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

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 4 COMMISSIONER SMITH: We'll be back in

 5 order. Mr. Ripley.

 6 MR. RIPLEY: I believe our

 7 cross-examination is complete of Dr. Peseau. Thank you.

 8 COMMISSIONER SMITH: Do we have questions

 9 from the Commissioners?

 10 COMMISSIONER NELSON: Well, first let me

 11 say what a successful lunch hour it was. I do have one

 12 question, Madam Chair.

 13

 14 DENNIS E. PESEAU,

 15 produced as a witness at the instance of the Industrial

 16 Customers of Idaho Power, having been previously duly

 17 sworn, resumed the stand and was further examined and

 18 testified as follows:

 19

 20 EXAMINATION

 21

 22 BY COMMISSIONER NELSON:

 23 Q On your last page of your testimony,

 24 Doctor, in your recommendation you talked about using the

 25 same allocation factor for pre-'94 as post-'94 if they

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 1 couldn't come up with an allocation for pre-'94.

 2 Wouldn't that really put some costs on those classes that

 3 had heavy expenditures after '94 unless the programs were

 4 all consistent, for instance, the agricultural choices

 5 program?

 6 A It could. It depends on the pre-'94 being

 7 basically an all energy whether they were high load

 8 factors or low load factors, but it's certainly possible.

 9 COMMISSIONER NELSON: That was all I had.

 10

 11 EXAMINATION

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 13 BY COMMISSIONER SMITH:

 14 Q I guess I just had a question about your

 15 recommendation on page 12 which began in the response at

 16 line 18, we're assuming for rate setting purposes that

 17 current unamortized DSM balances are financed with

 18 five-year bonds, you're not actually proposing that they

 19 be financed, you're just proposing that we assume that

 20 they are?

 21 A Well, I'm suggesting that the action on the

 22 part of the Commission to shorten the life will have an

 23 impact with shareholders in terms of their required rates

 24 of return and since the required rates of return I think

 25 would go down, I'm suggesting this is a method to capture

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 1 that.

 2 Q This is kind of a surrogate calculation?

 3 A That's correct.

 4 COMMISSIONER SMITH: All right, thank you.

 5 Mr. Richardson, do you have any redirect?

 6 MR. RICHARDSON: Thank you, Madam Chair,

 7 just a couple of questions.

 8

 9 REDIRECT EXAMINATION

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 11 BY MR. RICHARDSON:

 12 Q Dr. Peseau, you stated on cross-examination

 13 from Mr. Ripley that the intergenerational transfer was

 14 still an issue today. In what way did you mean that?

 15 A Well, in the testimony of Mr. Said, he

 16 indicates that he shortened the life from 24 years to

 17 five years because of various analyses pertaining to rate

 18 impacts and rate shocks of various customers and it just

 19 strikes me that the best test instead of using judgment

 20 for that is the intergenerational consideration and it

 21 strikes me that customers of virtually every group are

 22 here today and they were pretty well in agreement with

 23 one another that 24 years is the rate shock or the rate

 24 impact that is okay with them, not five years, so I don't

 25 think we need to worry about judging the

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 1 intergenerational. I think we've got a good test of that

 2 right here today.

 3 Q And does that relate at all to matching of

 4 benefits with costs in your opinion?

 5 A Well, in my opinion the 24-year decision

 6 some time ago did attempt to take away some arbitrary

 7 number and match economic benefits with the costs and I

 8 see no argument to the contrary in the Company's direct

 9 testimony. I see simply a matter of judgment.

 10 Q And according to cross-examination by

 11 Mr. Ripley, you apparently were the author of the 24-year

 12 methodology?

 13 A I think there were at least a couple of

 14 parties. I think Staff and I know FMC, but there may

 15 have been another party. I think we all looked at the

 16 expected useful life and concluded that that was the

 17 appropriate one to use.

 18 Q And from that perspective, do you see

 19 anything that's changed between the time that your

 20 recommendation on behalf of FMC was adopted by this

 21 Commission, anything that has changed since then to

 22 today?

 23 A No, I think the fact that resource planning

 24 changes and owned generation is being supplanted by the

 25 market does nothing to change the proper amortization of

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 1 the DSM programs.

 2 Q And does that include the assertion that

 3 the Company now plans on a region wide basis rather than

 4 a Company specific basis?

 5 A Yes, this is an embedded asset and I think

 6 a final determination if things continue to go towards

 7 competition will be made and a level of stranded costs

 8 will be determined, stranded costs or stranded benefits,

 9 and the issue should be resolved appropriately as one of

 10 many different decisions.

 11 MR. RICHARDSON: Thank you, Dr. Peseau.

 12 Madam Chairman, that concludes the case of

 13 the Industrial Customers of Idaho Power.

 14 COMMISSIONER SMITH: Thank you,

 15 Mr. Richardson and Dr. Peseau.

 16 (The witness left the stand.)

 17 MR. RICHARDSON: May Dr. Peseau be

 18 excused? He will be around most of the day, but with the

 19 pleasure of the Chair, we would like to ask that he be

 20 excused at the conclusion of today's proceeding.

 21 COMMISSIONER SMITH: Is there any

 22 objection? No? Then he can be excused.

 23 MR. RICHARDSON: Thank you, Madam Chairman.

 24 COMMISSIONER SMITH: Mr. Ward.

 25 MR. WARD: Thank you. We call David Bonn

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 1 to the stand.

 2

 3 DAVID BONN,

 4 produced as a witness at the instance of the FMC

 5 Corporation, having been first duly sworn, was examined

 6 and testified as follows:

 7

 8 DIRECT EXAMINATION

 9

 10 BY MR. WARD:

 11 Q Mr. Bonn, would you please state your name,

 12 position and current business address for the record?

 13 A Sure. My name is David Bonn --

 14 Q Excuse me, Mr. Bonn, I don't believe your

 15 mike is on or else you're going to have to get closer to

 16 it.

 17 A Yes, my name is David Bonn. I am employed

 18 by Summit Energy Services as director of electric power

 19 services based in Louisville, Kentucky.

 20 Q Thank you. Mr. Bonn, in preparation for

 21 this proceeding, did you cause written testimony to be

 22 prepared and filed with the Commission?

 23 A Yes, I did.

 24 Q And with the exception I'm going to ask you

 25 about in a moment on page 15, I believe it is, do you

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 1 have any changes or additions to that testimony that

 2 you're aware of?

 3 A No, sir, just the addition on 15.

 4 Q Okay. Now, on page -- oh, Madam Chair, let

 5 me apologize to the Commission and the parties, this

 6 testimony was filed while neither I nor my secretary was

 7 in the office and apparently was filed without line

 8 numbers. We will furnish clean copies with line numbers

 9 and, again, I apologize for that.

 10 COMMISSIONER SMITH: Do other parties need

 11 additional copies? Maybe just one for the court

 12 reporter.

 13 MR. WARD: We will furnish one for the

 14 Commission and, of course, one for the reporter.

 15 Q BY MR. WARD: Now, since I can't cite to

 16 line whatever of page 15, please identify the correction

 17 you want to make on page 15.

 18 A Beginning on page 15 with the item stated

 19 "You identified two additional issues," from that point

 20 on down to the top of page 16, concluding with

 21 "continuing DSM expenditures," I'd like to take that out

 22 of the testimony. I feel like Ms. Carlock has provided

 23 more accurate estimates of this economic impact.

 24 MR. WARD: All right; so, Madam Chair, what

 25 we would propose to do is strike the question and answer

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 1 on page 15 and 16.

 2 Q BY MR. WARD: And, Mr. Bonn, did I

 3 understand you to say that you're withdrawing that

 4 recommendation because of Ms. Carlock's more accurate

 5 estimate of the numbers?

 6 A Yes, sir.

 7 Q All right. Let me ask just one additional

 8 question, if I may. Earlier today did you hear Dr. Power

 9 opine that all parties might agree that on a going

 10 forward basis a shorter amortization period or even

 11 expensing of DSM expenses might be appropriate, did you

 12 hear him express that sentiment?

 13 A Yes, sir, I did.

 14 Q Do you agree with that sentiment?

 15 A Yes, sir, I do.

 16 MR. WARD: With that, Madam Chair, I'd

 17 request that Mr. Bonn's testimony be spread upon the

 18 record as if read and he is available for

 19 cross-examination. He has no exhibits and I can't resist

 20 the temptation to note that Mr. Bonn comes here directly

 21 from his honeymoon which has to be from heaven to hell.

 22 COMMISSIONER SMITH: It depends.

 23 MR. RIPLEY: Which is which?

 24 COMMISSIONER SMITH: Without objection, we

 25 will spread the prefiled testimony of Mr. Bonn on the

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 1 record as if read excluding the portion which has been

 2 excised.

 3 (The following prefiled testimony of

 4 Mr. David Bonn is spread upon the record.)

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 1 Q PLEASE STATE YOUR NAME, POSITION AND

 2 CURRENT BUSINESS ADDRESS.

 3 A My name is David Bonn. I am employed by

 4 Summit Energy Services, Inc. as the Director of Electric

 5 Power Services. My business address is 4967 U.S. Highway

 6 42, Suite 220, Louisville, KY 40222.

 7 Q PLEASE DESCRIBE SUMMIT ENERGY.

 8 A Summit Energy is an energy consulting firm

 9 whose services are employed by approximately four hundred

 10 medium and large industrial customers of various sizes in

 11 forty-four states, Canada, and Mexico. Summit's

 12 specialty is assisting customers in energy purchase

 13 agreements. I am primarily responsible for the purchase

 14 of electricity for our clients in retail wheeling pilot

 15 programs and in fully deregulated environments. I am a

 16 graduate of the University of Kentucky and hold

 17 Bachelor's degrees in both English and Political Science.

 18 Q HAVE YOU PREVIOUSLY TESTIFIED BEFORE OTHER

 19 REGULATORY COMMISSIONS?

 20 A I have filed comments for other

 21 commissions, but this is my first opportunity to present

 22 live testimony.

 23 Q FOR WHOM ARE YOU TESTIFYING IN THIS

 24 PROCEEDING?

 25 A I am testifying on behalf of FMC

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 1 Corporation.

 2 Q WOULD YOU BRIEFLY OUTLINE THE PURPOSE OF

 3 YOUR TESTIMONY?

 4 A There are two major themes or arguments in

 5 my testimony. First, I will explain why the Commission

 6 should reject Idaho Power's request for accelerated

 7 amortization of the DSM costs at issue in this case.

 8 Secondly, I

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 May 11, 1998 FMC Corporation

 1 will discuss Idaho Power's proposed allocation of these

 2 costs to its various customer classes. I am, of course,

 3 particularly concerned with the unique circumstances of

 4 FMC, but some of the allocation concerns I will discuss

 5 are germane to other customer classes as well.

 6 Accelerated Amortization of DSM Costs

 7 Q LET'S BEGIN WITH THE FIRST ISSUE. WHY DO

 8 YOU CONTEND THE COMMISSION SHOULD REJECT IDAHO POWER'S

 9 APPLICATION?

 10 A Before I answer that question directly, we

 11 need to start with some background information to place

 12 this issue in context. Much of what I have to say at

 13 this juncture will be very familiar to the Commission, so

 14 I will not dwell on it at length, but it is crucial to

 15 the development of a complete record.

 16 To begin at the beginning, we need to ask why DSM

 17 programs were created in the first place? The answer

 18 varies slightly from state to state, but even though I am

 19 not intimately familiar with the complete history of the

 20 Idaho programs, I feel confident I can identify the major

 21 reasons for their existence. The overwhelming majority

 22 of DSM programs were originally implemented in an attempt

 23 to forestall the need for new generating plant additions

 24 that would otherwise be necessary to serve expected load

 25 growth. This rationale was particularly strong during

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 1 the late 1970s and 1980s, when incremental costs for new

 2 baseload generation were much higher than they are now.

 3 The basic idea was that, for a variety of reasons,

 4 markets would not perfectly capture all cost effective

 5 conservation measures. This concept was especially

 6 cogent for low cost companies like Idaho Power who had

 7 embedded cost rates that were less than the incremental

 8 cost of new generating capacity additions. If the

 9 incremental cost of new generation was 6 cents per kwh or

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 1 more, but embedded cost rates were only 4 cents per kwh,

 2 no economically rational person would make a conservation

 3 investment that cost 5 cents, even though doing so would

 4 save the utility money and benefit all ratepayers. DSM

 5 programs provided an incentive, generally in the form of

 6 an up front support payment, that reduced or eliminated

 7 this perceived market imperfection.

 8 In addition, some DSM programs also contained an

 9 element of social or public purpose motivations from

 10 their very inception. Idaho Power's low income

 11 weatherization program is, I suspect, a case in point.

 12 While this program was probably justified at first on an

 13 economic basis, it certainly did the program no harm that

 14 it also benefitted those least able to make the capital

 15 investments necessary to save energy and lower their

 16 utility payments. In recent years, however, the public

 17 policy purposes of DSM programs have become their

 18 dominant, if not sole, reason for existence. This is a

 19 crucial fact I will discuss in more detail later in my

 20 testimony.

 21 Q WHAT DOES THIS BACKGROUND INFORMATION HAVE

 22 TO DO WITH THIS CASE?

 23 A It has everything to do with the case. It

 24 is the heart of the matter. The fact is that DSM

 25 programs were, and are, a replacement for generating

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 1 resources. (I recognize, by the way, that DSM programs

 2 also produced minimal transmission and distribution cost

 3 savings, but the economic analysis justifying such

 4 programs ordinarily did not account for these savings,

 5 and they can be fairly ignored for the purpose of this

 6 discussion). As such, they have generally been treated

 7 like generating resources for ratemaking purposes. That

 8 is to say, they have typically been amortized over their

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 1 expected useful life. In fact, this Commission so found

 2 in Idaho Power's last general rate case, in which it

 3 ordered amortization of these costs over their expected

 4 average useful life of 24 years. This decision was

 5 entirely correct when made, and it remains correct today.

 6 Q WHY IS THE USEFUL LIFE OF DSM PROGRAMS A

 7 RELEVANT CONSIDERATION?

 8 A In general, regulated rates attempt to

 9 match the cost burden with benefits received. If

 10 ratepayers will benefit from a particular investment for

 11 24 years, regulators ordinarily try to spread the cost

 12 over a similar 24 year time frame. Substantial

 13 departures from this principle result in inordinate

 14 penalties for some ratepayers and windfalls for others.

 15 Q BUT IDAHO POWER CONTENDS THAT CONDITIONS

 16 HAVE CHANGED. ISN'T IT A FACT THAT THE POSSIBILITY OF

 17 RESTRUCTURING IS A VALID CONSIDERATION?

 18 A Of course it is. All parties are

 19 legitimately entitled to demand that the Commission take

 20 the possibility of industry restructuring into account in

 21 its decisions from now on. Federal or state

 22 restructuring legislation is a possibility, perhaps even

 23 a probability, in the foreseeable future, and it is now

 24 one more factor that the Commission must consider in all

 25 electric utility cases. But the real question is, does

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 1 this possibility support Idaho Power's position in this

 2 case? My answer is that it does not, and in fact it cuts

 3 strongly the other way. If anything, the possibility of

 4 electric industry restructuring refutes Idaho Power's

 5 argument for acceleration of its DSM costs.

 6 Q PLEASE EXPLAIN.

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 1 A Idaho Power's explanation for its

 2 accelerated amortization request is brief to the point of

 3 being nonexistent. It simply states that the 24 year

 4 amortization period is no longer reasonable in light of

 5 current industry conditions, and it proposes a five year

 6 amortization period without further explanation. In its

 7 discovery responses, Idaho Power indicates that the

 8 proposed five year period is the result of Mr. Said's

 9 (and presumably Idaho Power's staff's) judgment as to a

 10 reasonable amortization period. I am not, as you might

 11 expect, going to attack this argument because it is based

 12 on judgment. In the end, many important decisions must

 13 rest on someone's informed judgment. But when I am

 14 presented with an individual's judgment on an important

 15 issue, my reaction is to inquire about the reasoning that

 16 supports it. At this juncture, Idaho Power has produced

 17 no explanation of its reasoning. This makes it difficult

 18 to analyze the issue, but we can perhaps work around this

 19 impediment.

 20 Q HOW DO YOU PROPOSE TO DO THAT?

 21 A Let us start by making the case Idaho Power

 22 could have made, and then we will see if it withstands

 23 analysis. If I were arguing Idaho Power's case, I would

 24 reduce it to three major points, stated something like

 25 this:

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 1 (1) DSM costs were never the utility's idea.

 2 These programs were foisted upon Idaho Power by

 3 regulators. Consequently, the regulatory commission has

 4 a moral, and perhaps legal, obligation to insure full

 5 recovery of these costs.

 6 (2) DSM programs have proved to be expensive

 7 resources. Their costs exceed both market prices and

 8 Idaho Power's embedded cost of resources. Their

 9 existence will prove to be a liability in a competitive

 10 world. Idaho

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 1 Power is therefore entitled to recover their full cost in

 2 order to be placed in the same competitive position it

 3 would have been in but for the existence of DSM programs.

 4 (3) If restructuring and deregulation comes, only

 5 a small portion of these costs will have been amortized.

 6 No customer in the competitive market will willingly pay

 7 for these programs and the company will be forced to

 8 absorb their costs. Therefore, it is imperative that the

 9 beneficiaries of these programs pay for them on an

 10 expedited schedule before restructuring occurs.

 11 Otherwise, the company will be left to absorb the costs

 12 of something it never wanted to do in the first place.

 13 Q ALL THREE ARGUMENTS SEEM PLAUSIBLE. WHY

 14 THEN DO YOU URGE THE COMMISSION TO REJECT IDAHO POWER'S

 15 APPLICATION?

 16 A As you say, these arguments are

 17 superficially plausible, but they won't withstand a

 18 careful analysis. First, we should begin with the

 19 contention that these costs were inflicted on the utility

 20 by the regulators. There is a element of truth here, but

 21 in the end the flat assertion is suspect. I am not a

 22 member of Idaho Power's board of directors, so I cannot

 23 say what its position with respect to DSM was throughout

 24 the relevant time period. But my study and experience

 25 tells me that DSM programs were not unilateral decisions

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 1 by the regulators. Most utilities came to accept the

 2 rationale for these programs, and they in fact proposed

 3 most of them to the regulators. But perhaps some of them

 4 did so under duress, so we will let this observation pass

 5 for a minor point.

 6 Secondly, we must recognize "the government made

 7 me do it" argument for what it is. The fact is that the

 8 "government" makes utilities

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 1 (and other citizens) do many things they don't want to

 2 do. They are forced to pay taxes and control pollution

 3 and a host of other actions they would perhaps regard as

 4 unwarranted. But the mere fact that a governmental

 5 agency approves, or even requires, a particular action or

 6 program does not automatically translate into an

 7 obligation to insure the recovery of its costs. In

 8 general, industries must recover governmentally imposed

 9 costs as best they can in the marketplace, and we would

 10 find it strange if the steel industry wanted to recover

 11 its pollution control costs by a governmentally mandated

 12 surcharge on its customers.

