY OTHER CONCERNS REGARDING

 8 THIS PARAGRAPH OF THE PIE AGREEMENT?

 9 A Yes. It allows for double recovery of

 10 Idaho Power's DSM deferrals.

 11 Q PLEASE EXPLAIN.

 12 A If Idaho Power's application is approved,

 13 then after the five-year amortization period has lapsed,

 14 Idaho Power will have recovered from the general body of

 15 ratepayers all of its DSM deferrals, with interest. Then

 16 after that initial time period has lapsed, any PIE

 17 customer who selects a different electric supplier will

 18 have to reimburse Idaho Power as if there were a 27-year

 19 amortization period. A clear case of double recovery on

 20 Idaho Power's part.

 21 Q DO YOU HAVE ANY OTHER CONCERNS?

 22 A Yes. I do not recall having seen any

 23 Commission approval of this restrictive and

 24 anticompetitive language. In addition, the 27-year

 25 amortization period is different from any we have seen in

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 Peseau, Di 7

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 1 the Commission orders and is different from any

 2 amortization period recommended by the Company in prior

 3 proceedings.

 4 Q IS THERE ANY GOOD ACCOUNTING REASON TO

 5 SHORTEN THE PERIOD OVER WHICH IDAHO POWER'S DEFERRED DSM

 6 EXPENDITURES ARE RECOVERED?

 7 A Absolutely not. As noted earlier, in Case

 8 No. IPC-E-94-5, the Commission ordered that deferred DSM

 9 be recovered over a 24-year period which is

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 1 consistent with the period over which the various DSM

 2 programs provide benefits. A fundamental principle of

 3 accounting is that the costs of long lived assets match

 4 the period over which the assets provide service; in

 5 other words, the costs be amortized over the period that

 6 the assets provide service. Thus, the Commission's order

 7 was consistent with fundamental accounting principles for

 8 amortizing the costs of DSM programs. Shortening the

 9 recovery period would produce a mismatch between expense

 10 recovery and benefits which would violate fundamental

 11 economic principles.

 12 Q DOES ACCELERATING THE AMORTIZATION VIOLATE

 13 THE MATCHING CONCEPT COMMONLY USED IN UTILITY ACCOUNTING?

 14 A Yes. In this application, Idaho Power is

 15 requesting that the costs be amortized over a much

 16 shorter period, 5 years. In response to ICIP Data

 17 Requests Nos. 2-4, Idaho Power indicates that none of

 18 their DSM programs will become physically,

 19 technologically or economically obsolete in a period

 20 shorter than the 24 years over which they provide

 21 benefits. In their testimony and workpapers, they offer

 22 no reason why 5 years is more appropriate than 24 years

 23 other than Mr. Said's opinion, unspecified changes in the

 24 electric utility industry and reduced total costs over

 25 the whole recovery period. If reduced overall costs were

 227

 Peseau, Di 8

 ICIP

 1 a good reason for reducing the recovery period, the costs

 2 of all assets and programs should be expensed in the year

 3 incurred because interest expense is always more when the

 4 recovery period is longer. Interest costs are simply the

 5 costs of matching expenses with services and so should

 6 not be used as a basis for determining the amortization

 7 period. Therefore, there is no basis for reducing the

 8 amortization period.

 9 Q CAN YOU ENVISION ANY INSTANCE WHEN THE

 10 AMORTIZATION OF DSM PROGRAM COSTS SHOULD BE REDUCED TO

 11 FIVE YEARS?

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 1 A Possibly, if it could be shown that a

 2 portion of DSM expenditures were stranded. However,

 3 Idaho Power has made no such showing. In fact, in

 4 response to ICIP's data request No. 20, Exhibit No. 502,

 5 Idaho Power indicates that it is its opinion that none of

 6 the DSM costs can be stranded. Therefore, there is no

 7 basis for reducing the amortization period because some

 8 of the DSM costs are stranded.