 13 Idaho Power would, of course, argue that fully

 14 regulated utilities are somehow different, and the

 15 government therefore bears an obligation to insure the

 16 recovery of unwillingly incurred costs during a

 17 transition to an unregulated competitive environment. I

 18 am not a lawyer, so I have nothing to say about this as a

 19 proposition of law. But I would note that the historical

 20 precedents are, at best, a mixed bag. In the natural gas

 21 industry, regulated pipelines were allowed to recover a

 22 portion of their stranded costs during the competitive

 23 transition via a mandatory surcharge. The practice for

 24 local distribution companies varied greatly from state to

 25 state. I am not as familiar with the telephone industry,

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 1 but it is my general understanding that the federal act

 2 compelling competition offers no assurances of recovery

 3 of any regulatory costs.

 4 It may be that the ground rules for the transition

 5 to electric industry competition will treat DSM programs

 6 as part of the general cost of doing business, and

 7 utilities will be left to recover these costs as best

 8 they can in the competitive market. This does not strike

 9 me personally as an unfair

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 1 result if it is imposed industry wide. In fact, some of

 2 the utilities with which Idaho Power will be competing in

 3 the future have far more expensive DSM programs on the

 4 books than Idaho Power's, and this outcome could even

 5 prove beneficial to the company.

 6 My essential points here are that regulatory

 7 responsibility for DSM costs is not nearly as clear cut

 8 as Idaho Power suggests, and the company's "fairness"

 9 argument can't properly be evaluated at this juncture.

 10 Congress or the state legislature could either mandate or

 11 prohibit the result Idaho Power is seeking, or adopt a

 12 compromise position, without violating fundamental

 13 notions of fairness. In any event, we can't determine

 14 what is fair in the context of a changing legal

 15 environment until we know how the new environment will be

 16 structured.

 17 Q PLEASE ANALYZE THE ASSERTION THAT IDAHO

 18 POWER HAS BEEN ECONOMICALLY HARMED BY DSM PROGRAMS.

 19 A Certainly. As I noted earlier, Idaho

 20 Power's case for accelerated recovery of DSM costs has to

 21 be based on the implicit premise it would not have

 22 acquired resources at the booked DSM costs if left to its

 23 own devices. In other words, the argument is that,

 24 without government intervention, these expensive

 25 resources would not have been incurred and Idaho Power

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 1 would have lower overall resource costs with which to

 2 enter the competitive market. Therefore, it is the

 3 ratepayers' responsibility to fund an expedited recovery

 4 of these costs so Idaho Power is made whole and restored

 5 to a status quo ante position. This assumption is based

 6 on a rewriting of history that is at odds with the facts.

 7 Q YOU WILL OBVIOUSLY HAVE TO EXPLAIN THAT

 8 ANSWER.

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 1 A It is probably true that average DSM costs

 2 on a per kwh basis exceed both the current market price

 3 for generating capacity and Idaho Power's average

 4 embedded cost of generation. But this fact does not, by

 5 itself, support Idaho Power's assumption that DSM costs

 6 artificially inflated its current resource costs. The

 7 relevant question is what would Idaho Power's resource

 8 picture look like today but for the acquisition of DSM

 9 resources?

 10 No one can answer this question with certainty,

 11 but we need to remember that the considerable reduction

 12 in the incremental cost of new generating capacity in

 13 recent years is due primarily to low natural gas prices

 14 and increasingly efficient combined cycle natural gas

 15 turbines. Throughout the 1980s and early 1990s the use

 16 of natural gas in new generating stations was prohibited

 17 by law. Consequently, new base load generating resources

 18 had to be coal fired or nuclear, although some companies

 19 like Idaho Power had limited hydroelectric expansion

 20 capabilities. All of these resources were very expensive

 21 by modern standards.

 22 The fact is some, but certainly not all, DSM

 23 resources are relatively expensive because they were

 24 acquired primarily during a period when all forms of

 25 electric energy and capacity were relatively expensive.

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 1 Stated another way, they are expensive compared to

 2 embedded costs because of their vintage, but not when

 3 compared to contemporaneous alternatives. Idaho Power's

 4 own documentation establishes this fact. In the

 5 Technical Appendix to its 1995 Integrated Resource Plan,

 6 Idaho Power analyzed the cost of the DSM programs, a

 7 number of traditional resource acquisitions that were

 8 actually purchased, as well as potential resource

 9 acquisitions. In general, the total resource cost of DSM

 10 programs, particularly the two largest (low income

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 1 weatherization and manufactured home acquisition), were

 2 competitive with all alternatives. In fact, low income

 3 weatherization and the manufactured home programs had a

 4 total real levelized resource cost of 18 and 19 mills per

 5 kwh, respectively, as compared to the projected real

 6 levelized cost of 26.86 mills per kwh for the current

 7 base load plant of choice, a combined cycle combustion

 8 turbine.

 9 If Idaho Power had been forced to purchase coal

 10 fired, nuclear, or even combined cycle generating

 11 capacity instead of DSM resources, would it be better off

 12 today? This is, at best, a dubious assertion that is

 13 inconsistent with the available contemporaneous evidence.

 14 What we do know with certainty is that the Commission

 15 found the DSM programs to be cost effective at the time

 16 they were authorized. If this decision was correct when

 17 made, then Idaho Power's overall resource costs would

 18 presumably be higher than they are now in the absence of

 19 the DSM programs.1 Under these circumstances, would

 20 Idaho Power have a claim for expedited amortization or

 21 depreciation of the higher cost generating plants

 22 acquired during the relevant time frame? The answer to

 23 that question is self evident, and by itself should be

 24 enough to reject Idaho Power's application.

 25 Q LET'S TURN TO THE THIRD POINT YOU MADE IN

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 1 YOUR HYPOTHESIZED IDAHO POWER ARGUMENT, THAT THE COMPANY

 2 MAY NOT BE ABLE TO RECOVER THE FULL COST OF ALL DSM

 3 PROGRAMS IN A COMPETITIVE MARKET. ISN'T THAT A FACT?

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 22 1The most recent three or four years, when market

 energy prices have been extraordinarily cheap, constitute

 23 a limited exception to this conclusion. But during this

 time frame, Idaho Power was winding down its DSM

 24 programs, and the amounts at issue are therefore not as

 significant as earlier acquisitions.

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 1 A Of course it is, but it is an irrelevant

 2 fact. The electric utility industry has succeeded in

 3 placing the stranded cost issue at the head of the

 4 political debate about restructuring. Policy makers may

 5 nevertheless ultimately decide that DSM costs are not

 6 stranded costs, or that there will be no stranded cost

 7 recovery at all except through normal market mechanisms.

 8 But unless Congress or the legislature takes this issue

 9 out of the Commissions hands, Idaho Power will have an

 10 opportunity to seek full recovery of stranded costs when

 11 restructuring actually occurs.

 12 Until that time, the Commission should not be

 13 enticed into piecemeal stranded cost determinations.

 14 Idaho Power, like any other utility or energy producer,

 15 has some recent vintage, high cost units of production.

 16 These may include some DSM programs, although it has made

 17 no attempt to prove this is so. But as I just explained,

 18 it also has recent vintage, high cost production units

 19 that were voluntarily acquired, and it would presumably

 20 have more but for the presence of the DSM programs.

 21 Nevertheless, Idaho Power remains one of the lowest cost

 22 electric energy producers in the nation. It has a

 23 resource portfolio that is the envy of virtually every

 24 other producer in the country. There is nothing in this

 25 situation that suggests the need for urgent corrective

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 1 action.

 2 If restructuring does not occur, then Idaho Power

 3 is assured of DSM cost recovery, and this whole case is

 4 moot. But suppose either Congress or the state

 5 legislature mandates restructuring? In that case,

 6 ratepayers will argue that all generating resources and

 7 generation surrogate costs, such as DSM, should be lumped

 8 together to determine whether stranded costs exist

 9 (assuming stranded cost recovery is appropriate in the

 10 first place). Idaho

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 1 Power will argue that some high cost resources should not

 2 be included in the stranded cost determination and should

 3 be recovered separately. The Commission can then make an

 4 informed decision in light of prevailing circumstances

 5 and legal requirements. If Idaho Power wins, the

 6 Commission can fashion an appropriate remedy that will

 7 insure recovery of DSM or any other form of stranded

 8 costs.2 But if an extraordinary DSM recovery is

 9 authorized now, this debate is preempted and the

 10 ratepayers will have no realistic opportunity for relief

 11 even if their argument subsequently proves meritorious.

 12 Q BUT ISN'T IT A FACT THAT OTHER REGULATED

 13 INDUSTRIES HAVE BEEN AUTHORIZED TO ACCELERATE

 14 DEPRECIATION AND AMORTIZATION WHEN FACED WITH THE

 15 TRANSITION TO A COMPETITIVE MARKET?

 16 A Yes. I am familiar with a number of

 17 instances in which telephone companies or natural gas

 18 distribution companies were authorized to shorten

 19 depreciation lives and increase depreciation rates in

 20 anticipation of a transition to competition. But the

 21 evidence in those cases was generally that the previously

 22 authorized plant lives were unrealistic, and regulated

 23 depreciation rates were well below the norm in the

 24 unregulated market.

 25 No such showing has been made in this case. It

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 1 was only three years ago that this Commission found as a

 2 fact that the average useful life of DSM

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 20 2This observation fits nowhere else in the

 discussion, so I will reduce it to a footnote, although

 21 it is an important fact. The Commission should note that

 Idaho Power's proposal would, at the end of the

 22 amortization period, reduce the cost of DSM resources not

 to market price or some other objective standard, but to

 23 zero. In this respect, its requested relief is more

 draconian than a stranded cost recovery which would

 24 presumably be limited to compensation of only that

 portion of resource costs that can't be recovered in a

 25 competitive market.

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 1 investments is 24 years. Idaho Power, should, of course,

 2 be free to argue that this decision was incorrect, but

 3 until it meets its burden of proof in establishing a

 4 shorter useful life it has no case for accelerated

 5 amortization of these investments. At this point, Idaho

 6 Power has submitted no cogent evidence at all on this

 7 issue.

 8 Q ARE THERE ANY OTHER ISSUES THAT WARRANT THE

 9 COMMISSION'S ATTENTION IN THIS CASE?

 10 A Yes. There are two additional issues the

 11 Commission should consider. First, if the Commission

 12 grants Idaho Power's request in this case, it must also

 13 order the immediate termination of all DSM expenditures

 14 at the same time.

 15 Q WHY?

 16 A I have not examined the origins of each of

 17 the DSM programs in detail, but it is obvious they were

 18 determined to be cost effective for the ratepayers with

 19 the assumption that payments would be amortized over a

 20 lengthy period of time, with the overall average being 24

 21 years. It is likewise obvious that none of these

 22 programs are likely to be remotely cost effective for

 23 current ratepayers if the working assumption is they must

 24 be amortized over 5 years because restructuring is

 25 imminent.

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 1 Q PLEASE EXPLAIN.

 2 A I don't have to conduct a sophisticated

 3 study to conclude that, if this petition is granted and

 4 restructuring occurs shortly after the close of the

 5 amortization period, none of the DSM programs will be

 6 cost effective from a nonparticipating customers point of

 7 view. I will use a crude hypothetical that disregards

 8 the time value of money to make the point. Suppose a

 9 conservation measure is deemed to exactly meet a cost

 10 effectiveness test at 4

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 1 cents per kwh, with costs amortized over 25 years. Now

 2 let us postulate, in accordance with Idaho Power's

 3 petition, that amortization is shortened to 5 years,

 4 followed by restructuring and competition. From the

 5 nonparticipating ratepayers' point of view, the cost of

 6 the program is now 20 cents per kwh! Of course, the

 7 conservation measure will continue generating "free"

 8 energy savings for another 20 years, but this is

 9 meaningless to nonparticipants if they are served by

 10 another supplier during this time frame.

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 13 (First full question and answer beginning on page 15 and

 14 same answer ending on page 16 were excised from the

 15 record by the witness.)

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 1 Q WITH THESE CONSIDERATIONS IN MIND, HOW

 2 SHOULD THE COMMISSION RULE IN THIS CASE?

 3 A The Commission should reject Idaho Power's

 4 request for accelerated amortization of accumulated DSM

 5 costs. As matters now stand, Idaho Power is earning a

 6 fair recovery on these costs, and this recovery is not

 7 threatened by the specter of utility restructuring. If

 8 and when restructuring occurs, the Commission can fully

 9 consider the stranded cost issue as it relates to all of

 10 Idaho Power's assets. My own prediction is that Idaho

 11 Power will probably have negative stranded costs when the

 12 transition to a competitive environment occurs, and the

 13 Commission's biggest issue will be whether and how to

 14 compensate ratepayers, rather than Idaho Power, for the

 15 cost of this transition. But judgments on this issue are

 16 at best premature now because we don't know whether

 17 restructuring will in fact occur in Idaho, or what the

 18 legal framework will be. Rushing to judgment is not

 19 necessary to protect Idaho Power, and it may produce an

 20 erroneous determination that is extremely prejudicial to

 21 the ratepayers.

 22 Allocation of DSM Costs

 23 Q YOU EARLIER STATED THAT YOU WOULD HAVE SOME

 24 OBSERVATIONS ABOUT THE ALLOCATION OF DSM COSTS PROPOSED

 25 BY IDAHO POWER. WHAT ARE THOSE OBSERVATIONS?

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 1 A The allocation of DSM costs to FMC

 2 obviously raises troubling issues. Under the 1974

 3 contract, FMC was an interruptible customer served from

 4 generating reserves. As such, it received minimal, if

 5 any, benefits from DSM measures. In fact, DSM programs

 6 probably harmed FMC.

 7 Q PLEASE EXPLAIN.

 8 A All things being equal, an interruptible

 9 customer receives most of the value of an interruptible

 10 contract when new base load plant are added. As

 11 significant plants are brought on line, the interruptible

 12 customer benefits from the excess reserve capacity that

 13 exists until load growth consumes the full output of the

 14 plant. During these periods, load interruptions are

 15 minimized. DSM acquisitions, on the other hand, occur in

 16 smaller increments and don't have the same capacity

 17 benefits for an interruptible customer. They therefore

 18 tend to increase interruptions beyond those anticipated

 19 when the contracting parties struck their bargain.

 20 Q YOU HAVE DESCRIBED THE RELATIONSHIP BETWEEN

 21 DSM AND THE OLD FMC CONTRACT. WHAT IS THE RELATIONSHIP

 22 TO THE NEW CONTRACT?

 23 A Under the new contract, the first 120

 24 megawatts of FMC's load is take or pay service from Idaho

 25 Power. It can be argued that this load benefits from DSM

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 1 expenditures. But the second block of 130 megawatts

 2 receives no benefit at all because the price is tied to

 3 market conditions that are not affected by Idaho Power's

 4 resource costs.

 5 Q WHAT CONCLUSIONS DO YOU DRAW FROM THIS

 6 INFORMATION?

 7 A Given the fact that FMC has no practical

 8 ability to directly participate in any of the DSM

 9 programs, and given the additional fact that these

 10 programs have

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 1 been at best a mixed blessing in the past and will

 2 produce no benefits for its second block purchases in the

 3 future, some adjustment of the allocation of DSM costs to

 4 FMC is warranted. The most practical adjustment, and the

 5 one I recommend to the Commission, is to allocate DSM

 6 costs only to FMC's first block of energy, under which

 7 FMC purchases 120 megawatts of energy at 100% load

 8 factor.

 9 Q IDAHO POWER HAS PROPOSED TO ALLOCATE ALL

 10 POST 1993 DSM EXPENDITURES ON THE BASIS OF EACH CUSTOMER

 11 CLASS ABILITY TO PARTICIPATE IN THE PROGRAMS. IS THIS A

 12 REASONABLE REQUEST?

 13 A Yes, although Idaho Power's testimony does

 14 not do a particularly good job of explaining the

 15 rationale for this proposal. The reason why this makes

 16 sense is that none of the DSM programs could meet a

 17 reasonable cost effectiveness test during the past four

 18 years. During this time frame, market prices for energy

 19 in the Northwest have been below the cost of even the

 20 cheapest DSM program, and this will of course be doubly

 21 true if the Commission accelerates the amortization

 22 period for these programs. That being the case, post

 23 1993 DSM measures can only be justified on the grounds of

 24 the potential benefits to participating customers. In

 25 effect, DSM programs have become a social program rather

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 1 than a resource acquisition strategy.

 2 Under these circumstance, all costs should be

 3 allocated only to participating classes. If these

 4 programs were funded by general taxes, like other social

 5 programs, FMC's contribution would be marginal to the

 6 point of insignificance. There is no reasonable

 7 justification for collecting roughly 13% of the total

 8 cost of these programs from FMC through what amounts to

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 1 energy tax. To do so would be patently unfair to FMC,

 2 and it would provide an undeserved windfall for the

 3 beneficiaries of the programs.

 4 Q HOW SHOULD THE COMMISSION SORT ALL THIS

 5 OUT?

 6 A Regardless of whether or not the Commission

 7 shortens the DSM amortization period, FMC should not be

 8 responsible for more than its allocable share of the pre

 9 1994 DSM costs that are attributable to its first block

 10 of energy.

 11 Q DOES THIS CONCLUDE YOUR TESTIMONY?

 12 A Yes, it does.

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 1 (The following proceedings were had in

 2 open hearing.)

 3 COMMISSIONER SMITH: And we'll ask if there

 4 any questions. Mr. Budge.

 5 MR. BUDGE: Just a couple of brief areas,

 6 if I may.

 7

 8 CROSS-EXAMINATION

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 10 BY MR. BUDGE:

 11 Q Mr. Bonn, turning to about page 16 and 17

 12 of your testimony, if you would, you begin at the bottom

 13 of 16 with some of your observations on the allocation of

 14 DSM costs and then you make a statement at the top of

 15 page 17 that the allocation raises some troubling issues,

 16 and as I understand your testimony, you conclude that FMC

 17 receives minimal benefit from DSM programs and you even

 18 make the statement that it's probably harmed; is that

 19 correct?

 20 A Yes.

 21 Q And if I understand in the following

 22 question and answer there on page 17, you give an

 23 explanation and you basically state that an interruptible

 24 customer receives most of the value of an interruptible

 25 contract when new base load plant is added, and then you

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 1 go on a couple of sentences beyond that and state that

 2 DSM acquisitions, on the other hand, occur in smaller

 3 increments and do not have the same capacity benefits for

 4 an interruptible customer.

 5 Mr. Bonn, the question I have, to your

 6 knowledge, is Idaho Power an energy constrained system or

 7 demand constrained system?

 8 A Probably more a demand constrained system.

 9 Q And if in fact I were to tell you that the

 10 historic interruptions of FMC have been based upon demand

 11 constraints -- excuse me, been based upon energy

 12 constraints rather than demand constraints, would that be

 13 something of surprise to you and would that change your

 14 answer?

 15 A No, I don't believe so.

 16 Q No, it wouldn't surprise you?

 17 A It would not surprise me.

 18 Q And if in fact FMC is interrupted based

 19 upon the energy constraints, then would DSM programs that

 20 reduce energy consumption in fact be of benefit to FMC

 21 like the addition of new plant?

 22 A No, I don't believe so.

 23 Q And why would that not be the case? Why

 24 wouldn't a megawatt saved of energy have the same effect

 25 as adding a megawatt of base load plant?

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 1 A Well, again, I don't think that you're

 2 comparing apples to apples there. I believe it's much

 3 easier to build more base load, build it in larger

 4 increments, than you can receive by garnering energy from

 5 a DSM program.

 6 Q If you were to accept as true that FMC is

 7 often interrupted for basically weeks on end due to

 8 energy constraints on the Idaho Power system, would not

 9 the fact that DSM programs have saved energy to the

 10 system provided a benefit to FMC?

 11 A Yes, I suppose it would.

 12 Q If you assumed that they were energy

 13 constrained.

 14 A If they were energy constrained, yes.

 15 Q One other area. On the bottom of page 17

 16 of your testimony, you go on to describe the relationship

 17 between DSM under the old and the new FMC contract.

 18 A Uh-huh.

 19 Q Do you see that testimony?

 20 A Yes, sir.

 21 Q And I think it's your second answer up from

 22 the bottom and after talking about the first block of

 23 power, in the second sentence you make this statement,

 24 "But the second block of 130 megawatts receives no

 25 benefit at all because the price is tied to market

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 1 conditions that are not affected by Idaho Power's

 2 resource costs." Do you see that statement there?

 3 A Yes, sir.

 4 Q And what is the basis of that conclusion

 5 that you make that the price is tied to market conditions

 6 unaffected by the Company's resource costs? Is that

 7 based upon your review and interpretation of the contract

 8 or is it based on something that Idaho Power has told you

 9 or FMC has told you?

 10 A Kind of a combination of all three. That's

 11 my understanding of contract that the second block of

 12 this power is tied to a market price.

 13 Q So you interpret the contract that way?

 14 A Yes.

 15 Q And as far as I understand, you believe

 16 that FMC takes that position as well?

 17 A Yes.

 18 Q And has your testimony been reviewed by

 19 counsel prior to filing on this particular matter as well

 20 as its whole substance?

 21 A Yes.

 22 Q Were you provided as a part of your

 23 background information to prepare for this case any of

 24 the filings made by FMC and Idaho Power in their joint

 25 application to approve the new FMC contract?

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 1 A Not to my knowledge.

 2 Q And you wouldn't be familiar with, then,

 3 particular positions that they may have stated in that

 4 case?

 5 A I have participated over the years in the

 6 negotiations of that contract and consulted FMC in

 7 regards to that contract.

 8 MR. BUDGE: May I approach the witness?

 9 COMMISSIONER SMITH: Yes.

 10 (Mr. Budge approached the witness.)

 11 Q BY MR. BUDGE: Mr. Bonn, I'm handing you

 12 what's entitled a response of FMC and Idaho Power and it

 13 was filed on the date of March 18th, 1998, in the case of

 14 IPC-E-97-13, that's the contract approval case, and I'll

 15 refer you to the statement at the bottom of page 2.

 16 MR. WARD: Do you have a copy for me,

 17 Counsel?

 18 THE WITNESS: The highlighted statement?

 19 MR. BUDGE: Just one second. Let me make

 20 these copies available.

 21 (Mr. Budge distributing documents.)

 22 Q BY MR. BUDGE: Mr. Bonn, the statement I

 23 was referring to I believe you found to be underlined.

 24 A Yes, sir.

 25 Q And that statement says, "All of the

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 1 unbundled rate elements, other than the power supply

 2 component, are again based on Idaho Power's cost of

 3 serving FMC." That seems to be in direct contradiction

 4 to your testimony that states that the price is tied to

 5 market conditions not affected by Idaho Power's resource

 6 costs.

 7 MR. WARD: I'm going to object to that

 8 characterization. It is not in direct conflict.

 9 COMMISSIONER SMITH: Mr. Ward, is your mike

 10 on?

 11 MR. WARD: Excuse me. Madam Chair, I

 12 object to that characterization. That statement says all

 13 of the unbundled rate elements, other than the power

 14 supply component, are tied to Idaho Power's cost of

 15 serving FMC. The unbundled rate elements have to do with

 16 the delivery cost and delivery price to FMC. The power

 17 supply component is the part that's tied to the market

 18 and there's no conflict between this statement and the

 19 statement that the power supply component, which is the

 20 primary portion of the price, is tied to the market, so I

 21 object to that characterization.

 22 COMMISSIONER SMITH: Mr. Budge.

 23 MR. BUDGE: I could rephrase the question.

 24 COMMISSIONER SMITH: Okay.

 25 Q BY MR. BUDGE: Mr. Bonn, do you believe the

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 1 statements to be consistent? Maybe I can ask it a

 2 different way. When we talk about all unbundled rate

 3 elements, what is usually being referred to here?

 4 A A combination of generation costs,

 5 transmission costs, distribution costs.

 6 Q And in your testimony on page 17 when you

 7 refer to a price being tied to market condition, are you

 8 talking about one of the unbundled elements there?

 9 A The generation portion.

 10 Q The generation portion? So on this

 11 statement here on the comments that I gave you that says

 12 all unbundled elements, did you understand that to mean

 13 all unbundled elements consisted of generation as well as

 14 transmission and distribution?

 15 MR. WARD: Madam Chair, I'm going to

 16 object. This is completely mischaracterizing the

 17 document he's looking at. It says "All of the unbundled

 18 rate elements, other than the power supply component, are

 19 based on" et cetera, et cetera. It clearly states that

 20 the power supply component is tied -- I mean it does

 21 not -- this document is not inconsistent with the

 22 assertion that costs are tied to the power supply

 23 component.

 24 MR. BUDGE: I appreciate Mr. Ward's

 25 testimony, but I can rephrase it one additional way.

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 1 MR. WARD: Madam Chairman, my objection is

 2 I don't appreciate counsel's testimony. It's inaccurate.

 3 COMMISSIONER SMITH: Mr. Budge, I think you

 4 have to take the whole sentence, unbundled elements other

 5 than the power supply component.

 6 MR. BUDGE: Let me reask it.

 7 Q BY MR. BUDGE: Do you stand by your

 8 statement, Mr. Bonn, in your testimony that the price on

 9 the second block of the FMC contract is tied only to

 10 market conditions unaffected by Idaho Power's resource

 11 costs?

 12 A Yes.

 13 Q And you don't feel that there's a

 14 contradiction between that and the statement made by the

 15 Company in the previous case?

 16 A The sentence taken in full context, yes,

 17 they are consistent.

 18 MR. BUDGE: Thank you. I have no further

 19 questions.

 20 COMMISSIONER SMITH: Thank you, Mr. Budge.

 21 Mr. Richey.

 22 MR. RICHEY: I have no questions.

 23 COMMISSIONER SMITH: Mr. Richardson.

 24 MR. RICHARDSON: Just one, Madam Chairman,

 25 thank you.

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 1 CROSS-EXAMINATION

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 3 BY MR. RICHARDSON:

 4 Q Mr. Bonn, the question from Mr. Ward before

 5 you were tendered for cross-examination, you spoke about

 6 expensing DSM on a going forward basis, do you recall

 7 that?

 8 A Yes.

 9 Q Can you tell me specifically which DSM

 10 expenses you were requesting be expensed on a going

 11 forward basis?

 12 A Those DSM programs implemented post --

 13 maybe I'm misunderstanding your question, but post-1994,

 14 1993. Maybe I'm misunderstanding the question.

 15 Q I'm just trying to be clear on what your

 16 recommendation is on which DSM costs should be expensed

 17 versus deferred and are you talking about those expenses

 18 incurred from this date forward or from the date of this

 19 order forward or are you talking about those that have

 20 already been deferred but pending approval by the

 21 Commission from 1994 on?

 22 A The latter.

 23 MR. RICHARDSON: Thank you, Madam Chairman.

 24 COMMISSIONER SMITH: Mr. Jauregui.

 25 MR. JAUREGUI: I have no questions.

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 1 COMMISSIONER SMITH: Mr. Gollomp.

 2 MR. GOLLOMP: No questions.

 3 COMMISSIONER SMITH: Mr. Fothergill.

 4 MR. FOTHERGILL: No questions.

 5 COMMISSIONER SMITH: Mr. Purdy.

 6 MR. PURDY: Thank you.

 7

 8 CROSS-EXAMINATION

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 10 BY MR. PURDY:

 11 Q Initially, I just want to clarify your

 12 changes to your prefiled testimony and I want to make

 13 sure that I understand correctly, is it your position

 14 still that there should be some reduction to Idaho

 15 Power's revenue requirement for this DSM cost to account

 16 for the fact that the Company will experience reduced O&M

 17 looking forward for the administration of the DSM

 18 programs, but that you're just deferring to the exact

 19 amount, you're deferring to Staff witness Carlock's

 20 position?

 21 A Yes.

 22 Q Now, I want to follow up on some questions

 23 asked by Mr. Budge, and if I understand, your position is

 24 that because FMC is an interruptible customer, somehow

 25 the acquisition of a kilowatt or a megawatt-hour, what

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 1 have you, as a resource is somehow different, affects FMC

 2 differently depending upon whether it is a kilowatt-hour

 3 or a megawatt-hour saved as opposed to a new resource,

 4 generating resource, being built; is that essentially --

 5 A Yes.

 6 Q All right. My question is I assume that as

 7 an interruptible customer, FMC has on occasion been

 8 interrupted by Idaho Power?

 9 A To my knowledge, yes.

 10 Q Do you know the basis for those

 11 interruptions?

 12 A No, I do not.

 13 Q Do you know whether they were because Idaho

 14 Power had insufficient energy to serve FMC or whether it

 15 was perhaps an economic decision that FMC was making that

 16 led to the interruption?

 17 A I would assume that both of those reasons

 18 have caused interruptions.

 19 Q Do you know whether Idaho Power has ever

 20 had insufficient energy to supply FMC's needs?

 21 A Not to my knowledge.

 22 Q Do you know the relative level of Idaho

 23 Power's reserve margins in the years that its various DSM

 24 programs were implemented?

 25 A I'm not an expert on that, no, sir.

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 1 Q So that's a no?

 2 A No.

 3 Q Isn't it true that the acquisition of

 4 additional energy through conservation would increase

 5 Idaho Power's reserve margins?

 6 A Yes, it would.

 7 Q I'm sorry?

 8 A Yes, it would.

 9 Q It would, thank you. If that's the case,

 10 wouldn't the acquisition of or the institution, the

 11 implementation of DSM reduce the risk that FMC would be

 12 interrupted because Idaho Power's reserve margins have

 13 been increased as you just testified?

 14 A Not to the extent that new capacity would.

 15 Q But nonetheless, the acquisition of DSM or

 16 the implementation of DSM does reduce FMC's risk, all

 17 other things being equal?

 18 A Yes, it does. Again, though, not as

 19 substantially as the addition of additional generation

 20 capacity.

 21 Q Well, Mr. Budge asked you some questions

 22 about what you meant when you said FMC's secondary block

 23 is tied to market conditions. Would you agree with me

 24 that both supply and demand contribute to determining

 25 what market prices are?

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 1 A Sure.

 2 Q All right; so wouldn't it follow, then,

 3 that the reduction of demand through conservation

 4 measures would affect the market price in any given

 5 market?

 6 A It certainly has, I guess, its role in

 7 affecting the market price. I don't think Idaho Power

 8 individually can move the market maybe one way or the

 9 other substantially. I think you're looking at several,

 10 a number of factors in determining that market price

 11 outside of Idaho Power.

 12 Q You, and if you need a reference, it's

 13 page 18, you seem to come to the conclusion there that

 14 none of Idaho Power's DSM programs are cost effective or

 15 have been cost effective over the past four years. My

 16 question to you is on what do you base that conclusion?

 17 A Sure. Basically my understanding of the

 18 industry within the last four years, we've seen gas

 19 prices drop substantially since many of these programs

 20 were implemented and I think it's easy to say there's

 21 been an increase in technology in terms of gas combined

 22 cycle generation which has reduced, I guess, the marginal

 23 cost of generating electricity.

 24 MR. WARD: Mr. Bonn, you're going to have

 25 to stay closer to the microphone for my older Mr. Ripley.

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 1 Q BY MR. PURDY: Have you performed any type

 2 of analysis, though, to determine whether Idaho Power's

 3 DSM programs have been cost effective and, if so, what is

 4 that analysis?

 5 A I have not performed any specific analysis

 6 on that issue, just my general knowledge of retail power

 7 marketing in this area. Knowing that power is generally

 8 in the one-and-a-half-cent range, it would be my

 9 understanding that these would not be cost effective,

 10 no. I can't imagine a measure that would be able to meet

 11 or beat that one-and-a-half-cent to two-cent price.

 12 Q Well, have you looked at Idaho Power's, for

 13 instance, their 1998 conservation plan to determine what

 14 the cost per kilowatt-hour of their various DSM programs

 15 has been and then compared that to some type of market

 16 benchmark?

 17 A I have seen some of those numbers. I have

 18 not, I guess, dwelled on those reports, no.

 19 Q I'm sorry, you've not what?

 20 A I've not dove into those reports, per se.

 21 MR. PURDY: That's all I have. Thank you.

 22 COMMISSIONER SMITH: Mr. Ripley.

 23

 24

 25

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 CSB REPORTING BONN (X)

 Wilder, Idaho 83676 FMC Corporation

 1 CROSS-EXAMINATION

 2

 3 BY MR. RIPLEY:

 4 Q Mr. Bonn, just one area.

 5 A Yes, sir.

 6 Q And if I could, just so that we'll be

 7 communicating, I'll call the new contract that Idaho

 8 Power and FMC have just entered into the '98 contract.

 9 A Okay.

 10 Q Okay? And I'll write that down because, as

 11 Mr. Ward says, I'm getting older and I may forget. Now,

 12 in addition to that, you talk at the top of page 17 about

 13 the 1974 contract.

 14 A Yes, sir.

 15 Q Now, do I assume that was the contract, as

 16 far as you understand it, that was in existence prior to

 17 the 1998 contract?

 18 A Yes.

 19 Q Okay; so we'll call that the '74 contract

 20 just so that you and I can communicate. Now, do I

 21 understand that under the '74 contract you agree that

 22 there were some benefits from the DSM program that FMC

 23 enjoyed as far as reductions in the amount of energy?

 24 A It's my understanding that the first block

 25 of that contract of 120 megawatts was not an entirely

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 CSB REPORTING BONN (X)

 Wilder, Idaho 83676 FMC Corporation

 1 interruptible load. It was only, I think, for a maximum

 2 of 100 hours per year, so there's some firmness there,

 3 so, yes, I believe that portion FMC did benefit from some

 4 DSM measures.

 5 Q But it also, did it not, enjoy benefits

 6 under the 1974 contract for the second block?

 7 A Not to my knowledge.

 8 Q Well, it was served out of the resources of

 9 Idaho Power Company, was it not?

 10 A Yes, it was.

 11 Q It was not totally interruptible, was it?

 12 A The second block?

 13 Q Yes.

 14 A It was my understanding that --

 15 MR. WARD: If you know.

 16 THE WITNESS: No, I don't know the answer

 17 to that one.

 18 Q BY MR. RIPLEY: Okay, assume, if you will,

 19 that over a 10-year period of time, Idaho Power Company

 20 was obligated to make a certain amount of energy

 21 available under the second block and it could not be

 22 totally interrupted all of the time for the 10-year

 23 period.

 24 A Okay.

 25 Q If you assume that, then there was some

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 CSB REPORTING BONN (X)

 Wilder, Idaho 83676 FMC Corporation

 1 benefit, was there not, under the 1974 contract to FMC

 2 whenever Idaho Power Company reduced its obligation to

 3 provide power to someone else?

 4 A Yes, that could be argued, yes.

 5 Q All right. Now, under the 1998 contract,

 6 as I understand it, you contend that that argument is no

 7 longer valid because now it's a market rate?

 8 A No, I do think that we contend that the

 9 first block of the contract, the block that is not tied

 10 to market forces, should be, DSM costs should be,

 11 allocated to that portion.

 12 Q But if I follow your testimony --

 13 A Yes, sir.

 14 Q -- on page 17 in the third Q&A that you

 15 have described the relationship between DSM and the old

 16 FMC contract --

 17 A Yes, sir.

 18 Q -- what is the relationship to the new

 19 contract, you say, "It can be argued that this load

 20 benefits from DSM expenditures." That's the first block,

 21 but the second block receives no benefit at all because

 22 the price is tied to market conditions.

 23 A Yes.

 24 Q Am I following your testimony correctly

 25 that you believe under the 1998 contract the benefits to

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 CSB REPORTING BONN (X)

 Wilder, Idaho 83676 FMC Corporation

 1 DSM on the second block are no longer there?

 2 A Yes, I do.

 3 Q Now, you could argue that there were some

 4 benefits under the 1974 contract --

 5 A Yes.

 6 Q -- as to how beneficial, but at least there

 7 was some benefit and now that's gone?

 8 A For the second block.

 9 Q Yes. Do you agree with that?

 10 A Yes.

 11 Q All I'm talking about is the second block

 12 in all of these questions. I want to make sure that I'm

 13 not putting words in your mouth. As far as the second

 14 block is concerned, you argue that because of the new

 15 contract, the 1998 contract, there are no benefits to DSM

 16 that Idaho Power -- there are no benefits to the DSM

 17 programs as far as FMC's second block is concerned?

 18 A Yes.

 19 Q Now, there may have been some benefits to

 20 the second block under the 1974 contract.

 21 A Yes, because that block was not tied -- was

 22 directly tied to Idaho Power's resource costs and the

 23 second block in the '98 contract is not, at least the

 24 generation portion.

 25 Q Now, what we're talking about in this

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 CSB REPORTING BONN (X)

 Wilder, Idaho 83676 FMC Corporation

 1 proceeding are the expenditures we have made in the past

 2 and not the future; correct?

 3 A Yes.

 4 Q If we're talking about the benefits when

 5 the expenditures were made, which is in the past, and

 6 during that period of time FMC enjoyed some benefit, why

 7 shouldn't FMC now pay for the benefits that it received

 8 in the past?

 9 A Because those measures are no longer cost

 10 effective or they would not hold up to a

 11 cost-effectiveness test.

 12 Q So what you're arguing is that if under

 13 today's standards there is no benefit from the fact that

 14 at the time the expenditures were made there was benefit,

 15 that should release any party where there is no benefit

 16 now from paying for the prior DSM expenditures?

 17 A I certainly see where you're getting at,

 18 but, yes.

 19 Q Isn't that Idaho Power Company's dilemma in

 20 this proceeding that what it's attempting to do is

 21 collect from those that benefited at the time the

 22 expenditure was made?

 23 A Yes.

 24 Q And that's what you're resisting?

 25 A Yes.

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 CSB REPORTING BONN (X)

 Wilder, Idaho 83676 FMC Corporation

 1 MR. RIPLEY: That's all the questions I

 2 have. Thank you.

 3 COMMISSIONER SMITH: Thank you,

 4 Mr. Ripley.

 5 Do we have questions from the

 6 Commissioners?

 7 COMMISSIONER HANSEN: I have none.

 8 COMMISSIONER NELSON: Thank you. I have

 9 maybe a couple.

 10

 11 EXAMINATION

 12

 13 BY COMMISSIONER NELSON:

 14 Q So as I understand your testimony in this

 15 question and answer session, you believe that a megawatt

 16 of acquired DSM is different to FMC than a megawatt of

 17 new generation?