 9 Q COULD YOU EXPLAIN HOW DSM COSTS COULD BE

 10 STRANDED AND WHY THAT MAY JUSTIFY RECOVERY OVER A SHORTER

 11 PERIOD?

 12 A Yes. Money was expended on DSM programs

 13 because the expenditures were less than (or equal to)

 14 Idaho Power's cost to generate the same amount of energy

 15 saved by the DSM programs. The programs have saved

 16 energy over many years. The amortization period was set

 17 to recover the expenditures over the expected number of

 18 years that the programs were designed to save energy.

 19 If, after the money was expended, the cost to generate

 20 energy fell because of falling market prices for energy,

 21 the amount of expenditure that was initially made for the

 22 programs could not be justified. The difference between

 23 the unamortized initial expenditure and the value of

 24 energy to be saved over the remaining life of the program

 25 at the lower market prices would be considered stranded

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 Peseau, Di 9

 ICIP

 1 investment in the DSM program. That excess amount of

 2 expenditure could not be recovered in a competitive

 3 energy market at the then current energy prices.

 4 Q WHAT TIME PERIOD WOULD BE APPROPRIATE FOR

 5 RECOVERY OF STRANDED INVESTMENTS?

 6 A If the Commission allows recovery of all,

 7 or a portion of the stranded portion of DSM expenditures,

 8 the recovery period could be five years, or any other

 9 period determined by the Commission, because there is no

 10 benefit, or service, to which the expenditures could be

 11 matched.

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 Peseau, Di 9A

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 1 Q IF IDAHO POWER COULD SHOW THAT A PORTION OF

 2 DSM EXPENDITURES WERE STRANDED, DO YOU THINK THE

 3 COMMISSION SHOULD ALLOW RATES TO BE INCREASED TODAY TO

 4 RECOVER THOSE COSTS OVER FIVE YEARS?

 5 A No. It is my opinion that the current

 6 amortization should continue until the Commission

 7 addresses the total stranded costs issue. That includes

 8 stranded generation, purchased power contracts, DSM

 9 expenditures and other regulatory assets. At that time

 10 it is very likely that Idaho Power will have stranded

 11 benefits in total, not stranded cost. If the Commission

 12 allows rates to increase today to recover only stranded

 13 DSM, then there will be the need for an even greater rate

 14 reduction in the future to refund to ratepayers stranded

 15 benefits to which they are entitled. If any stranded DSM

 16 is held until the total stranded cost issue is addressed,

 17 then stranded DSM can be used to offset some of the

 18 stranded benefit, and reduce the size of the future rate

 19 decrease to refund stranded benefits to Idaho Power's

 20 ratepayers.

 21 Q WHY DO YOU SAY THAT IDAHO POWER WILL HAVE

 22 STRANDED BENEFITS RATHER THAN STRANDED COSTS?

 23 A The results of a recent study completed by

 24 Resource Data International, Inc., which was published in

 25 the June 1, 1997 issue of Public Utilities Fortnightly,

 231

 Peseau, Di 10

 ICIP

 1 estimated that Idaho Power has approximately $44 million

 2 in stranded benefits, or negative stranded costs. That

 3 estimate includes generation, purchase contracts,

 4 wholesale sales contracts and other regulatory assets.

 5 Idaho Power's FERC Form 1 indicates that at least a

 6 portion of its DSM expenditures are included on the

 7 balance sheets as a regulatory asset. Therefore, the

 8 $44 million stranded benefit estimate may already include

 9 all or some of Idaho Power's unrecovered DSM

 10 expenditures. Even if the regulatory asset component of

 11 that estimate does not include unrecovered DSM

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 1 expenditures, it still is greater than Idaho Power's

 2 unamortized DSM expenditure balances of $34.4 million.

 3 So, even if Idaho Power's total amount of unrecovered DSM

 4 expenditures is stranded, it is more than offset by its

 5 stranded benefits and its rates should still be reduced

 6 to refund the remaining stranded benefit balance and not

 7 increased now to recover a smaller stranded cost.