 18 A Well, I don't think that there's a

 19 substantial difference. What I do believe is that the

 20 readiness or the ability to create megawatts, as you put

 21 it, through DSM programs is far less substantial or

 22 feasible than by building new generation capacity.

 23 Q But we wouldn't -- we're just comparing one

 24 megawatt to one megawatt, aren't we? I mean, if it's

 25 there, it doesn't matter whether it was longer to get or

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 Wilder, Idaho 83676 FMC Corporation

 1 easier to get generation, does it?

 2 A I'll agree with that.

 3 Q Well, then what I wanted to know is whether

 4 or not you think there is a difference to FMC whether

 5 that megawatt is acquired through a demand side

 6 management program or through generation.

 7 A Put that way, no, I do not see a

 8 difference.

 9 Q Well, the reason I ask that is this morning

 10 Mr. Said said that he thought there was a difference in

 11 the way you treat DSM expenditures and generation

 12 expenditures in terms of how you recover the

 13 capitalization.

 14 A Yes, I heard that.

 15 Q Did you agree with that?

 16 A Well, you're talking about expenditures and

 17 then previously you were talking about just capacity.

 18 Q But it all winds up as a figure on the

 19 books and a cost that's passed through and it would be

 20 passed through to all customers, including FMC, but I

 21 thought I heard you say that it made a difference to FMC

 22 whether it was DSM or generation.

 23 A A difference how? Maybe I'm

 24 misunderstanding the question.

 25 Q Let's go to your testimony on page 12 in

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 Wilder, Idaho 83676 FMC Corporation

 1 the middle paragraph. There you seem to say that there

 2 is no difference. You say in the middle of that

 3 paragraph that the Company also has recent vintage, high

 4 cost production units that were voluntarily acquired.

 5 A Okay, I see that.

 6 Q And so you're saying by that statement

 7 there is no difference between a megawatt acquired

 8 whether it's through a DSM program or a generation

 9 program.

 10 A That statement is accurate.

 11 Q Okay. Then does that mean you disagree

 12 with what Mr. Said this morning about the fact that those

 13 should be treated differently?

 14 A I'm not sure I understand how that applies

 15 if you could expand a bit.

 16 Q Well, I think in Mr. Said's example he was

 17 saying that you would depreciate a capital asset, a

 18 generation asset, over the life of that asset, unless you

 19 were in the telephone industry, almost universally, but

 20 that you might amortize a demand side management asset

 21 over, say, something closer to an economic life than a

 22 physical life.

 23 A I'll agree with that. Maybe I'm

 24 misunderstanding the point. I very well could be.

 25 Q Well, I think in your testimony it appears

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 1 to me that you're saying that DSM is the same as a

 2 generating asset.

 3 A Yes, I do.

 4 Q So then you disagree with Mr. Said?

 5 A Yes. If that's the case, yes, I do feel

 6 like these DSM programs are indirectly sort of a

 7 generation resource.

 8 COMMISSIONER NELSON: Okay, thank you.

 9 That's all I have.

 10 COMMISSIONER SMITH: Do we have redirect,

 11 Mr. Ward?

 12 MR. WARD: Maybe to just clear up one

 13 matter.

 14

 15 REDIRECT EXAMINATION

 16

 17 BY MR. WARD:

 18 Q With regard to the statement that, and I'll

 19 paraphrase, for an interruptible customer base load plant

 20 additions are more valuable than DSM, were you trying to

 21 make any point other than as a practical matter an

 22 interruptible customer is less likely to be interrupted

 23 when there's a substantial base load addition?

 24 A That is my point, yes.

 25 MR. WARD: Thank you. That's all I have,

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 CSB REPORTING BONN (Di)

 Wilder, Idaho 83676 FMC Corporation

 1 Madam Chair.

 2 COMMISSIONER SMITH: Okay, thank you,

 3 Mr. Ward. Thank you, Mr. Bonn.

 4 (The witness left the stand.)

 5 COMMISSIONER SMITH: All right, that's the

 6 end of the people we had lined up. Is there anyone who

 7 would --

 8 COMMISSIONER NELSON: I think we have one

 9 more.

 10 COMMISSIONER SMITH: You know what I mean,

 11 people who had to get out of town today.

 12 MR. BUDGE: Or just wanted to get out of

 13 town.

 14 COMMISSIONER SMITH: Mr. Budge, would you

 15 like to be next?

 16 MR. BUDGE: Sure, that would be fine, if it

 17 would please the Chair.

 18 COMMISSIONER SMITH: Oh, we're just really

 19 pleased.

 20 MR. BUDGE: The Irrigators would call

 21 Anthony Yankel to the stand.

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 CSB REPORTING BONN (Di)

 Wilder, Idaho 83676 FMC Corporation

 1 ANTHONY J. YANKEL,

 2 produced as a witness at the instance of the Idaho

 3 Irrigation Pumpers Association, having been first duly

 4 sworn, was examined and testified as follows:

 5

 6 DIRECT EXAMINATION

 7

 8 BY MR. BUDGE:

 9 Q Would you state your name and address for

 10 the record?

 11 A Anthony J. Yankel, 29814 Lake Road,

 12 Bay Village, Ohio, 44140.

 13 Q Did you prefile testimony and exhibits on

 14 behalf of the Idaho Irrigation Pumpers Association?

 15 A Yes, I did.

 16 Q And did your testimony consist of pages 1

 17 through 16 and Exhibit 301?

 18 A Yes.

 19 Q Do you have any changes or corrections you

 20 wish to make to your testimony or the exhibit?

 21 A Yes, I have two. Page 7, lines 10 and 11,

 22 the end of line 10 cross out the word "those," line 11

 23 cross out the word "same" and "20" and insert the number

 24 "eight."

 25 COMMISSIONER SMITH: Would you read that

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 CSB REPORTING YANKEL (Di)

 Wilder, Idaho 83676 Irrigators

 1 sentence, please?

 2 THE WITNESS: The sentence should read,

 3 "Additionally, the Company has been recovering over

 4 eight months the amortization," and it continues from

 5 there.

 6 The second correction is on page 8,

 7 line 4. After the words "electric utility" insert the

 8 word "industry." Those are the only corrections I'm

 9 aware of.

 10 Q BY MR. BUDGE: Mr. Yankel, if I were to ask

 11 you today the same questions set forth in your prefiled

 12 testimony, would your answers be the same as corrected?

 13 A Yes, they would.

 14 MR. BUDGE: With that, we would ask that

 15 Mr. Yankel's testimony and Exhibit 301 be spread on the

 16 record and he be tendered for cross-examination.

 17 COMMISSIONER SMITH: If there's no

 18 objection, we will spread the prefiled direct testimony

 19 of Mr. Yankel upon the record as if read and identify

 20 Exhibit 301.

 21 (The following prefiled testimony of

 22 Mr. Anthony Yankel is spread upon the record.)

 23

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 CSB REPORTING YANKEL (Di)

 Wilder, Idaho 83676 Irrigators

 1 Q PLEASE STATE YOUR NAME, ADDRESS, AND

 2 EMPLOYMENT.

 3 A I am Anthony J. Yankel. I am President of

 4 Yankel and Associates, Inc. My address is 29814 Lake

 5 Road, Bay Village, Ohio, 44140.

 6 Q WOULD YOU BRIEFLY DESCRIBE YOUR EDUCATIONAL

 7 BACKGROUND AND PROFESSIONAL EXPERIENCE?

 8 A I received a Bachelor of Science Degree in

 9 Electrical Engineering from Carnegie Institute of

 10 Technology in 1969 and a Master of Science Degree in

 11 Chemical Engineering from the University of Idaho in

 12 1972. From 1969 through 1972, I was employed by the Air

 13 Correction Division of Universal Oil Products as a

 14 product design engineer. My chief responsibilities were

 15 in the areas of design, start-up, and repair of new and

 16 existing product lines for coal-fired power plants. From

 17 1973 through 1977, I was employed by the Bureau of Air

 18 Quality for the Idaho Department of Health & Welfare,

 19 Division of Environment. As Chief Engineer of the

 20 Bureau, my responsibilities covered a wide range of

 21 investigative functions. From 1978 through June 1979, I

 22 was employed as the Director of the Idaho Electrical

 23 Consumers Office. In that capacity, I was responsible

 24 for all organizational and technical aspects of

 25 advocating a variety of positions before various

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 Yankel, DI 1

 Irrigators

 1 governmental bodies that represented the interests of the

 2 consumers in the State of Idaho. From July 1979 through

 3 October 1980, I was a partner in the firm of Yankel,

 4 Eddy, and Associates. Since that time, I have been in

 5 business for myself. I am a registered Professional

 6 Engineer in the states of Ohio and Idaho. I have

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 Yankel, DI 1A

 Irrigators

 1 presented testimony before the Federal Energy Regulatory

 2 Commission (FERC), as well as the State Public Utility

 3 Commissions of Idaho, Montana, Ohio, Pennsylvania, Utah,

 4 and West Virginia.

 5 Q ON WHOSE BEHALF ARE YOU TESTIFYING?

 6 A I am testifying on behalf of the Idaho

 7 Irrigation Pumpers Association (Irrigators).

 8 Q WHAT ISSUES WILL YOU ADDRESS IN YOUR

 9 TESTIMONY?

 10 A I will address two issues. The first issue

 11 is the fact that the revenue increase proposed by the

 12 Idaho Power Company (Company or Idaho Power) is

 13 overstated. The rate moratorium that was instituted as a

 14 part of the Stipulation in Case No. IPC-E-95-11 prohibits

 15 the recovery in present rates of DSM expenditures that

 16 have been deferred since January 1, 1994. Additionally,

 17 reductions should be made to present rates (in keeping

 18 with the rate moratorium) to reflect the fact that future

 19 DSM administrative costs and Low Income Weatherization

 20 costs have been substantially reduced.

 21 The second issue that I will address is the

 22 inherent unfairness in the Company's proposed allocation

 23 of post-January 1, 1994 DSM costs.

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 Yankel, DI 2

 Irrigators

 1 REVENUE REQUIREMENT

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 3 Q IS THE REQUEST IN THIS CASE BY IDAHO POWER

 4 FOR AUTHORITY TO INCREASE ITS RATES TO RECOVER DEMAND

 5 SIDE MANAGEMENT (DSM) AND CONSERVATION EXPENDITURES

 6 APPROPRIATE?

 7 A No. Although it is generally appropriate

 8 for a utility to recover all prudently incurred costs for

 9 DSM and conservation expenditures; Idaho Power's request

 10 in this case is not appropriate and should be denied in

 11 part, if not in full. Idaho Power is entitled to collect

 12 its prudently incurred DSM costs, but there are a number

 13 of concerns and problems with the Company's filing in

 14 this case that greatly reduce, if not eliminate, the

 15 magnitude of the increase being requested in this case.

 16 Idaho Power's position that it is entitled to recover DSM

 17 expenditures "under any scenario"1 is simply wrong.

 18 Q WHAT ARE YOUR OBJECTIONS WITH THE COMPANY'S

 19 FILING IN THIS CASE AS IT RELATES TO THE AMOUNT OF ANY

 20 INCREASE THAT SHOULD BE GRANTED?

 21 A There are two main objections which

 22 seriously impact the appropriateness and/or magnitude of

 23 any increase that should be given to the Company in this

 24 case with respect to recovery of DSM expenditures:

 25 1) The rate moratorium that was instituted as a

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 Yankel, DI 3

 Irrigators

 1 part of the Stipulation in Case No. IPC-E-95-11

 2 prohibits (until January 1, 2000) an increase

 3 in rates for the DSM expenditures made after

 4 January 1, 1994, which are being deferred, but

 5 not recovered in present rates. That

 6 Stipulation only allows changes in

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 24 1Idaho Power Company Reply to Motions to Dismiss,

 March 20, 1998, page 3.

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 Yankel, DI 3A

 Irrigators

 1 present rates for DSM expenditures that are

 2 being recovered in present rates: pre-1994 DSM

 3 costs and post-January 1, 1994 DSM

 4 administrative costs and Low Income

 5 Weatherization costs.

 6 2) If the Commission is going to make any

 7 adjustments to the rates paid by Idaho retail

 8 customers, these adjustments should remove from

 9 base rates the majority of the $1,113,387 of

 10 annual revenue currently being collected as an

 11 off-set to DSM administrative costs and Low

 12 Income Weatherization costs which are no longer

 13 being incurred.

 14 Rate Moratorium

 15 Q HOW DOES THE RATE MORATORIUM THAT WAS

 16 INSTITUTED AS A PART OF THE STIPULATION IN CASE NO.

 17 IPC-E-95-11 PROHIBITS (UNTIL JANUARY 1, 2000) AN INCREASE

 18 IN RATES FOR DSM EXPENDITURES MADE AFTER JANUARY 1, 1994?

 19 A In Case No. IPC-E-95-11 a Stipulation was

 20 reached. The Idaho Irrigation Pumpers Association signed

 21 that Stipulation. That Stipulation contained a rate

 22 moratorium that specified that base rates would not

 23 change prior to January 1, 2000. There were three

 24 exceptions to that rate moratorium. The only exception

 25 that Idaho Power relies upon in support of its attempt to

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 Yankel, DI 4

 Irrigators

 1 circumvent the rate moratorium reads as follows:

 2 Furthermore, the moratorium does not apply to the

 following three exceptions: (2) application by

 3 Idaho Power, or any other party, requesting

 changes in the manner in which Demand Side

 4 Management charges are recovered...2 (Emphasis

 added)

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 24 2Page 4 of Settlement Stipulation in Case

 No. IPC-E-95-11.

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 Yankel, DI 4A

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 1 The relevant language here has to do with the

 2 manner in which Demand Side Management charges "are

 3 recovered." Costs that are being deferred are not being

 4 recovered. The Stipulation does not provide an exception

 5 for:

 6 1) the manner in which unknown Demand Side

 7 Management charges could be recovered;

 8 2) or the manner in which Demand Side Management

 9 charges (not included in rates, but deferred)

 10 could be recovered.

 11 The Stipulation only makes an exception for the manner in

 12 which Demand Side Management charges "are recovered." If

 13 the DSM costs were not already being recovered, as

 14 opposed to deferred, then the Stipulation does not make

 15 an exception for their recovery before January 1, 2000.

 16 The Company's contention that it can recover post-January

 17 1, 1994 deferred DSM costs "under any scenario" is

 18 erroneous and beyond the narrow exception to the rate

 19 moratorium that is outlined in the Stipulation.

 20 Q WHICH DSM COSTS FIT UNDER THE STIPULATION'S

 21 EXCEPTION REGARDING CHANGES IN BASE RATES ASSOCIATED WITH

 22 THE MANNER IN WHICH DEMAND SIDE MANAGEMENT CHARGES ARE

 23 RECOVERED?

 24 A The Stipulation in Case No. IPC-E-95-11 was

 25 approved by the Commission in Order No. 26216 on October

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 Yankel, DI 5

 Irrigators

 1 20, 1995. At that time the only DSM costs that were

 2 being recovered in base rates were associated with those

 3 approved by the Commission in Order 25880 from the

 4 Company's last general rate case. There were two types

 5 of DSM costs that were approved for recovery in present

 6 base rates per Order 25880:

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 Irrigators

 1 1) The Commission authorized cost recovery

 2 associated with $20,317,331 of DSM costs3 that

 3 had been deferred prior to 1994. The manner in

 4 which these pre-1994 deferred costs are being

 5 recovered is to amortize them in rates over a

 6 24 year time frame.

 7 2) The Company requested that it be authorized to

 8 begin expensing (as oppose to deferring) future

 9 administrative DSM costs and Low Income

 10 Weatherization Program costs. There is

 11 $1,113,387 recovered in present rates that is

 12 associated with what Order 25880 considered

 13 expected future administrative DSM costs and

 14 Low Income Weatherization Program costs.

 15 Q WHICH DSM EXPENDITURES DOES THE STIPULATION

 16 IN CASE NO. IPC-E-95-11 PROHIBITED FROM BEING THE BASIS

 17 FOR A CHANGE IN BASE RATES AT THIS TIME?

 18 A Aside from three specific exceptions, the

 19 Stipulation in Case No. IPC-E-95-11 prevents a change in

 20 base rates prior to January 1, 2000. Idaho Power's

 21 request for amortization of an additional $29,037,500 of

 22 DSM costs incurred since January 1, 1994 is over and

 23 above the recovery of DSM costs authorized in present

 24 rates. The Company can not be proposing to change the

 25 manner in which these DSM costs are recovered in present

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 Yankel, DI 6

 Irrigators

 1 rates, because these DSM cost have never even been

 2 included in present rates. The Stipulation prohibits

 3 until January 1, 2000 the inclusion in rates of the

 4 additional amortization of DSM costs incurred since

 5 January 1, 1994 - whether amortized over 5 years of 24

 6 years.

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 25 3Order No. 25880 at page 17 from Case No. IPC-E-94-5.

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 Yankel, DI 6A

 Irrigators

 1 Q SHOULD THE POST-JANUARY 1, 1994 DSM

 2 EXPENDITURES BE CONSIDERED AS A CONTINUATION OF THE

 3 COMPANY'S OVERALL COMMITMENT TO DSM AS APPROVED IN THE

 4 IDAHO POWER'S LAST GENERAL RATE CASE AND THUS ELIGIBLE

 5 FOR IMMEDIATE RECOVERY UNDER THE DSM EXCEPTION TO THE

 6 RATE MORATORIUM PER THE STIPULATION IN CASE NO.

 7 IPC-E-95-11?

 8 A No. In September 1995 the Stipulation in

 9 Case No. IPC-E-95-11 was signed by Idaho Power and

 10 various other parties. By that time, post-January 1,

 11 1994 DSM costs (less administrative and Low Income

 12 Weatherization Program costs) had been deferred for over

 13 20 months. Additionally, the Company had been recovering

 14 over eight months the amortization of pre-1994 DSM costs

 15 as well as the post-January 1, 1994 DSM administrative

 16 and Low Income Weatherization Program costs. The Company

 17 was certainly well aware that it was recovering some DSM

 18 costs while deferring others. Although the Stipulation

 19 contained an exception for DSM charges that were being

 20 recovered, the Stipulation did not contain an exception

 21 for the manner in which Demand Side Management charges

 22 were being deferred.

 23 Current DSM Administrative Expense in Base Rates

 24 Q IS THE RECOVERY IN BASE RATES OF $1,113,387

 25 ASSOCIATED WITH CURRENT DSM ADMINISTRATIVE EXPENSES AND

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 Yankel, DI 7

 Irrigators

 1 THE LOW INCOME WEATHERIZATION PROGRAM STILL APPROPRIATE?

 2 A No. The development of the $1,113,387

 3 annual revenue requirement associated with "future" DSM

 4 expenses in Order 25880 is based upon 1993 test year

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 Yankel, DI 7A

 Irrigators

 1 expenses. Those 1993 administrative expenses for DSM and

 2 the Low Income Weatherization Program are no longer

 3 valid.

 4 The Company's entire basis for filing the present

 5 case is its contention that the electric utility industry

 6 has changed4 or is likely to change5 since the present

 7 rates and present recovery mechanisms for pre-1994 DSM

 8 costs and post-January 1, 1994 DSM administrative and Low

 9 Income Weatherization costs were established by Order

 10 25880. While there has been, and continues to be,

 11 changes in the electric utility industry on a national

 12 basis, Idaho has not embraced deregulation with

 13 policymakers demonstrating a strong unwillingness to

 14 change the current regulated monopoly framework.

 15 Anticipating a move toward competition in the future,

 16 Idaho Power has been addressing cost reduction, in part,

 17 by drastically reducing its DSM programs. For example,

 18 in 1993 (the test year for the Company's last general

 19 rate case) a DSM program for irrigation customers was

 20 first authorized. However, today in 1998, Idaho Power is

 21 requesting authority to discontinue that same DSM program

 22 for irrigation customers.

 23 Q HOW DOES THE OUTLOOK FOR FUTURE DSM

 24 ADMINISTRATIVE EXPENSES AND LOW INCOME WEATHERIZATION

 25 EXPENSES COMPARE WITH THE 1993 EXPENSES AUTHORIZED FOR

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 Yankel, DI 8

 Irrigators

 1 RECOVERY IN CURRENT RATES?

 2 A Exhibit 301 is a copy of a Company

 3 workpaper from Case No. IPC-E-94-5 that developed the

 4 basis for the $1,113,387 of annual revenue requirement

 5 that was

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 24 4Application at page 2.

 25 5Prefiled testimony of Greg Said at page 5.

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 Yankel, DI 8A

 Irrigators

 1 authorized6 to be recovered in present rates. The

 2 $1,113,387 figure was derived as follows:

 3 $521,821.25 Total DSM Administrative Labor

 4 $298,402.66 Total DSM Administrative Other

 5 $293,162.89 Direct Low Income Weatherization

 6 $1,113,386.80

 7 The problem with these 1993 test year expenses is

 8 that they are reflective of a time when DSM activity was

 9 near its peak. All of the DSM programs that made up

 10 these 1993 test year expenditures have either been

 11 terminated by the Company, proposed for termination by

 12 the Company, or had their expenditures greatly reduced.

 13 The following Table compares, by DSM program, the amount

 14 of administrative expenses and the direct Low Income

 15 Weatherization costs that were include in the 1993 test

 16 year (and thus recovered in present rates) with the

 17 present status of each DSM program:

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 Yankel, DI 9

 Irrigators

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 7 (Chart can be found in the Transcript.)

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 24 6Order 25880 at page 17.

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 Yankel, DI 9A

 Irrigators

 1 As can be seen from the above Table, virtually all of the

 2 DSM programs for which Idaho Power is presently

 3 collecting $1,113,387 per year have been terminated or

 4 are proposed to be terminated.

 5 The only exception to the entire group of DSM

 6 programs that have been terminated is the Low Income

 7 Weatherization program. Although this program is still

 8 in existence, its expenditures have been progressively

 9 reduced each year since 1993. It should be mentioned

 10 that the $309,389 Idaho jurisdictional revenue

 11 requirement associated with 1993 overall program costs

 12 for the Low Income Weatherization program was, in fact,

 13 the cost associated with the entire Idaho Power system

 14 and not just the Idaho jurisdiction. In 1997 the

 15 reported overall expenditures for the Low Income

 16 Weatherization program in the Idaho jurisdiction was

 17 $196,900 compared to the $309,389 revenue requirement

 18 that is recovered in present rates.

 19 Q GIVEN THE FACT THAT IDAHO POWER WILL HAVE

 20 VIRTUALLY ELIMINATED ALL ADMINISTRATIVE COSTS ASSOCIATED

 21 WITH ALL OF THE DSM PROGRAMS IT HAS TERMINATED, WHAT

 22 CHANGES ARE APPROPRIATE IN THE MANNER IN WHICH DSM COSTS

 23 ARE PRESENTLY RECOVERED?

 24 A Generally speaking, the Stipulation in Case

 25 IPC-E-95-11 prohibits any change in base rates (increase

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 Yankel, DI 10

 Irrigators

 1 or decrease) associated with deviations of expenditures

 2 from 1993 test year revenues. However, as the Company

 3 has pointed out in this case, there is an exception to

 4 this rate moratorium related to any requested change in

 5 "the manner in which Demand Side Management charges are

 6 recovered." The Irrigators request that the Commission

 7 make changes in the manner in which the DSM

 8 administrative charges and the Low Income Weatherization

 9 program charges are

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 Yankel, DI 10A

 Irrigators

 1 recovered. This is one of the two categories of DSM

 2 charges that are in present rates and thus subject to an

 3 exception to the rate moratorium (amortization of

 4 pre-1994 costs and the expensing of DSM administrative

 5 costs and Low Income Weatherization costs). The

 6 Irrigators request that the Company be ordered to:

 7 1) Begin expensing only $200,000 per year (as

 8 opposed to $1,113,387) associated with any

 9 future DSM administrative costs and Low Income

 10 Weatherization costs; and

 11 2) Begin deferring the difference between this

 12 $200,000 expense and the actual DSM

 13 administrative costs and Low Income

 14 Weatherization costs.

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 Yankel, DI 11

 Irrigators

 1 CLASS ALLOCATION

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 3 HOW HAS THE REVENUE REQUIREMENT FOR DSM COSTS BEEN

 4 HISTORICALLY SPREAD TO THE VARIOUS CUSTOMER CLASSES?

 5 A Conservation and DSM programs have been

 6 historically viewed as alternatives to generation

 7 resources. One of the prime justifications for any of

 8 the DSM programs has been the ability of these

 9 expenditures to off-set the cost associated with future

 10 generation. Given such an interpretation, it would only

 11 be proper to spread costs associated with DSM and

 12 conservation programs on a basis similar to those of

 13 generation costs. That is exactly what the Commission

 14 did on page 29 of Order No. 25880 in the Company's last

 15 general rate case,:

 16 We also find that conservation resources provide

 both demand and energy benefits and should be

 17 classified accordingly. The easiest method to

 classify conservation program expenses is in the

 18 same manner in which generation resources are

 classified, i.e., on the basis of the system load

 19 factor.

 20 Q HAS IDAHO POWER PROPOSED THAT DSM COSTS BE

 21 SPREAD TO THE VARIOUS CUSTOMER CLASSES IN THE SAME MANNER

 22 AS APPROVED BY THE COMMISSION IN ORDER 25880?

 23 A Only in part. Idaho Power has proposed no

 24 change in the manner in which the $1,113,387 the annual

 25 DSM administrative and Low Income Weatherization costs is

 344

 Yankel, DI 12

 Irrigators

 1 recovered. Although the Company has proposed to change

 2 the manner in which pre-1994 deferred DSM costs are

 3 recovered (reduce the amortization period from 24 years

 4 to 5 years), it proposes to allocate those costs in the

 5 same manner as was approved by the Commission in Order

 6 25880.

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 Yankel, DI 12A

 Irrigators

 1 Unlike the treatment of charges that are presently

 2 being recovered in rates (and subject to the exception to

 3 the rate moratorium), the Company is proposing a new and

 4 entirely different basis for spreading the revenue

 5 requirement associated with the costs of DSM expenditures

 6 which have been deferred since January 1, 1994. The

 7 Company is proposing that these charges that were never

 8 included in rates and which were incurred after the 1993

 9 test year should "be allocated based upon the ability of

 10 the customer class to participate in programs"7 because

 11 DSM is currently viewed from the perspective of

 the direct benefits (i.e., ability to participate

 12 in programs) that customers receive from

 expenditures made on their behalf.8

 13

 14 Q DO YOU AGREE WITH THE COMPANY'S PROPOSED

 15 SPREAD OF DSM COSTS TO THE VARIOUS CUSTOMER CLASSES?

 16 A Only in part. I agree that the treatment

 17 of pre-1994 deferred costs and future expenditures

 18 associated with DSM administrative costs and Low Income

 19 Weatherization program costs should be spread on the same

 20 basis as generation. This is not only in keeping with

 21 the rate spread in Order 25880, but is reflective of the

 22 entire history of conservation and DSM program

 23 development. If these costs were incurred to avoid new

 24 generation cost, then they should be spread to customers

 25 on the same basis as would have been the costs that were

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 Yankel, DI 13

 Irrigators

 1 avoided.

 2 However, I take strong exception to the manner in

 3 which Idaho Power is proposing to spread post-January 1,

 4 1994 deferred DSM costs. As noted above, the rate

 5 moratorium prevents the changing of base rates because of

 6 inclusion of post-January 1, 1994 deferred DSM costs and,

 7 therefore, allocation of these costs should not even be

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 25 7Direct testimony of Company witness Said at page 11.

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 Yankel, DI 13A

 Irrigators

 1 issue in this case. However, assuming for the sake of

 2 argument that the Commission authorizes recovery in

 3 present rates of these deferred costs, I will address the

 4 proper revenue spread.

 5 Q ARE THERE ANY VALID REASONS WHY IDAHO POWER

 6 OR ANY PARTY WOULD SUGGEST THAT THE CURRENT VIEW OF COST

 7 RESPONSIBILITY FOR DSM EXPENDITURES IS THAT THESE COSTS

 8 SHOULD BE ALLOCATED BASED UPON THE ABILITY OF THE

 9 CUSTOMER CLASS TO PARTICIPATE IN THE PROGRAMS?

 10 A No. There has always been a direct benefit

 11 to individual customers that received any DSM money so

 12 that their overall consumption and thus electric bill

 13 could be reduced. However, DSM programs have not been

 14 authorized in order to help any particular customer or

 15 customer group. DSM programs have been designed to

 16 reduce the need, and thus the cost of additional

 17 generation resources for the system. Individual customer

 18 within customer classes have not equally enjoyed the

 19 direct benefits of DSM programs and it would be

 20 impossible to insure that all customers within a customer

 21 group equally receive the direct benefit from a

 22 particular DSM program. However, all customers (whether

 23 they directly participate in a DSM program or not)

 24 receive an equal share of the reduction in generation

 25 resource costs due to DSM programs. Thus, the costs of

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 Yankel, DI 14

 Irrigators

 1 these programs should be spread in a similar manner. The

 2 Company's proposed spread of post-January 1, 1994 DSM

 3 costs is contrary to the entire history of the programs

 4 and is simply arbitrary.

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 25 8Direct testimony of Company witness Said at page 12.

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 Yankel, DI 14A

 Irrigators

 1 Q HAVE ANY OF THE COMMISSION'S RECENT ORDERS

 2 ADDRESSED THE ISSUE OF ALLOCATION OF DSM COSTS BETWEEN

 3 CUSTOMER CLASSES?

 4 A Yes. Contrary to the Company's assertion

 5 that "DSM is currently viewed from the perspective of the

 6 direct benefits..." the Commission's Findings in Order

 7 26957 dated May 30, 1997 suggest no such change in view.

 8 The Commission Findings in that Order stated:

 9 Moreover, as Staff notes, expenses related to

 conservation have never been allocated to specific

 10 customer classes because all customers benefit

 from the acquisition of cost effective resources.

 11

 12 Q WOULD THE IMPLEMENTATION OF COMPANY'S

 13 REVENUE SPREAD PRODUCE UNJUST AND UNREASONABLE RESULTS

 14 FOR THE IRRIGATION CLASS?

 15 A Yes. Company Exhibit 7 lists the amount of

 16 pre-1994 expenditures it proposes to recover from each

 17 class, based upon the historical method of allocating

 18 these costs in the same manner as generation resources.

 19 From that exhibit it can be calculated that the

 20 irrigation class is allocated 14.2% of historic DSM costs

 21 that were incurred prior to 1994. This means that of

 22 $20,317,331 of the total pre-1994 DSM costs9, the

 23 irrigation class has been made responsible for 14.2% or

 24 $2,885,000.

 25 In sharp contrast to the DSM programs for various

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 Yankel, DI 15

 Irrigators

 1 customer groups that began as early as 1989, the Company

 2 only received authorization to implement its Irrigation

 3 Conservation Program (Agricultural Choices Program) in

 4 1993. When approving the Irrigation Conservation Program

 5 in Order 24858 the Commission noted that:

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 25 9Page 17 of Order 25880 in Case No. IPC-E-94-5.

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 Yankel, DI 15A

 Irrigators

 1 This conservation program is an important step in

 addressing the needs of a large class of customers

 2 for whom no previous conservation incentives have

 been made available.

 3

 4 Because of the lateness of initiating the Irrigation

 5 Conservation Program, the amount of pre-1994 DSM

 6 expenditures spent on irrigation customers was limited.

 7 As a matter of fact, total pre-1994 DSM expenditures for

 8 the Irrigation Conservation Program was only $192,18410.

 9 This is in sharp contrast to the recovery of $2,885,000

 10 of pre-1994 DSM expenditures that has been allocated to

 11 the irrigation class.

 12 After January 1, 1994 the expenditures for the

 13 Irrigation Conservation Program were substantially

 14 increased, while the expenditures for DSM programs for

 15 other customer classes were being curtailed and/or

 16 eliminated. As a result, 23.7% of all DSM expenditures

 17 made after January 1, 1994 were spent to reduce usage

 18 within the irrigation class.

 19 It is unjust and unreasonable to charge irrigation

 20 customers for 14.2% of all pre-1994 DSM costs when the

 21 Irrigation Conservation Program costs amounted to less

 22 than 1% of all pre-1994 DSM costs, and then to turn

 23 around and charge the irrigation customers 23.7% of all

 24 post January 1, 1994 DSM costs instead of the 14.2% that

 25 this customer group was charged for previous costs. Such

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 Yankel, DI 16

 Irrigators

 1 a revenue spread is unjust and unreasonable. I recommend

 2 that the Commission allocate all DSM costs as they have

 3 been historically treated - the same as generation

 4 resources.

 5 Q DOES THIS COMPLETE YOUR PREFILED DIRECT

 6 TESTIMONY?

 7 A Yes.

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 10Idaho Power's April 1998 Conservation Plan, Appendix C

 24 page 7.

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 Yankel, DI 16A

 Irrigators

 1 (The following proceedings were had in

 2 open hearing.)

 3 COMMISSIONER SMITH: I'd just note for all

 4 of you telling your aging stories that my 17-year old

 5 informed me on Sunday that while my life was over, his

 6 was just beginning; so let's see if there are any

 7 questions for Mr. Yankel.

 8 Mr. Richey.

 9 MR. RICHEY: No questions at this time.

 10 COMMISSIONER SMITH: Mr. Richardson.

 11 MR. RICHARDSON: Thank you, Madam Chairman,

 12 no questions.

 13 COMMISSIONER SMITH: Mr. Jauregui.

 14 MR. JAUREGUI: No questions.

 15 COMMISSIONER SMITH: Mr. Ward.

 16 MR. WARD: No questions. Thank you.

 17 COMMISSIONER SMITH: Mr. Gollomp.

 18 MR. GOLLOMP: No, we have no questions.

 19 COMMISSIONER SMITH: Mr. Fothergill.

 20 MR. FOTHERGILL: No questions.

 21 COMMISSIONER SMITH: Mr. Purdy.

 22 MR. PURDY: I was going to continue on the

 23 Chair's comment about age, but in furtherance of my

 24 continued employment here, I will refrain.

 25 COMMISSIONER SMITH: You thought my life

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 CSB REPORTING YANKEL

 Wilder, Idaho 83676 Irrigators

 1 was over a long time ago?

 2 MR. PURDY: I just have one.

 3

 4 CROSS-EXAMINATION

 5

 6 BY MR. PURDY:

 7 Q A point of clarification and I'm trying to

 8 figure it out as I speak, but if you'd turn to page 15 of

 9 your prefiled testimony, Mr. Yankel, and we are

 10 apparently confused as to where you got some of these

 11 figures, specifically lines 15 through 20, if you could

 12 just clear that up for us. I'm told that perhaps these

 13 numbers don't jive or are not consistent with the

 14 Company's Exhibit No. 7 that you referred to.

 15 A This 14.2 percent, I think I got that from

 16 the Company exhibits. Are you after the more than $20

 17 million number?

 18 Q Well, apparently, that's what we cannot

 19 confirm how you calculated the 20 million.

 20 A If you will just give me one second.

 21 Q Okay.

 22 A I believe that came, also if you'll note

 23 the footnote at the bottom of the page, the $20 million

 24 figure came from page 17 of Commission Order 25880.

 25 Q Is that where you got the roughly

 355

 CSB REPORTING YANKEL (X)

 Wilder, Idaho 83676 Irrigators

 1 $2.9 million figure as well?

 2 A No, I got the $2.885 million figure by

 3 taking 14.2 percent of the $20 million figure.

 4 MR. PURDY: Oh. All right, well, we'll see

 5 if we can sort that out. Thank you.

 6 COMMISSIONER SMITH: Mr. Ripley.

 7 MR. RIPLEY: Yeah.

 8

 9 CROSS-EXAMINATION

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 11 BY MR. RIPLEY:

 12 Q First, Mr. Yankel, as to the correction you

 13 just made on page 7, what does the eight months

 14 demonstrate?

 15 A That was the time after the Order in the

 16 last general rate case went into effect, which was

 17 January of '95, through September of '95 when the

 18 stipulation was developed, generally eight months.

 19 Q The Order became effective February 1,

 20 didn't it?

 21 A I believe so.

 22 Q And so what you've done is --

 23 A Subtracted the ninth month which was

 24 September, subtracted one month off of there to get

 25 eight.

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 CSB REPORTING YANKEL (X)

 Wilder, Idaho 83676 Irrigators

 1 Q Are you suggesting that the Company was

 2 recovering -- well, just so that I understand, again

 3 could you just state -- you're saying what from the

 4 stipulation to -- from the time the rate Order went into

 5 effect until the time we entered the stipulation was

 6 eight months?

 7 A Yes, that's what I'm saying.

 8 Q Okay, what happened during that eight

 9 months?

 10 A During that time frame the Company would

 11 have been collecting money associated with the expenses.

 12 Q That the Commission authorized be amortized

 13 in the last rate proceeding?

 14 A Correct.

 15 Q Over a 24-year period?

 16 A Over 24 years as well as the expenses

 17 associated with administrative expenses and the

 18 weatherization DSM which they had also authorized to

 19 begin February 1st.

 20 Q Well, back to the questions that I had, you

 21 refer at the bottom of page 7 to the number 1,113,387?

 22 A Yes.

 23 Q That's a system number, is it not?

 24 A It's the only number that appeared in the

 25 Order. It appears to be a system number, but that is the

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 CSB REPORTING YANKEL (X)

 Wilder, Idaho 83676 Irrigators

 1 number that appeared in the Commission's Order. They did

 2 not indicate at least in the Order an allocation.

 3 Q If I could direct your attention to

 4 page 9.

 5 A Of?

 6 Q Your testimony.

 7 A Yes.

 8 Q You total up the test year expenses that

 9 comes to the 1,113,387.

 10 A Yes.

 11 Q And you note that there's 309,389 of low

 12 income weatherization; correct?

 13 A Yes.

 14 Q And then on page 10 on lines 6 through 7

 15 you say, "It should be mentioned that the 309,389 Idaho

 16 jurisdictional revenue requirement associated with the

 17 '93 ... was, in fact, the cost associated with the

 18 entire Idaho Power system and not just the Idaho

 19 jurisdiction."