 8 Q IF THE COMMIMSSION ALLOWS RATES TO BE

 9 INCREASED TO RECOVER DSM OVER 5 YEARS, SHOULD THE

 10 INCREASE BE AS MUCH AS REQUESTED BY IDAHO POWER?

 11 A No. Idaho Power's request examines

 12 accelerating DSM recovery in isolation. More rapid

 13 recovery of DSM expenditures will have other effects that

 14 will reduce Idaho Power's cost of service.

 15 Q WHAT OTHER EFFECTS DOES ACCELERATED

 16 RECOVERY OF DSM HAVE ON COST OF SERVICE?

 17 A Accelerated recovery of DSM expenses will

 18 increase Idaho Power's cashflows and recover investment

 19 more rapidly which will benefit shareholders. Increased

 20 cashflow can be used to reduce the need for external

 21 financing, retire outstanding debt, increase dividends

 22 and/or fund activities in unregulated affiliates, all of

 23 which benefit shareholders. More rapid recovery of

 24 investment is also preferred by investors, all else

 25 equal. Idaho Power, in response to ICIP data request

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 Peseau, Di 11

 ICIP

 1 No. 17, indicates that accelerated recovery of DSM

 2 reduces the risk of recovery. In addition, Idaho Power

 3 indicates in response to ICIP data request No. 18 that

 4 the cost of borrowed funds to be repaid in 5 years would

 5 be less than the cost of borrowed funds repaid in 24

 6 years. The above factors will either increase Idaho

 7 Power stock prices or reduce the cost of capital or

 8 possibly both. Ratepayers should be credited with these

 9 benefits because they will be funding the accelerated

 10 recovery.

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 1 Q ARE THERE ANY OTHER POTENTIAL BENEFITS OF

 2 ACCELERATED RECOVERY OF DSM?

 3 A Yes, there are at least two other possible

 4 benefits. First, if increased cashflow were used to

 5 retire outstanding debt, shareholders could possibly earn

 6 a rate of return in excess of the current allowed rate of

 7 return until a future rate case adjusted rate base and

 8 cost of capital accordingly. Second, if book

 9 amortization expense is not increased, or not increased

 10 in like amount as accelerated regulatory amortization,

 11 book income could increase even if regulatory income does

 12 not increase. This may cause share prices to be bid up,

 13 which would benefit shareholders. It could also increase

 14 interest coverage which would increase the value of Idaho

 15 Power's outstanding debt, benefiting current bondholders.

 16 Again, these benefits, to the extent that they occur as a

 17 result of accelerated amortization of DSM, should be

 18 credited to ratepayers since they are funding the

 19 accelerated recovery.

 20 Q IF THE COMMISSION ALLOWS ACCELERATED

 21 RECOVERY, DO YOU HAVE ANY SUGGESTIONS ON HOW TO ADJUST

 22 IDAHO POWER'S PROPOSAL TO CREDIT RATEPAYERS FOR THE

 23 BENEFITS TO INVESTORS YOU DISCUSS ABOVE?

 24 A Exact estimation of the dollar value of

 25 benefits to be credited to ratepayers would require

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 Peseau, Di 12

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 1 extensive study. However, I have a simple suggestion

 2 that will approximate the value of the major benefits

 3 discussed above a direct it to ratepayers. My suggestion

 4 is to assume for ratesetting purposes that current

 5 unamortized DSM balances be financed with 5-year bonds

 6 and that rate adjustments be calculated assuming that the

 7 interest rate on the bonds is set at current rates on

 8 5-year corporate bonds and that the bonds are repaid in

 9 equal monthly payments over 60 months. This would reduce

 10 the carrying cost on outstanding DSM to levels consistent

 11 with the reduced risk of recovery

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 1 and lower cost of a much shorter recovery period. In

 2 addition, it would eliminate the income tax portion of

 3 carrying charges.