 20 A Yes.

 21 Q So you know that that's a system number?

 22 A Yes, it is a system number, yes. I'm sorry

 23 if I implied something different. Yes, it is a system

 24 number. I guess my concern was I wasn't sure what was

 25 applied within the Order. It was mentioned in the Order,

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 CSB REPORTING YANKEL (X)

 Wilder, Idaho 83676 Irrigators

 1 but it wasn't mentioned as a jurisdictional amount or a

 2 system amount within the Order. I know it to be a system

 3 number.

 4 Q Now, since the filing of your testimony

 5 have you -- has your client also submitted comments in

 6 regard to the discontinuance of the agricultural choices

 7 program by Idaho Power?

 8 A I believe they have. I mean, I haven't

 9 seen it. I was of the opinion they were planning on it.

 10 Q And Staff has filed comments as well, have

 11 they not?

 12 A I have not seen it.

 13 Q Well, if I advised you that both parties

 14 urged that the program be continued, your client through

 15 the end of this year and Staff for an indefinite period,

 16 would that change your testimony in this proceeding in

 17 any way?

 18 A No.

 19 Q Now, if Idaho Power Company has

 20 discontinued all of its system conservation programs but

 21 ag choices, who should pay for ag choices in the future

 22 if it remains the only DSM program?

 23 A All system customers. It's my recollection

 24 there were DSM programs that began in essentially the

 25 early '80s. There were different forms of DSM programs,

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 CSB REPORTING YANKEL (X)

 Wilder, Idaho 83676 Irrigators

 1 everybody paid for that. The agricultural customers

 2 didn't get a program until 1993 which really didn't take

 3 off until 1994, and to date, I think there's only been

 4 350 customers that have even gotten any DSM from Idaho

 5 Power, agricultural customers, so I think it should be

 6 spread on a systemwide basis.

 7 Q Now, in reference to the Company's

 8 participation in NEEA, the Northwest Energy Efficiency

 9 Alliance, I assume that you recognize that the Company

 10 will bear some administrative costs for participating in

 11 that alliance.

 12 A I would assume.

 13 Q Are you assuming that the Company will not?

 14 A I assume that there will be some cost

 15 incurred.

 16 Q All right, and in reference to the low

 17 income weatherization program, there will be some ongoing

 18 costs for participation in that program as well as the

 19 funding, will there not?

 20 A Yes. The program is not being terminated,

 21 so, yes.

 22 Q And do you believe that that should be a

 23 legitimate cost that should be deducted from whatever

 24 number the Commission looks at as far as the

 25 administrative costs that you're referring to in your

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 CSB REPORTING YANKEL (X)

 Wilder, Idaho 83676 Irrigators

 1 testimony?

 2 A I certainly think the low income

 3 weatherization program should be treated as an expense

 4 that the Commission would deal with with respect to DSM.

 5 The other programs I really don't know as far as once it

 6 goes on a regional basis. The way the programs have been

 7 put together in the past, it was really an Idaho Power

 8 program that was being paid for, administrative costs,

 9 for Idaho Power to run specific programs. I think the

 10 nature of the program is going to greatly change when

 11 it's done on a regional basis and I think that should

 12 really just be re-looked at again, say, in the next rate

 13 case as to how that gets either expensed, deferred or

 14 whatever.

 15 MR. RIPLEY: That's all the questions I

 16 have. Thank you.

 17 COMMISSIONER SMITH: Thank you,

 18 Mr. Ripley.

 19 Questions from the Commission?

 20 COMMISSIONER NELSON: I don't have

 21 questions for Mr. Yankel.

 22 COMMISSIONER SMITH: Any redirect,

 23 Mr. Budge?

 24 MR. BUDGE: None, thank you,

 25 Madam Chairman.

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 CSB REPORTING YANKEL (X)

 Wilder, Idaho 83676 Irrigators

 1 (The witness left the stand.)

 2 COMMISSIONER SMITH: Okay, Mr. Richey.

 3 MR. RICHEY: Yes, Micron Technology would

 4 like to call Mr. Richard Anderson to the stand.

 5 MR. WARD: Madam Chair, while Dr. Anderson

 6 is taking the stand, may Mr. Bonn be excused?

 7 COMMISSIONER SMITH: If there's no

 8 objection, we will excuse Mr. Bonn.

 9 MR. WARD: Thank you.

 10

 11 RICHARD M. ANDERSON,

 12 produced as a witness at the instance of Micron

 13 Technology, Inc., having been first duly sworn, was

 14 examined and testified as follows:

 15

 16 MR. RICHEY: Are we ready?

 17 COMMISSIONER SMITH: Yes, we are. Thank

 18 you.

 19

 20 DIRECT EXAMINATION

 21

 22 BY MR. RICHEY:

 23 Q Dr. Anderson, will you please state your

 24 full name for the record?

 25 A Richard M. Anderson.

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 CSB REPORTING ANDERSON (Di)

 Wilder, Idaho 83676 Micron Technology, Inc.

 1 Q And could you please speak to the

 2 microphone?

 3 A Richard M. Anderson.

 4 Q Thank you. Have you caused approximately

 5 12 pages of written testimony to be filed in this

 6 proceeding?

 7 A I have.

 8 Q Have you had a chance to review this

 9 testimony?

 10 A I have.

 11 Q And do you have any corrections you'd like

 12 to make at this time to your filed testimony?

 13 A I do. There is one correction of

 14 substance.

 15 Q Would you please cite to that?

 16 A Turn to page 11, line 18 and 19, the

 17 sentence that begins on line 18 that reads, "The

 18 beneficiaries of the DSM measures should pay the costs

 19 because," you should strike "it could not" and insert

 20 "they could"; so the sentence should read in total, "The

 21 beneficiaries of the DSM measures should pay the costs

 22 because they could participate in the program."

 23 Q Thank you. Do you have any other

 24 corrections you want to make?

 25 A I do not.

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 CSB REPORTING ANDERSON (Di)

 Wilder, Idaho 83676 Micron Technology, Inc.

 1 MR. RICHEY: I move at this time that

 2 Dr. Anderson's testimony be spread upon the record and

 3 tender him for cross-examination.

 4 COMMISSIONER SMITH: If there is no

 5 objection, it is so ordered.

 6 (The following prefiled testimony of

 7 Dr. Richard Anderson is spread upon the record.)

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 CSB REPORTING ANDERSON (Di)

 Wilder, Idaho 83676 Micron Technology, Inc.

 1 Q PLEASE STATE YOUR NAME AND BUSINESS

 2 ADDRESS.

 3 A My name is Richard M. Anderson and my

 4 business address is 39 Market Street, Suite 200, Salt

 5 Lake City, Utah 84101.

 6 Q BY WHOM ARE YOU EMPLOYED AND IN WHAT

 7 CAPACITY?

 8 A I am employed by Energy Strategies, Inc. as

 9 a Senior Associate.

 10 Q WHAT IS YOUR EDUCATIONAL BACKGROUND?

 11 A I have a Bachelor of Business

 12 Administration degree from the University of Texas at

 13 Austin and a Ph.D. in Economics from the University of

 14 Utah.

 15 Q PLEASE DESCRIBE YOUR WORK EXPERIENCE AS IT

 16 RELATES TO YOUR TESTIMONY IN THIS PROCEEDING.

 17 A I have approximately 15 years of experience

 18 relating to the energy industry with particular emphasis

 19 in the electricity industry. Prior to my current

 20 employment I spent eleven years (two years as Assistant

 21 Director and nine years as Director) employed at the

 22 State of Utah's Energy Division. In that capacity, I was

 23 responsible for the development, analysis and

 24 implementation of a portfolio of DSM measures statewide.

 25 My work centered on the economic assessment of

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 1 conservation measures and the determination of the

 2 cost/benefit ratio underlying the measures. These

 3 included process and lighting measures in residential and

 4 industrial applications, energy code development, and

 5 efficiency measures in agricultural processes. Most of

 6 these efforts involved coordination and/or joint

 7 underwriting with utilities.

 8 In my current position, I have been involved with

 9 the issue of electric market restructuring in various

 10 western and southwestern states. This has included the

 11 analysis of current DSM programs as they relate to a

 12 restructured environment. I am currently involved with a

 13 number of restructuring issues in Utah, Idaho, Wyoming,

 14 Arizona and Texas. I have

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 1 participated in regulatory proceedings in Utah and

 2 Wyoming, in various state legislative investigations and

 3 have testified before the U.S. Congress on energy issues.

 4 Q WHAT IS THE PURPOSE OF YOUR TESTIMONY IN

 5 THIS PROCEEDING?

 6 A My testimony will address the allocation of

 7 DSM expenditures to Micron Technology, Inc. as described

 8 in the direct testimony of Mr. Gregory W. Said on behalf

 9 of the Idaho Power Company ("Idaho Power" or the

 10 "Company"). I begin, however, by offering comments on

 11 the useful life of DSM investments and the Company's

 12 stated reason for alterations in the amortization

 13 schedule.

 14 Q HAS IDAHO POWER COMPANY EXPLAINED WHY IT

 15 WANTS TO CHANGE THE DSM PROGRAMS AMORTIZATION FROM A

 16 24-YEAR PERIOD TO A 5-YEAR PERIOD?

 17 A The only reason the Company has given for

 18 the choice of a 5-year versus a 24-year period is found

 19 in Mr. Said's direct testimony, page 5, lines 16-21,

 20 where Mr. Said states: "In recognition of the likelihood

 21 of changes in the electric industry, a five year recovery

 22 period seems like a reasonable time period for recovering

 23 expenditures from customers for whom the expenditures

 24 were made." Mr. Said further states, "The current 24

 25 year time period for recovery of DSM expenditures is no

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 1 longer reasonable."

 2 Q WHY WAS THE 24-YEAR TIME PERIOD CHOSEN AT

 3 THE INCEPTION OF THESE PROGRAMS?

 4 A The 24-year amortization period reflects

 5 the average useful life of the DSM programs undertaken by

 6 the Company. In its in previous orders (Order Nos.

 7 22299, 22893, and 25880), the Commission has indicated a

 8 preference for amortizing DSM expenditures over the

 9 expected useful life of the programs.

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 1 Q IS A 24-YEAR AMORTIZATION SCHEDULE

 2 REASONABLE?

 3 A Yes. The choice of a 24-year amortization

 4 period basically matches the amortization of these DSM

 5 assets to their expected useful life. It is consistent

 6 with the regulatory practice that amortization schedules

 7 should reflect the used and useful life of the utility

 8 asset.

 9 Q DOES THE COMPANY ARGUE THAT THE USEFUL LIFE

 10 OF THE DSM PROGRAMS HAS BEEN ALTERED?

 11 A No.

 12 Q DOES THE COMPANY OFFER ANY SUPPORTING

 13 DOCUMENTATION DETAILING A CHANGE IN THE USEFUL LIFE OF

 14 DSM MEASURES?

 15 A No. There are no data or analyses provided

 16 that would support the notion that the useful life of the

 17 DSM measures has been altered.

 18 Q IN YOUR OPINION, IS THERE REASON TO BELIEVE

 19 THAT THE USEFUL LIFE OF THE DSM PROGRAMS HAS BEEN

 20 ALTERED?

 21 A There is no reason to believe that the

 22 physical or technical aspects of the programs have been

 23 so altered as to change their useful life. The DSM

 24 technologies that emerged in the last decade are the

 25 product of more than twenty years of research and

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 1 development in conservation technologies. While new

 2 technologies are likely to show improvements in

 3 performance, the fundamental technology of most of the

 4 DSM measures adopted during the last decade remains

 5 sound. It is apparent that Idaho Power agrees with this

 6 view. In response to a data request of the Industrial

 7 Customers, Mr. Said stated that the Company does not

 8 contend that the DSM measures will become physically,

 9 technologically or economically obsolete or useless prior

 10 to 24 years from the date the measures were first

 11 installed.

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 1 Q DO YOU AGREE WITH THE COMPANY'S ASSESSMENT

 2 OF A 24-YEAR USEFUL LIFE FOR DSM ASSETS?

 3 A The physical and technological aspects of

 4 the DSM measures should not have a life of less than 24

 5 years except in unusual circumstances such as neglect or

 6 abuse of the measures themselves. Each of these measures

 7 was voluntary implemented by the participating business

 8 entity as an investment in its operations. From the

 9 perspective of the host business entity, the measures are

 10 part of the overall portfolio of capital employed.

 11 Accordingly, one would suspect that the DSM measures

 12 would be afforded adequate maintenance as are other

 13 capital investments. Additionally, recall that prior to

 14 implementing each measure, Idaho Power Company was

 15 required to approve the application and, although the

 16 Company now advocates a 5-year amortization, it has

 17 already agreed in the rate moratorium settlement to a

 18 24-year period.

 19 Q IS THE USEFUL LIFE OF THE DSM MEASURES

 20 LIKELY TO BE ALTERED IF THERE IS A SIGNIFICANT CHANGE IN

 21 THE PRICE OF ELECTRIC POWER?

 22 A Yes. The economics of DSM measures are

 23 driven, in part, by the value of energy saved. If the

 24 value of a DSM program is measured by the benefit

 25 obtained from saving energy, the price of power will be a

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 1 significant determinant of whether the DSM measures are

 2 cost effective to the participating entity.

 3 Q WOULD A SIGNIFICANT REDUCTION IN THE PRICE

 4 OF ELECTRIC POWER SERVE AS A REASON TO SHORTEN THE

 5 AMORTIZATION?

 6 A Perhaps. In effect, the reduction in the

 7 price of electric power would serve to reduce the

 8 economic attractiveness of the DSM investment thereby

 9 threatening its economic viability.

 10 Q HAS THE ECONOMIC VIABILITY OF THE DSM

 11 MEASURES BEEN ALTERED GIVEN THE CURRENT PRICE OF POWER?

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 1 A No. Current electric prices offered by the

 2 Idaho Power Company are quite stable. The economic

 3 attractiveness of the Company's DSM measures are

 4 virtually the same today as they were when the measures

 5 were first implemented. The Company acknowledged this

 6 fact in Mr. Said's response to the Industrial Customers

 7 data request at page 3 when stating, "Idaho Power Company

 8 does not contend that the DSM measures will become

 9 economically obsolete or useless prior to 24 years from

 10 when the measure is first installed..."

 11 Q IF COMPETITION WERE TO COME TO THE ELECTRIC

 12 INDUSTRY IN IDAHO, WOULD IT BE REASONABLE TO READJUST DSM

 13 AMORTIZATION?

 14 A Competition could render some DSM measures

 15 uneconomic, but it would be premature to adjust

 16 amortization now. First, given the current cost of

 17 power, the DSM measures have not been shown to be at

 18 risk. Secondly, and of equal importance, any attempt to

 19 revamp the amortization of the assets due to the advent

 20 of competition would need to be balanced against

 21 evaluation of other assets in the portfolio of the

 22 Company's investments and offset by the amount of any

 23 benefits that may be produced by the utilization of all

 24 assets. DSM measures should not be singled out for

 25 reevaluation in light of an expected reduction in the

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 1 future price of power. Such a reevaluation must be

 2 undertaken simultaneously on all the Company's assets in

 3 order to properly obtain a "net" figure. Finally, if

 4 the Company loses load because customers depart the

 5 system for competitive suppliers, the Company may

 6 experience some stranded investment in DSM. In that

 7 event it may be reasonable to reevaluate the amortization

 8 of the Company's sunk costs. But, as I stated earlier,

 9 such an evaluation would have to take into account a

 10 myriad of other factor that are not under consideration

 11 in this proceeding.

 12 Q DOES THE LIKELIHOOD OF CHANGES IN THE

 13 ELECTRIC INDUSTRY PORTEND LOWER PRICES?

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 1 A Mr. Said prefaced his statement concerning

 2 the lack of reason to support a 24-year amortization with

 3 the opening remark, "in recognition of the likelihood of

 4 changes in the electric industry..." I agree that the

 5 electric industry is proceeding through a period of

 6 restructuring. Many observers feel that a deregulated

 7 market will place downward pressure on prices. However,

 8 the ultimate impact on electric prices will only be

 9 determined over time.

 10 Q PLEASE DESCRIBE IDAHO POWER COMPANY'S

 11 PROPOSED REALLOCATION OF DSM EXPENDITURES.

 12 A The Company's proposal is to bifurcate the

 13 expenses incurred on DSM projects between those incurred

 14 before l994 and those incurred after January 1, 1994.

 15 The pre-1994 expenditures are to be recovered from the

 16 various customer classes based upon the accepted

 17 allocation formula used in the last general revenue

 18 requirement case for the Company (Case No. IPC-E-94-5).

 19 The revenue requirement associated with the deferred

 20 program expenditures incurred after 1993 (including

 21 carrying charges and income taxes) is proposed to be

 22 allocated to entities based upon the ability of the

 23 customer class to participate in the program.

 24 Q DOES THE COMPANY PROVIDE AN EXPLANATION AS

 25 TO WHY THEIR PROPOSAL INVOLVES SUCH A HYBRID APPROACH FOR

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 1 RECOVERING DSM EXPENDITURES?

 2 A Yes. In Mr. Said's testimony, pages 11-12,

 3 lines 24-25 and lines 1-6, he states that the approach

 4 proposed by the Company is based upon a recognition that

 5 the perspective from which DSM measures are viewed has

 6 changed. His argument is that the pre-1994 DSM

 7 investments were viewed as a system resource. However,

 8 beginning with the 1994 investments, the Company

 9 advocates that the recovery of such investments should be

 10 assigned to the customers who have

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 1 the ability to participate in the DSM programs and thus

 2 realize a direct benefit from such investments.

 3 Q DOES MICRON TECHNOLOGY AGREE WITH THE

 4 PROPOSED POST-1993 ALLOCATION AS PROPOSED BY THE COMPANY?

 5 A Yes. Micron Technology believes that the

 6 allocation of DSM costs should be predicated on the

 7 principle that costs should be assigned to the customers

 8 who cause the costs to be incurred or, in this case, who

 9 realize the benefits of DSM. Thus, with respect to the

 10 post-1993 deferred expenses, Micron Technology supports

 11 the Company's position that the allocation of costs

 12 should reflect the flow of DSM benefits.

 13 Q WHAT IS THE FINANCIAL IMPACT TO MICRON

 14 TECHNOLOGY RESULTING FROM THIS HYBRID APPROACH?

 15 A For Micron Technology, the 5-year total DSM

 16 revenue requirement amounts to $587,300. Utilizing the

 17 approach suggested by Mr. Said whereby a monthly charge

 18 equaling 1/60th of this amount is levied against the

 19 entity, Micron Technology will incur a monthly charge

 20 equal to $9,800 during the 5-year amortization period.

 21 Q OF THE $587,300 REVENUE REQUIREMENT TO BE

 22 COLLECTED FROM MICRON TECHNOLOGY, HOW MUCH OF THIS IS

 23 ATTRIBUTABLE TO PRE-1994 DEFERRED EXPENDITURES AND HOW

 24 MUCH IS ATTRIBUTABLE TO POST-1993 DEFERRED EXPENDITURES,

 25 INCLUDING CARRYING CHARGES AND INCOME TAXES?

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 1 A Exhibit No. 7 to Mr. Said's direct

 2 testimony identifies the pre-1994 expenditures allocated

 3 to Micron Technology as $294,300 and the post-1993

 4 expenditure allocation as $293,000.

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 1 Q DO YOU AGREE THAT THE POST-1993

 2 EXPENDITURES SHOULD BE ALLOCATED TO MICRON TECHNOLOGY

 3 ACCORDING TO ITS ABILITY TO PARTICIPATE IN THE DSM

 4 PROGRAMS?

 5 A Yes.

 6 Q HAS THE COMPANY IDENTIFIED ANY PROGRAMS IN

 7 WHICH MICRON TECHNOLOGY WAS A PARTICIPANT IN THE

 8 1994-1997 TIME PERIOD?

 9 A No. In response to Micron Technology's

 10 request for admission, Ms. Darlene Nemnich of Idaho Power

 11 Company states that in 1996, Micron Electronics

 12 participated in the Partners In Industrial Efficiency

 13 Program (PIE). Idaho Power paid Micron Electronics an

 14 incentive of $11,995.17 for changing their lamp lighting

 15 system from magnetic ballasts to electronic ballasts. In

 16 addition, in 1994, Micron Computer, which later became

 17 Micron Electronics, participated in the Design Excellence

 18 Award Program. In that instance, $2,700 was paid to an

 19 engineering firm selected by Micron Computers to complete

 20 an engineering audit of Micron Computers buildings.

 21 Q DID MICRON TECHNOLOGY EXPERIENCE ANY DIRECT

 22 BENEFIT FROM THE DSM INVESTMENT MADE ON BEHALF OF MICRON

 23 ELECTRONICS?

 24 A No. Because Micron Technology did not

 25 participate in any of the DSM measures that were offered,

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 1 there were no direct benefits to the firm.

 2 Q IS MICRON ELECTRONICS ASSOCIATED WITH

 3 MICRON TECHNOLOGY?

 4 A Yes. Micron Technology owns approximately

 5 64% of the Micron Electronics stock.

 6 Q DID MICRON TECHNOLOGY BENEFIT FROM MICRON

 7 ELECTRONICS' PARTICIPATION IN DSM?

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 1 A To the extent that Micron Electronics'

 2 savings from reduced power cost positively affected the

 3 value of its stock, Micron Technology indirectly

 4 benefited. Incidentally, if DSM cost were allocated on

 5 that kind of benefit, we would have a system resource

 6 method of allocation. Indirect benefits are not

 7 sufficient grounds for allocating cost to any particular

 8 customer or class of customers. For example, even if

 9 Micron Electronics' stock prices happened to increase

 10 during a period in which Micron Electronics had

 11 experienced reduced power costs, the increase stock price

 12 would not necessarily be due to the reduced power costs.

 13 There could be a multitude of unrelated factors

 14 influencing the stock price. It would be very difficult

 15 to demonstrate a single effect such as a reduction in

 16 power price as it affects the overall price of a

 17 company's stock.

 18 Q DOES MICRON TECHNOLOGY'S SPECIAL CONTRACT

 19 WITH IDAHO POWER UNDER SCHEDULE 26 INCLUDE ANY POWER

 20 SUPPLIED TO MICRON ELECTRONICS?

 21 A No. Micron Electronics is a separately

 22 tariffed customer of Idaho Power Company.

 23 Q ARE THE PRODUCTION PROCESSES UTILIZED AT

 24 MICRON ELECTRONICS SIMILAR THOSE EMPLOYED AT MICRON

 25 TECHNOLOGY?

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 1 A The operations of the entities are quiet

 2 different. Micron Electronics' primary business is the

 3 production of finished computers for the retail market.

 4 Accordingly, the operations at Micron Electronics center

 5 around an assembly line process from which primary parts

 6 of the computers are packaged into final products. The

 7 assembly process, while automated, is designed for

 8 extended years of service before being viewed as

 9 technically or economically obsolete. Micron Electronics

 10 primary purpose is assembly of parts into final products,

 11 the technology employed within the assembly process is

 12 likely to have a useful life of five or greater years.

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 1 Micron Technology's production process is of a

 2 different orientation. Designed primarily for the

 3 research and development of new computer systems, it is

 4 not characterized by an assembly line organization, but

 5 instead, unique physical capital is applied in distinct

 6 product development applications. Due to the nature of

 7 technological advancements in the computer industry,

 8 capital employed at Micron Technology for product

 9 development is viewed as quickly becoming technologically

 10 and/or economically obsolete. It is most common for any

 11 technology employed at Micron Technology to have a useful

 12 life of approximately one year.

 13 Q WHAT DSM PROJECTS WERE OFFERED TO MICRON

 14 ELECTRONICS AND MICRON TECHNOLOGY?

 15 A The only program offered to both Large

 16 Power Service customers (Schedule 19) and to Special

 17 Contracts customers was the Partners in Industrial

 18 Efficiency Program ("PIE"). The Design Excellence Award

 19 Program was available to Schedule 19 customers but not to

 20 Special Contract customers.

 21 Q WAS MICRON TECHNOLOGY ABLE TO PARTICIPATE

 22 IN THE "PIE" PROGRAM?

 23 A No. Idaho Power's (PIE) program "was

 24 designed to encourage Schedule 19 and special contracts

 25 customers to implement efficiency upgrades and

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 1 conservation measures that would reduce electric energy

 2 usage. .... A project must have an estimated annual

 3 electric savings of at least 100,000 kilowatt hours and

 4 an expected project life of at least five years." (PIE

 5 Program Description). (Emphasis added) Because the

 6 project criteria required that a participating measure

 7 have a project life of at least 5 years, Micron

 8 Technology was virtually excluded from participation.

 9 For the reasons discussed above regarding Micron

 10 Technology's production process, its equipment did not

 11 meet the 5-year requirement. Micron Electronics, on the

 12 other

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 1 hand, was able to participate because its production

 2 process allowed a longer life for the DSM project.

 3 Q HOW IS THE COMPANY PROPOSING THAT POST-1993

 4 DSM COSTS BE ALLOCATED?

 5 A In discussing the class allocation

 6 associated with the five-year amortization program, Mr.

 7 Said stated that the allocation of post-1993 deferred

 8 expenditures is to be predicated on an entity's "ability

 9 to participate in the programs." (Direct testimony,

 10 page 12, lines 3-6)

 11 Q DID MICRON TECHNOLOGY HAVE THE ABILITY TO

 12 PARTICIPATE IN THE PIE PROGRAM?

 13 A No. Due to the short time horizon on the

 14 useful life of capital employed at Micron Technology, and

 15 given the program requirement of a minimum of a 5-year

 16 project life, Micron Technology did not have the ability

 17 to participate. It did not possess the type processes

 18 the PIE program was developed to target.

 19 Q IS THE APPROACH OFFERED BY IDAHO POWER

 20 COMPANY TO SEEK REPAYMENT OF POST-1993 DEFERRED DSM

 21 EXPENDITURES EQUITABLE AS IT RELATES TO MICRON

 22 TECHNOLOGY?

 23 A No. Micron Technology should not incur

 24 past program expenses related to post-1993 deferred DSM

 25 expenditures. The beneficiaries of the DSM measures

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 1 should pay the costs because they could participate in

 2 the program. To the extent that Micron Electronics

 3 participated in the programs, those deferred costs are

 4 allocated to Schedule 19 customers and should be assigned

 5 to that customer class. Micron Technology's only benefit

 6 is some speculative, unquantifiable change in the stock

 7 price of Micron Electronics. And, if Micron Electronics

 8 is burdened with DSM costs, those costs also could affect

 9 its stock price. Such an indirect benefit

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 1 is far to attenuated to serve as the basis for DSM cost

 2 allocation. If costs are to follow the beneficiary,

 3 Micron Technology should be allocated no costs.

 4 Q IS IT YOUR RECOMMENDATION THAT NONE OF THE

 5 POST-1993 DEFERRED DSM EXPENDITURES BE ASSIGNED TO MICRON

 6 TECHNOLOGY'S SPECIAL CONTRACT?

 7 A Yes.

 8 Q DOES THIS CONCLUDE YOUR TESTIMONY?

 9 A Yes.

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 1 (The following proceedings were had in

 2 open hearing.)

 3 COMMISSIONER SMITH: Do you have any

 4 questions, Mr. Richardson?

 5 MR. RICHARDSON: No questions,

 6 Madam Chairman.

 7 COMMISSIONER SMITH: Mr. Jauregui?

 8 MR. JAUREGUI: No questions,

 9 Madam Chairman.

 10 COMMISSIONER SMITH: Mr. Ward?

 11 MR. WARD: No questions. Thank you.

 12 COMMISSIONER SMITH: Mr. Gollomp?

 13 MR. GOLLOMP: No questions.

 14 COMMISSIONER SMITH: Mr. Fothergill?

 15 MR. FOTHERGILL: No questions.

 16 COMMISSIONER SMITH: Mr. Budge.

 17 MR. BUDGE: No questions, thank you.

 18 COMMISSIONER SMITH: Mr. Purdy.

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 20 CROSS-EXAMINATION

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 22 BY MR. PURDY:

 23 Q Well, I simply want to ask you whether

 24 it -- it seems to be your fundamental premise, then, in

 25 terms of cost allocation that the cost follows the

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 CSB REPORTING ANDERSON (X)

 Wilder, Idaho 83676 Micron Technology, Inc.

 1 beneficiary; is that a fair statement?

 2 A That's a fair statement.

 3 Q Given that premise, then, does it make

 4 sense to not hold non-participating customers responsible

 5 for DSM costs?

 6 A Does it not hold -- repeat it again, I'm

 7 sorry.

 8 Q It might not have made sense. Does it

 9 follow, then, that we should not hold non-participating

 10 customers responsible for DSM costs?

 11 A Micron in the testimony filed basically

 12 bifurcated our view of how to allocate those costs in the

 13 post-1993 era years. It is our contention in those that

 14 the benefits, the beneficiaries should basically be

 15 assigned the cost on a class-by-class basis, those that

 16 could participate on a class-by-class basis. On the

 17 pre-1994 time period, those costs, we have no argument

 18 with the fact that the costs are assigned systemwide and

 19 thus, participant or non-participant you're going to

 20 absorb some of the costs depending on how to assign per

 21 class.

 22 Q Micron as a special contract customer is in

 23 a class of one, is it not?

 24 A Right, Schedule 26.

 25 Q And so when you say for post-'93

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 Wilder, Idaho 83676 Micron Technology, Inc.

 1 expenditures those who could participate should pay, is

 2 there a difference between those who could have

 3 participated and those who did?

 4 A In the post-'93 time period is there a

 5 difference between those who could and could not, the

 6 question I think that Micron had to ask itself was

 7 whether it was beneficial from an economic standpoint to

 8 undertake such investments. I suspect that other

 9 customers would have asked similar questions of

 10 themselves, you know, depending upon being a business,

 11 whatever their entity was undertaking, be it a household,

 12 so it became an individualized decision.

 13 Q I'm sensing that I worded my question

 14 poorly. If your premise is that costs should follow

 15 benefits, say you have a class, customer class, that has

 16 available to it a DSM program, however, because of the

 17 parameters or the criteria of that DSM program, only some

 18 of the customers within that class could participate,

 19 would it make sense to only assign the costs or allocate

 20 the costs to those customers and not the others within

 21 the class who couldn't participate?

 22 A No, we would have no argument that as a

 23 class that the ability to participate defines whether

 24 costs are assigned to that class and then once within the

 25 class the cost assigned is across all members of that

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 CSB REPORTING ANDERSON (X)

 Wilder, Idaho 83676 Micron Technology, Inc.

 1 class.

 2 Q That's not Idaho Power's proposal in this

 3 case as you understand it, is it?

 4 A In the post-'93 time period?

 5 Q The intraclass allocation you just spoke

 6 of.

 7 A Right.

 8 Q Assuming that you have a DSM program that

 9 you would agree would constitute a least cost resource,

 10 does it not benefit every customer on Idaho Power's

 11 system to acquire that resource?

 12 A If the assumption is if it's least cost, if

 13 it can be proven to be least cost.

 14 MR. PURDY: That's all I have. Thanks.

 15 COMMISSIONER SMITH: Mr. Ripley.

 16 MR. RIPLEY: Yes, a couple, Mr. Anderson.

 17

 18 CROSS-EXAMINATION

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 20 BY MR. RIPLEY:

 21 Q If I could direct your attention to

 22 page 3 of your prepared testimony. There at the top of

 23 page 3, you are answering a question as to the 24-year

 24 amortization schedule and you say the choices -- "The

 25 choice of a 24-year amortization period basically matches

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 1 the amortization of these DSM assets to their expected

 2 useful life." Now, who has ownership of those assets?

 3 A The recipient, the incumbent entity or

 4 household.

 5 Q The customers?

 6 A The customers.

 7 Q You can agree with me to that?

 8 A Yes.

 9 Q The Idaho Power Company does not own those

 10 assets?

 11 A No.

 12 Q Now, you go on to say, "It is consistent

 13 with the regulatory practice that amortization schedules

 14 should reflect the used and useful life of the utility

 15 asset." Now, there is no asset here that the utility

 16 owns?

 17 A Right.

 18 Q What do you mean, then, that it should be

 19 matched to the used and useful life of the utility asset?

 20 A I think the line basically was referencing

 21 your recapturing of your expenses that you undertook as a

 22 utility and that that recapture of your expenses should

 23 match the used and useful life of the asset in question.

 24 It's true that the DSM-type investments have a uniqueness

 25 about them in the sense that they're not sitting out at a

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 1 power plant somewhere, but that they are housed in some

 2 other organization, be it a business or household.

 3 It doesn't necessarily discount the fact

 4 that you have, you need to recapture your expense and you

 5 need to recapture your expense based upon some principle

 6 and the principle that I advocate here is that that

 7 expense being recaptured should reflect used and useful

 8 life.

 9 Q Okay, but it's the used and useful life

 10 that the customer attributes to the particular asset, not

 11 what the Company attributes?

 12 A I think it's the used and useful life as

 13 determined by the Commission and the 24-year --

 14 Q Now we're to it, aren't we? Really, it's

 15 the Commission that decides the life of a regulatory

 16 asset?

 17 A Right.

 18 Q It's not an accountant, it's not a

 19 depreciation expert, it's not even an economist, it's

 20 whatever the Commission in its judgment deems is the

 21 period of time over which it will permit a utility to

 22 recover an expenditure?

 23 A Thus, the title regulatory asset.

 24 Q Thank you. Now at page 4, line 11, in

 25 referring to the settlement agreement, you say Idaho

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 1 Power has already agreed in the rate moratorium

 2 settlement to a 24-year period. Were you aware that that

 3 was specifically left open as to what the period of time

 4 should be?

 5 A I was not.

 6 Q Now, again on page 4, line 17, you're

 7 talking about the DSM measures are cost effective to the

 8 participating entity. The participating entity is what

 9 you and I have referred to as the customer?

 10 A Right.

 11 Q My remaining question is relative to Micron

 12 Technology as opposed to Micron Electronics, so, if we

 13 will, let's just use the term Micron and I'm always

 14 referring to Micron Technology if that will be all

 15 right.

 16 A That's fine.

 17 Q Now, Micron started out as a Schedule 19 of

 18 Idaho Power Company, did it not?

 19 A It did.

 20 Q And as a Schedule 19 customer, was it

 21 automatically permitted to participate in PIE programs if

 22 it chose?

 23 A If it chose.

 24 Q Okay, then it became a special contract

 25 customer as I understand it.

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 1 A That's correct.

 2 Q And as a special contract customer, did not

 3 Micron specifically request and receive Commission

 4 approval to participate in the PIE programs?

 5 A It received approval to open up the program

 6 to special contract customers in terms of are they

 7 eligible to participate or not.

 8 Q And that was done at the behest or the

 9 request of Micron?

 10 A Right, to become eligible.

 11 Q So now Micron applies and receives

 12 authority from the Commission to participate in PIE?

 13 A It received authority to be eligible to

 14 participate.

 15 Q Okay. Now, Micron has lighting fixtures in

 16 their structures out there, don't they?

 17 A They do.

 18 Q Is lighting one of the programs that other

 19 customers participated in under PIE?

 20 A Yes.

 21 Q Why wasn't the lighting program something

 22 that Micron could participate in, do you know?

 23 A The problem that Micron had in

 24 participating in the program once it was declared to be

 25 eligible to participate, the problem that they had in

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 1 making the choice to participate is that the capital

 2 structure and the life cycle in Micron Technology is very

 3 unique, has a very fast driven economic basis that they

 4 operate under. Life cycles usually are in the 12-month

 5 range and when the fabrication processes change, what

 6 happens is it's not just bringing in a new machine to

 7 produce a new wafer, the fabrication process basically

 8 entails a complete remodeling of the internal operations

 9 of the building itself. Lighting is changed, ventilation

 10 is changed and so forth. There was no way that the use

 11 pattern of the building was going to remain constant for

 12 five years.

 13 Q That's the fabricating process, is it not?

 14 A That's right.

 15 Q Doesn't Micron also have offices?

 16 A Administrative offices?

 17 Q Yes.

 18 A I'm sure that they have some administrative

 19 offices.

 20 Q Why couldn't Micron participate in those

 21 programs?

 22 A I cannot answer that. I don't know. I

 23 suspect, however, that administratively the cost of power

 24 to light the offices relative to the cost of the

 25 fabrication process is minuscule.

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 CSB REPORTING ANDERSON (X)

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 1 Q Then do I understand that Micron

 2 specifically requested to participate in PIE, after it

 3 received authorization to participate, it then chose not

 4 to do so?

 5 A Micron specifically asked that special

 6 contract customers become eligible to participate. Once

 7 that declaration was made, yes, you may participate made

 8 by the Commission, then the internal decision was made

 9 whether it made sense to participate. Up until the

 10 eligibility declaration, they were basically foreclosed

 11 from participating.

 12 Q And the decision that Micron was not, that

 13 it was not prudent for Micron to participate after it

 14 received the eligibility was an internal decision made by

 15 Micron?

 16 A Exactly.

 17 Q Now, did Micron then ever approach Idaho

 18 Power or the Idaho Commission to say that they should be

 19 excluded from the programs?

 20 A Not to my knowledge.

 21 Q Did they ever protest to the Commission

 22 that the programs should be terminated or discontinued?

 23 A Not to my knowledge.

 24 Q Did they ever protest to the Commission

 25 that the avoided costs were set too high as far as

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 Wilder, Idaho 83676 Micron Technology, Inc.

 1 participation in DSM programs are concerned?

 2 A Not to my knowledge.

 3 Q It took no active participation or role

 4 after it decided it was not prudent to participate?

 5 A It's my understanding that they actually

 6 met with, in terms of active role they actually met with,

 7 personnel from Idaho Power, discussed potential

 8 applications, took it to that length, but at that point

 9 then made the internal decision that simply it would not

 10 work.

 11 Q So Idaho Power Company approached Micron

 12 with some projects that they inquired about or how did

 13 that occur, do you know?

 14 A I do not know how it occurred. It was

 15 actually in Mr. Said's rebuttal testimony.

 16 MR. RIPLEY: Okay. That's all the

 17 questions I have. Thank you.