 4 Q COULD YOU ILLUSTRATE THE IMPACT OF YOUR

 5 PROPOSAL?

 6 A Yes Idaho Power proposes using their last

 7 approved cost of capital of 9.199% to determine carrying

 8 charges on unamortized DSM balances over the 5-year

 9 recovery period. 5.55% of that represents taxable

 10 return. Their proposal results in increased monthly

 11 revenues of approximately $705,900 or $8.5 million

 12 annually to recover DSM balances in 5 years, which

 13 includes carrying costs and income taxes. Under my

 14 proposal, carrying charges would be computed using a 6.3%

 15 interest rate, an approximate rate for medium quality

 16 corporate bonds maturing in less than 10 years. Since

 17 the balances are assumed financed with debt, there would

 18 be no tax component of carrying charges. Rate increases

 19 necessary to recover DSM balances using my proposal would

 20 be approximately $640,800 monthly, or $7.7 million

 21 annually. My proposal is roughly 9% less than Idaho

 22 Power's proposal.

 23 Q DO YOU HAVE ANY OTHER CONCERNS IF THE

 24 COMMISSION APPROVES IDAHO POWER'S PROPOSED 5 YEAR

 25 AMORTIZATION?

 237

 Peseau, Di 13

 ICIP

 1 A Yes. I am concerned about the allocation

 2 of the proposed increased revenue requirement to rate

 3 classes. In my opinion, the allocation of the post 1993

 4 DSM expenses is much more appropriate than the allocation

 5 of the pre-1994 amounts. The allocation of pre-1994

 6 expenditures is based on class use of system resources.

 7 The allocation for post-1993 expenditures is based on

 8 ability to participate. Since the predominant benefits

 9 of DSM programs flow to participating customers through

 10 lower

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 1 power bills, an allocation of cost based on ability to

 2 participate is much more appropriate because costs follow

 3 benefits much more closely.

 4 Q DO YOU HAVE ANY RECOMMENDATIONS ON CLASS

 5 ALLOCATIONS?

 6 A Yes. I recommend that all rate increases

 7 resulting from accelerated amortization be allocated to

 8 classes based on ability to participate, both pre-1994

 9 and post-1993 balances. However, in response to ICIP

 10 data request No. 7, Idaho Power indicates that they have

 11 not performed an allocation of pre-1994 expenditures

 12 based on ability to participate. I recommend that they

 13 do so and use it for allocation of rate increases to

 14 classes. If it is not possible, I recommend that they

 15 use the allocation factors for post-1993 expenditures to

 16 allocate pre-1994 expenditures to classes. That will

 17 provide a much better matching of rate increases for

 18 accelerated amortization to benefits derived from DSM

 19 program expenditures.

 20 Q DOES THIS CONCLUDE YOUR TESTIMONY?

 21 A Yes, it does.

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 Peseau, Di 14

 ICIP

 1 (The following proceedings were had in

 2 open hearing.)

 3 MR. RICHARDSON: Thank you, Madam Chairman,

 4 Dr. Peseau is available for cross-examination.

 5 COMMISSIONER SMITH: Okay, let's see if

 6 there are any questions. How about Mr. Budge.

 7 MR. BUDGE: No, thank you.

 8 COMMISSIONER SMITH: Mr. Richey.

 9 MR. RICHEY: No, Madam Chairman.

 10 COMMISSIONER SMITH: Mr. Jauregui.

 11 MR. JAUREGUI: No questions.

 12 COMMISSIONER SMITH: Mr. Ward.

 13 MR. WARD: No questions.

 14 COMMISSIONER SMITH: Mr. Gollomp.

 15 MR. GOLLOMP: No questions.

 16 COMMISSIONER SMITH: Mr. Fothergill.

 17 MR. FOTHERGILL: No questions.

 18 COMMISSIONER SMITH: Mr. Purdy.

 19 MR. PURDY: Yes, just one or two.

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 21 CROSS-EXAMINATION

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 23 BY MR. PURDY:

 24 Q Dr. Peseau, while you do not go into this

 25 at great length, you do briefly discuss the matter of

 240

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 1 revenue allocation or cost allocation and I wanted to

 2 touch on that briefly. Now, as I understand it, it's

 3 your position that Idaho Power's proposal to allocate

 4 post-'93 DSM costs based on the ability of a class to

 5 participate is a reasonable proposal; is that correct?

 6 A Yes.

 7 Q And the ICIP -- well, strike that

 8 question. Have you conducted any study to determine

 9 whether DSM program participants received more benefits

 10 compared to their costs than did non-participating

 11 customers?

 12 A Did I do a study? No.

 13 Q Might it be possible that a DSM program

 14 could turn out to be cost effective for the utility, but

 15 not for a participating customer and I'm referring to any

 16 type of DSM program?

 17 A I think that's possible. I would think

 18 under those circumstances that one would not participate.

 19 Q Well, might it be possible that going into

 20 the program, the individual customer had every

 21 expectation and anticipation that its effort would turn

 22 out to be cost effective, but nonetheless, for any number

 23 of reasons, it turned out that it was not?

 24 A That could be possible.

 25 Q And would you agree with me that within a

 241

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 Wilder, Idaho 83676 ICIP

 1 given class that some customers within that class might

 2 benefit from a DSM program while others might not?

 3 A Yes.

 4 Q Would you agree that within a given class,

 5 and I'm speaking specifically with regard to Idaho

 6 Power's system, that customers within a given class might

 7 not be able to participate in a DSM program designated

 8 for their class for any number of reasons?

 9 A I have no reasons in mind, but as a

 10 hypothetical, I suppose that's possible.

 11 Q Well, specifically let me ask you, then,

 12 are you familiar with the Company's mobile home

 13 acquisition program?

 14 A Very generally.

 15 Q Do you know whether or not that is a

 16 program available or a program that is charged to the

 17 residential class?

 18 A I believe that's true.

 19 Q And do you know whether every member of

 20 Idaho Power's residential class can necessarily

 21 participate in that program?

 22 A No, they cannot.

 23 Q And might it be possible that customers

 24 will choose not to -- strike that. Might it be possible

 25 that it would not be feasible for certain customers to

 242

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 1 participate in a DSM program because they have already

 2 implemented by their own volition the DSM conservation

 3 measures?

 4 A That's possible.

 5 Q All right; so presumably, they wouldn't

 6 benefit from the program?

 7 A Well, specifically, I think we started on

 8 this line with the division between sort of general

 9 resource benefits and individual benefits and they would

 10 not by your construction be available for individual

 11 benefits.

 12 MR. PURDY: That's all I have. Thank you.

 13 COMMISSIONER SMITH: Thank you.

 14 Mr. Ripley.

 15 MR. RIPLEY: Yes.

 16

 17 CROSS-EXAMINATION

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 19 BY MR. RIPLEY:

 20 Q Doctor, first, if we could direct your

 21 attention to the bottom of page 2, the top of page 3,

 22 there you're quoting from a Commission Order. Do you see

 23 that?

 24 A Yes.

 25 Q At the top of page 3, you state or the

 243

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 1 Order states, "Similarly, FMC recommended an amortization

 2 period of 24 years...." Do you see that?

 3 A Yes.

 4 Q Were you not the witness for FMC in that

 5 proceeding?

 6 A I believe I was.

 7 Q So this is really your recommendation?

 8 MR. RICHARDSON: Madam Chairman, I object.

 9 The Order reads it's FMC's recommendation. The Order

 10 speaks for itself.

 11 COMMISSIONER SMITH: Mr. Ripley.

 12 MR. RIPLEY: Yes, I'll attempt to clarify

 13 that for counsel.

 14 Q BY MR. RIPLEY: Dr. Peseau, were you not

 15 the witness for FMC?

 16 A I was.

 17 Q Was this not your recommendation that FMC

 18 accepted?

 19 A It's probably -- it was probably reached by

 20 mutual discussion. We would undertake the analysis, make

 21 certain recommendations and the company would either

 22 agree or not agree, FMC being the company.

 23 Q Is there any doubt in your mind that when

 24 the Commission is referring to FMC and is referring to

 25 the recommendations that FMC made that the Commission is

 244

 CSB REPORTING PESEAU (X)

 Wilder, Idaho 83676 ICIP

 1 not referring to your testimony?

 2 A Oh, I think it's clear that the Commission

 3 is designating the issue, the controller of the issue, as

 4 being FMC. I think they're under -- they fully realize

 5 that I wrote the testimony presenting that issue, yes.

 6 Q All right. Now, your recommendation in

 7 that proceeding was for 24 years; correct?

 8 A Yes.

 9 Q And was one of the prime reasons for your

 10 recommendation the fact that you were concerned about, as

 11 you put it, intergenerational transfer?

 12 A I don't recall. The Order indicates that I

 13 was concerned about the average effective life. I may

 14 have discussed intergenerational.

 15 Q Maybe I can refresh your memory.

 16 A I thought maybe you would.

 17 MR. RIPLEY: Could I have a moment?

 18 COMMISSIONER SMITH: Certainly.

 19 MR. RIPLEY: Could I approach the witness?

 20 COMMISSIONER SMITH: Yes.

 21 (Mr. Ripley approached the witness.)

 22 (Pause in proceedings.)

 23 Q BY MR. RIPLEY: Dr. Peseau, off the record

 24 I shared with you a copy of your prepared testimony that

 25 you filed in the proceeding that we've been talking about

 245

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 1 that's referenced by the Commission's Order at the top of

 2 page -- at the bottom of page 2 and the top of page 3 of

 3 your testimony and I asked you --

 4 MR. RICHARDSON: Madam Chairman?

 5 COMMISSIONER SMITH: Mr. Richardson.

 6 MR. RICHARDSON: I'll note for the record

 7 that the witness was shown prefiled testimony filed by

 8 Dr. Peseau in the docket in which this Order was issued.

 9 It was not a copy of the transcript, but for purposes of

 10 this proceeding, we will agree that this was the

 11 testimony that was spread upon the record as if it were

 12 read.

 13 COMMISSIONER SMITH: Okay.

 14 Q BY MR. RIPLEY: Now, in that proceeding

 15 were you not concerned with intergenerational transfers

 16 of the DSM expenditures?

 17 A Yes, I believe I addressed three areas of

 18 concern and from the testimony you just showed me the

 19 second concern expressed was intergenerational equity.

 20 Q Do we have that same issue today, the same

 21 concerns, the intergenerational transfer?

 22 A Yes.

 23 Q And could you explain that for us as to why

 24 you believe that?

 25 A Certainly. We have an expected life of a

 246

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 Wilder, Idaho 83676 ICIP

 1 group of assets that will benefit customers in the future

 2 and we're accelerating or Idaho Power is requesting

 3 acceleration of that asset into a shorter time frame so

 4 that customers in the next five years would pay for the

 5 bulk of it or all of it.

 6 Q Now, if there was a large customer that

 7 left the system and left behind its obligation that the

 8 Commission had previously determined that it was going to

 9 have that customer pay, how does that coincide with your

 10 problem of intergenerational transfer?

 11 A Well, Dr. Power touched upon that. The

 12 question is is just what this customer is giving up,

 13 would give up obligations and would give up benefits and

 14 I think that's just the nature of the opportunity to

 15 leave the system, you'll leave behind both benefits and

 16 obligations.

 17 Q Now, in that proceeding what period of time

 18 did Idaho Power Company propose, do you recall?

 19 A I believe it was seven years.

 20 Q Do you recall what the basis of that

 21 contention was?

 22 A No.

 23 Q Do you recall that a witness for Idaho

 24 Power Company testified that the Internal Revenue Service

 25 utilized seven years to amortize these types of

 247

 CSB REPORTING PESEAU (X)

 Wilder, Idaho 83676 ICIP

 1 expenditures?

 2 MR. RICHARDSON: Madam Chairman?

 3 COMMISSIONER SMITH: Mr. Richardson.

 4 MR. RICHARDSON: The witness said he didn't

 5 recall the basis for Idaho Power's testimony in that

 6 case. If Mr. Ripley would like to cross-examine

 7 Dr. Peseau on Idaho Power's testimony in that case, I

 8 would be more than happy to have him respond to questions

 9 if he has a copy of the testimony and is able to refer to

 10 it.

 11 COMMISSIONER SMITH: Well, I think he was

 12 asking him if he recalled any testimony of that nature

 13 and I think I'll allow the answer.

 14 THE WITNESS: I don't recall that.

 15 Q BY MR. RIPLEY: Now, at the bottom of

 16 page 3 of your prepared testimony, you state on lines 23

 17 through 25, "I do think that the Commission needs

 18 something more than almost casual remarks by an who is

 19 not an accountant or depreciation expert that five years

 20 is appropriate." Do you see that?

 21 A Yes.

 22 Q What in Mr. Said's testimony disturbs you

 23 that he's not an accountant or a depreciation expert?

 24 A What disturbs me is that there's no attempt

 25 to justify the five-year period based on accounting,

 248

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 Wilder, Idaho 83676 ICIP

 1 economic or financial principles.

 2 Q Is it an accounting principle that we're

 3 addressing here?

 4 A I would cast -- it's an accounting

 5 principle in that we're going to amortize it over some

 6 period of time and there's some rather straightforward

 7 mathematics that would follow the accounting

 8 conventions. I believe it's more of an economic

 9 convention or an economic principle than it is an

 10 accounting, frankly.

 11 Q And that would also then mean that you

 12 don't need a depreciation expert to determine the

 13 amortization period for DSM expenditures, wouldn't that

 14 follow?

 15 A That's correct.

 16 Q So we're looking at economics from your

 17 viewpoint?

 18 A I would term it economics, perhaps finance

 19 to some.

 20 Q Now, on page 5 of your prepared testimony,

 21 you advance the principle that deregulation is driving

 22 the Company's application in this proceeding; is that a

 23 fair summary of your testimony?

 24 A Yes.

 25 Q Do you think the utility should be

 249

 CSB REPORTING PESEAU (X)

 Wilder, Idaho 83676 ICIP

 1 concerned at all with who has to pay for expenditures

 2 that it has made?

 3 A Yes.

 4 Q Do you think that could be driving Idaho

 5 Power Company's decision in this matter that it does not

 6 want to defer for a long period of time an expenditure to

 7 be then paid for by future customers?

 8 A My testimony advances just the opposite,

 9 that the 24-year period originally was intended to track

 10 cost incurrence and moving to a five-year period in my

 11 mind does the opposite.

 12 Q So therein lies the difference of opinion

 13 between you and Mr. Said?

 14 A Yes.

 15 Q Now, you've also in your testimony referred

 16 to the insertion by Idaho Power Company into its PIE

 17 conservation agreements of a paragraph that required

 18 amortization over 27 years. Do you recall that?

 19 A Yes.

 20 Q Did your counsel make available to you any

 21 of the orders that were issued in that proceeding that

 22 the Industrial Customers of Idaho Power participated in?

 23 A Not that I can recall.

 24 Q Are you aware that the Industrial Customers

 25 of Idaho Power were the principal parties that filed

 250

 CSB REPORTING PESEAU (X)

 Wilder, Idaho 83676 ICIP

 1 comments in Idaho Power Company's application to

 2 discontinue that program?

 3 A No.

 4 Q Are you aware of the position that the

 5 Industrial Customers of Idaho Power took in that

 6 proceeding?

 7 A No.

 8 MR. RIPLEY: Again, if I could approach the

 9 witness.

 10 COMMISSIONER SMITH: You may.

 11 (Mr. Ripley approached the witness.)

 12 (Pause in proceedings.)

 13 Q BY MR. RIPLEY: Dr. Peseau, I've shown you

 14 an Order that the Commission issued in reference to the

 15 discontinuance of the PIE program --

 16 A Yes.

 17 Q -- and I would like to read to you from

 18 that Order.

 19 COMMISSIONER SMITH: Mr. Ripley, could we

 20 have the Order number? That would help us.

 21 MR. RIPLEY: Certainly. Order No. 26753.

 22 COMMISSIONER SMITH: Thank you.

 23 MR. RIPLEY: Entered in Case

 24 No. IPC-E-96-22.

 25 COMMISSIONER SMITH: Thank you.

 251

 CSB REPORTING PESEAU (X)

 Wilder, Idaho 83676 ICIP

 1 Q BY MR. RIPLEY: And in that Order,

 2 Dr. Peseau, the Commission states, "We find that it would

 3 be reasonable for Idaho Power to include in any PIE

 4 contracts the requirement that in the event the customer

 5 leaves Idaho Power's system before the PIE expenditure is

 6 amortized, the customer is required to refund to the

 7 Company all of the unamortized portion of the funding

 8 provided by Idaho Power to that customer under the PIE

 9 program."

 10 A That's correct.

 11 Q Now, at the time that the Commission's

 12 Order was entered in this proceeding, the amortization

 13 period for the recovery of PIE expenditures was 24 years,

 14 was it not?

 15 A Yes.

 16 Q And the Company was required or permitted

 17 to wait three years before it commenced the amortization

 18 of an expenditure; correct?

 19 A I believe that's correct.

 20 MR. RICHARDSON: Madam Chairman, I'll

 21 object to that question. I don't think that's what the

 22 Commission's Order required that the Company wait three

 23 years.

 24 COMMISSIONER SMITH: Mr. Ripley.

 25 MR. RIPLEY: Let me rephrase it. We want

 252

 CSB REPORTING PESEAU (X)

 Wilder, Idaho 83676 ICIP

 1 to make sure we get this to counsel's liking.

 2 Q BY MR. RIPLEY: The Company was permitted

 3 to wait up to three years before it commenced the

 4 amortization?

 5 A Okay.

 6 Q Okay; so if you took three plus 24, you

 7 would get 27 years' amortization; correct?

 8 A That's correct.

 9 Q Now, assuming that a customer does

 10 participate in the PIE program as it was being

 11 discontinued and it does enter into the contract that

 12 states they'll pay it back if they leave the system

 13 within 27 years and the Company recovers some of that

 14 previously expended amount of money, then you contend

 15 that if the period of time was reduced to five years,

 16 Idaho Power Company would obtain a double recovery.

 17 A That's possible, yes.

 18 Q Now, that could simply be solved by the

 19 Company refunding any of those dollars back to its

 20 customers.

 21 A It could.

 22 Q In fact, it would have an obligation, would

 23 it not?

 24 MR. RICHARDSON: Madam Chairman.

 25 COMMISSIONER SMITH: Mr. Richardson.

 253

 CSB REPORTING PESEAU (X)

 Wilder, Idaho 83676 ICIP

 1 MR. RICHARDSON: It calls for a legal

 2 conclusion.

 3 MR. RIPLEY: I'm not asking legal.

 4 MR. RICHARDSON: On what basis are you

 5 asking, then?

 6 Q BY MR. RIPLEY: Well, do you think that the

 7 Company would be, if it was regulated would be, wise to

 8 recover an expenditure from its customers for doing a

 9 certain act and then it recovers that expenditure again

 10 from the customer it made the expenditure for, wouldn't

 11 it just make sense to you that it would flow that money

 12 back? You wouldn't do that?

 13 A Not necessarily. I wouldn't be in a

 14 position to do so. I think shareholders wouldn't favor

 15 it and, secondly, if there were a rate freeze, it

 16 wouldn't happen anyway.

 17 Q Then that can be solved by the Commission

 18 if it goes to five years inserting a provision in the

 19 order that states if you recover back all your DSM

 20 expenditures in five years and then recover back one of

 21 those expenditures, you'll refund it to the customers.

 22 A Then the problem of double recovery could

 23 be reduced or eliminated.

 24 COMMISSIONER SMITH: Mr. Ripley?

 25 MR. RIPLEY: Yes.

 254

 CSB REPORTING PESEAU (X)

 Wilder, Idaho 83676 ICIP

 1 COMMISSIONER SMITH: The Commission has a

 2 commitment that it needs to attend to now. I apologize

 3 for interrupting, so we need to adjourn for our noon

 4 recess and come back at 1:30.

 5 MR. RIPLEY: Okay. What time are we going

 6 to reconvene?

 7 COMMISSIONER SMITH: 1:30, maybe 1:35.

 8 (Noon recess.)

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 255

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 Wilder, Idaho 83676 ICIP