 18 COMMISSIONER SMITH: Questions from the

 19 Commissioners? Nor do I.

 20 Mr. Richey, do you have any redirect?

 21 MR. RICHEY: Yes, just a few.

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 CSB REPORTING ANDERSON (X)

 Wilder, Idaho 83676 Micron Technology, Inc.

 1 REDIRECT EXAMINATION

 2

 3 BY MR. RICHEY:

 4 Q Dr. Anderson, could you explain for the

 5 Commission why Micron agrees with the allocation process

 6 of matching benefits to participants at least with

 7 respect to the post-1993 costs, why we've taken that

 8 position?

 9 A I think the feeling is that -- it's

 10 actually probably two-fold. The feeling is that

 11 initially the DSM programs, and this traces way back to

 12 the late '70s, early '80s, the DSM programs were viewed

 13 as suffering from either technological immaturity or some

 14 form of market failure in getting them adopted

 15 widespread. There was a lot of work that went on in the

 16 '80s to get these technologies up and running. There

 17 was always the fear, and probably the rightful fear, that

 18 acceptance levels, however, were going to be difficult to

 19 make of any extent because there was, it seemed to be,

 20 some market failure in the willingness of customers to

 21 accept DSM measures.

 22 Starting in the '90s, however, and I made

 23 the statement in my testimony, the DSM measures you're

 24 seeing today have over 20 years of R&D and technical

 25 advancements behind them. There was a certain maturation

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 CSB REPORTING ANDERSON (Di)

 Wilder, Idaho 83676 Micron Technology, Inc.

 1 of the industry that began to take hold and clearly by

 2 the mid-'90s, the '94, '95 period, that industry has

 3 basically become one that is market driven, market

 4 based. Today the energy efficiency industry nationwide

 5 is about a $3 billion industry.

 6 It seemed clear to us that at this point

 7 with market-based drive with a $3 billion industry out

 8 there that the participants who choose to participate in

 9 such investments are really the direct beneficiaries and

 10 based on market-type arguments, those beneficiaries

 11 should incur the cost of their decisions.

 12 Additionally, the IRP, integrated resource

 13 planning, processes of the '80s and early '90s also had

 14 an endorsement of DSM as a least cost acquisition. Those

 15 were all taking place in an era when resource surpluses

 16 were just beginning to emerge or not of great

 17 consequence. Today the western grid is awash in

 18 surplus. Whether these remain least cost today really

 19 has yet to be determined.

 20 Q Do you have any understanding as to whether

 21 Micron Technology may have purchased equipment or tools

 22 that may have qualified under the PIE program, but yet no

 23 application was made and yet these costs are not being

 24 passed on to other ratepayers, do you have any

 25 understanding of that?

 400

 CSB REPORTING ANDERSON (Di)

 Wilder, Idaho 83676 Micron Technology, Inc.

 1 A It's my understanding that over the last

 2 several years Micron Technology has chosen to purchase

 3 energy efficient process equipment and has done so at

 4 their own cost, did not choose to run those costs through

 5 the PIE program simply because, there again with the PIE

 6 programs, one of the program criterion being a five-year

 7 life, the processes that are involved in wafer production

 8 have a life cycle of about a year and so they simply

 9 would not qualify, but, yes, it's my understanding that

 10 they did engage in such purchases or such investments.

 11 Q Is it also your understanding that any

 12 benefit that may have been derived from that to

 13 ratepayers as a whole are being allocated to them at zero

 14 cost?

 15 A The benefits that are derived from that if

 16 there are indirect benefits that spill over into other

 17 customer classes are not being accounted for today.

 18 Q And those customer classes are not being

 19 allocated costs for what Micron paid for that equipment;

 20 is that correct, also?

 21 A That's correct.

 22 Q One question that Mr. Ripley raises that it

 23 was Micron's sole choice not to participate in these

 24 programs, I wanted to just clarify the answer or your

 25 answer. In making that choice, was it essentially made

 401

 CSB REPORTING ANDERSON (Di)

 Wilder, Idaho 83676 Micron Technology, Inc.

 1 in a vacuum on Micron's part or was Micron looking at

 2 what needed to be done in order to have these accepted in

 3 making that choice?

 4 A Repeat your question.

 5 Q Mr. Ripley had raised a question earlier to

 6 you that Micron chose on its own not to participate in

 7 these programs. My question to you is how was that

 8 choice made?

 9 A I think the choice was ultimately made by a

 10 comparison of what kinds of investments would qualify

 11 under the PIE program, what kind of criteria was

 12 associated with those investments, program criteria, and

 13 then whether that would work well with the Micron

 14 fabrication process that's ongoing. Ultimately, it was

 15 just a mismatch, a mismatch between the program criteria

 16 as written and the Micron processes involved, the

 17 economics simply would not work out.

 18 Q Is it your understanding that if Micron

 19 even if they wanted to participate in the program, but

 20 knew up front that they were not going to meet the

 21 requirements that the only choice they could make was to

 22 not participate?

 23 A Yes.

 24 Q Can you explain at least in your testimony

 25 the difference between being eligible to participate and

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 CSB REPORTING ANDERSON (Di)

 Wilder, Idaho 83676 Micron Technology, Inc.

 1 being able to participate and the distinction that may be

 2 drawn there?

 3 A It's back to my response to Mr. Ripley's

 4 question. I think when Micron moved from Schedule 19 to

 5 a special contract customer, at that time or thereabouts

 6 in that time, the PIE program was not available to

 7 special contract customers. There was an attempt on

 8 Micron's part to investigate whether there would be any

 9 kind of program participation, program activity that

 10 would be beneficial to Micron. The way the rules were

 11 written, however, after Micron had moved over to special

 12 contract, it foreclosed any kind of investigation

 13 whatsoever. It was a done deal. You could not

 14 participate.

 15 The first thing that had to happen in order

 16 for Micron to do such an investigation was to get the

 17 rules changed so that you would be eligible and,

 18 therefore, that's when Micron asked that special contract

 19 customers be included in the PIE program. That simply

 20 opened the door, though. That did not resolve the

 21 question of whether it is still good sense, good economic

 22 sense, good business sense to participate in it. Micron

 23 had become or Micron had obtained basically the right to

 24 participate, but clearly did not have the ability to

 25 participate.

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 CSB REPORTING ANDERSON (Di)

 Wilder, Idaho 83676 Micron Technology, Inc.

 1 Q And is it your understanding that when

 2 Micron requested of the Commission to be eligible to

 3 participate in the PIE program that certain exceptions

 4 were made at that time to the program; is that your

 5 understanding?

 6 A That is my understanding.

 7 MR. RICHEY: That's all the questions I

 8 have at this time.

 9 COMMISSIONER SMITH: Thank you. Thank you,

 10 Dr. Anderson, we appreciate your help.

 11 MR. PURDY: Madam Chair?

 12 COMMISSIONER SMITH: Mr. Purdy.

 13 MR. PURDY: I do feel compelled to ask one

 14 more question of Mr. Anderson.

 15 COMMISSIONER SMITH: All right.

 16

 17 CROSS-EXAMINATION

 18

 19 BY MR. PURDY:

 20 Q This is something I believe was raised for

 21 the first time in redirect and at the risk of pointing

 22 out what I consider to be the obvious, would it be fair

 23 to say that it's possible that there might be thousands

 24 of Idaho Power residential customers who have electric

 25 homes or who have installed conservation measures,

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 CSB REPORTING ANDERSON (X)

 Wilder, Idaho 83676 Micron Technology, Inc.

 1 weather proofing, that sort of thing or perhaps energy

 2 saving light bulbs, that sort of thing who have not asked

 3 for any type of reimbursement for those costs?

 4 A Yes.

 5 MR. PURDY: Thank you.

 6 COMMISSIONER SMITH: Thank you very much

 7 and appreciate your help.

 8 (The witness left the stand.)

 9 COMMISSIONER SMITH: We'll be in recess

 10 until 3:00 o'clock.

 11 Mr. Richey.

 12 MR. RICHEY: Is it possible for

 13 Dr. Anderson to be excused?

 14 COMMISSIONER SMITH: If there is no

 15 objection, we'd be happy to excuse Dr. Anderson.

 16 MR. RICHEY: Thank you.

 17 (Recess.)

 18 COMMISSIONER SMITH: Okay, we'll go back on

 19 the record. Mr. Jauregui, how would you like to put on

 20 your witness?

 21 MR. JAUREGUI: Madam Chairman, I would like

 22 to call W. D. Arms to the stand.

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 CSB REPORTING ANDERSON (X)

 Wilder, Idaho 83676 Micron Technology, Inc.

 1 W. D. ARMS,

 2 produced as a witness at the instance of the Rate

 3 Fairness Group, having been first duly sworn, was

 4 examined and testified as follows:

 5

 6 DIRECT EXAMINATION

 7

 8 BY MR. JAUREGUI:

 9 Q Mr. Arms, would you please state your name

 10 and address for the record?

 11 A My name is W. D. Arms. I reside at 4430

 12 Castlebar Drive, Boise, Idaho, 83707.

 13 Q Are you the same person that caused to be

 14 prepared prefiled testimony in this matter consisting of

 15 six pages?

 16 A I am.

 17 Q Do you have any corrections or additions to

 18 that testimony?

 19 A No, I do not.

 20 Q If I were to ask those questions today,

 21 would your answers be the same?

 22 A Yes, they would.

 23 MR. JAUREGUI: I would ask that the

 24 testimony be spread on the record as if read and would

 25 tender Mr. Arms for cross-examination.

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 CSB REPORTING ARMS (Di)

 Wilder, Idaho 83676 Rate Fairness Group

 1 COMMISSIONER SMITH: If there's no

 2 objection, we will spread the prefiled testimony of

 3 Mr. Arms upon the record as if read.

 4 (The following prefiled testimony of

 5 Mr. W. D. Arms is spread upon the record.)

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 CSB REPORTING ARMS (Di)

 Wilder, Idaho 83676 Rate Fairness Group

 1 Q PLEASE STATE YOUR NAME AND ADDRESS.

 2 A My name is W.D. Arms. I reside at 4430

 3 Castlebar, Boise, Idaho.

 4 Q ARE YOU EMPLOYED?

 5 A No, I am retired.

 6 Q PLEASE DESCRIBE YOUR BACKGROUND.

 7 A I am eight four (84) years old, married,

 8 grew up in Idaho and Eastern Oregon. I graduated from

 9 Wallace High School and then graduated from the

 10 University of Idaho in 1937 with a B.S. in Electrical

 11 Engineering. Before going to work for Idaho Power

 12 Company, ("Idaho Power") I worked in the mines in

 13 northern Idaho. I was employed by Idaho Power for

 14 forty two (42) years as an electrical engineer and

 15 manager in several positions including: Distribution

 16 Engineer, Transmission Engineer, Division Electrical

 17 Superintendent, and retired as Vice President of

 18 Engineering in 1979. After retiring from Idaho Power, I

 19 was employed by Morrison-Knudsen Company, Inc. for about

 20 two years as a consultant and later as Manager of Power

 21 Projects.

 22 Q ON WHOSE BEHALF ARE YOU TESTIFYING IN THE

 23 PROCEEDING?

 24 A I am testifying on behalf of The Rate

 25 Fairness Group ("RFG"), an informal group of about twelve

 408

 ARMS, Di 2

 The Rate Fairness Group

 1 (12) individuals, including me, all of which are Idaho

 2 Power residential customers, and about two-thirds of

 3 which are retired.

 4 Q WHAT IS THE TOPIC OF YOUR TESTIMONY?

 5 A My testimony is directed to the Application

 6 of Idaho Power for authority to increase electric service

 7 rates to allow recovery for demand side

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 ARMS, Di 2A

 The Rate Fairness Group

 1 management/conservation ("DSM") expenditures.

 2 Q WHAT IS THE PURPOSE OF YOUR TESTIMONY?

 3 A The purpose of my testimony is to urge that

 4 the Idaho Public Utilities Commission ("Commission")

 5 reject Idaho Power's proposal to amortize outstanding DSM

 6 investment over five years; and secondly, that the

 7 Commission reject Idaho Power's recommendation with

 8 respect to deferred program expenditures after 1993 be

 9 changed from this Commission's historical holding that

 10 classifies DSM conservation program expenditures in the

 11 same manner in which generation resources are classified.

 12 Q WHY SHOULD THE PROPOSAL TO AMORTIZE

 13 OUTSTANDING DSM INVESTMENTS OVER FIVE YEARS BE REJECTED?

 14 A Idaho Power offers no studies or other

 15 evidence, other than Mr. Said's testimony exercising his

 16 judgment, that a five year recovery period is a

 17 reasonable amortization period. It is my opinion, based

 18 on my experience, that a five year recovery period for

 19 DSM expenditures is too short.

 20 Q OVER WHAT PERIOD OF TIME SHOULD DSM BE

 21 AMORTIZED?

 22 A I believe this Commission should continue

 23 the DSM amortization period of twenty four years because

 24 of the reasons set forth in the Commission's Order No.

 25 25880, dated January 31, 1995, in Case Number IPC-E-94-5,

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 ARMS, Di 3

 The Rate Fairness Group

 1 remain valid today. Those reasons were stated as

 2 follows:

 3 B. Amortization of DSM Program Costs.

 IPCo proposed in its Application to amortize all

 4 DSM program expenditures over seven years. Staff

 recommended that the program expenditures be

 5 amortized over a period equal to the approximate

 effective life of each program, as set forth in

 6 Staff's Exhibit No. 199. Tr. p. 1842. Similarly,

 FMC recommended an amortization period of 24 years

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 ARMS, Di 3A

 The Rate Fairness Group

 1 the accumulated DSM program expenditures, which is

 the average effective life projected for the DSM

 2 programs. Tr. p. 2346. Under IPCo's proposal,

 $16,468,740 is included in rate base for

 3 accumulated DSM costs. Amortizing the expense

 over the average useful life, a 24-year period,

 4 adds $1,894,387 to IPCo's proposed DSM related

 rate base. The corresponding amortization expense

 5 is also reduced by the $1,894,387.

 6 As Staff testified, the Commission

 previously has indicated it expects expenditures

 7 for DSM programs to be amortized over the expected

 useful life of the program. See, e.g. Order Nos.

 8 22299 and 22893. Such as amortization properly

 spreads program costs over the expected useful

 9 life. For the DSM programs that have resulted in

 deferred expenses of approximately $18.5 million

 10 in this case, the program average useful life is

 24 years. We find a 24-year amortization period

 11 for the existing deferred DSM costs to be just and

 reasonable. The total DSM related Rate base

 12 amount adopted in this Order is $20,317,331,

 correcting for the Company error of $1,954,204 and

 13 amortizing the deferred amount over 24 years.

 (emphasis added)

 14

 15 Q WHY SHOULD THE COMMISSION REJECT IDAHO

 16 POWER'S RECOMMENDATION THAT DSM EXPENDITURES AFTER 1993

 17 BE ALLOCATED ON A DIFFERENT BASIS?

 18 A Idaho Power offers no study, and Mr. Said

 19 offers no evidence for changing DSM allocations. Mr.

 20 Said recognizes that past DSM expenditures have been

 21 viewed as system resources and as such the costs have

 22 been allocated to classes based upon class use (demand

 23 and energy) of resources. He states that his

 24 recommendation recognizes that DSM is currently viewed

 25 from the perspective of direct benefits (i.e. ability to

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 ARMS, Di 4

 The Rate Fairness Group

 1 participate in programs) that customers receive from

 2 expenditures made on their behalf but he offers no

 3 studies or other evidence to support the statement.

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 ARMS, Di 4A

 The Rate Fairness Group

 1 Q WHAT ALLOCATION METHOD SHOULD BE USED FOR

 2 DSM EXPENDITURES AFTER 1993?

 3 A I recommend that this Commission continue

 4 its historical practice of classifying conservation

 5 program expenses in the same manner in which generation

 6 resources as classified. Mr. Said recognized that past

 7 DSM expenditures have been viewed as system resources and

 8 as such the costs have been allocated to the classes

 9 based upon class use (demand and energy) of resources.

 10 The RFG questions the Company's proposal which is based

 11 upon an allocation method which would require members of

 12 a group or rate class to buy a home, or sell and buy a

 13 new home as the basis for the allocation to residential

 14 customers. Idaho Power DSM programs did not have

 15 programs that all residential customers could participate

 16 in.

 17 I would also point out that it may appear that the

 18 residential programs were available or could be

 19 participated in by all members of the residential class,

 20 but it is very unlikely that most older members of the

 21 residential group, and since most members of the RFG are

 22 retired, that people on fixed incomes would be very

 23 likely to be able or want to buy a new house.

 24 Q DO YOU HAVE ANY FURTHER COMMENTS ON THIS

 25 MATTER?

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 ARMS, Di 5

 The Rate Fairness Group

 1 A Yes I have one final comment. As I

 2 indicated, the members of the RFG are mostly senior

 3 citizens who are retired and on fixed incomes. The

 4 proposals of Idaho Power Company would shift the cost of

 5 a long term benefit to a short term (5 year) payment

 6 schedule by ratepayers over the next five years which, in

 7 my opinion, is neither fair nor reasonable. The RFG

 8 believes that

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 ARMS, Di 5A

 The Rate Fairness Group

 1 fairness to the ratepayer requires not only the payment

 2 for prudent investments by Idaho Power by ratepayers but

 3 credits and adjustment by Idaho Power to ratepayers for

 4 lower carrying cost, and reduced labor costs due to

 5 termination of DSM programs.

 6 Q DOES THAT CONCLUDE YOUR TESTIMONY IN THIS

 7 PROCEEDING?

 8 A Yes it does.

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 ARMS, Di 6

 The Rate Fairness Group

 1 (The following proceedings were had in

 2 open hearing.)

 3 COMMISSIONER SMITH: Mr. Ward, do you have

 4 questions?

 5 MR. WARD: I have no questions. Thank you.

 6 COMMISSIONER SMITH: Mr. Gollomp?

 7 MR. GOLLOMP: No questions.

 8 COMMISSIONER SMITH: Mr. Fothergill.

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

 10 questions.

 11

 12 CROSS-EXAMINATION

 13

 14 BY MR. FOTHERGILL:

 15 Q On page -- Mr. Arms, can you hear me?

 16 A Yes.

 17 Q You've testified before this Commission on

 18 numerous occasions in the past, haven't you?

 19 A Yes, I have.

 20 Q And on page 5 of your testimony, you

 21 indicate that you do not think it is fair and reasonable

 22 to recover DSM expenditures from all residential

 23 customers when only a small fraction of them can

 24 participate in a given DSM program, and you mention the

 25 prospect of a buying a new home or on the basis of buying

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 CSB REPORTING ARMS (X)

 Wilder, Idaho 83676 Rate Fairness Group

 1 and selling a home. This is an example of yours, is it

 2 not, it is not a Company program?

 3 A This is not a Company program. This is my

 4 own thought.

 5 Q Thank you, but it is applicable to the

 6 application that the Company is making, is it not?

 7 A Yes, I believe it is.

 8 Q On page 3 of your testimony, you quote at

 9 length from an Order, I believe a January Order, of the

 10 Commission and you emphasize that we find a 24-year

 11 amortization period for the existing deferred DSM costs

 12 to be just and reasonable. Now, if the DSM programs were

 13 not beneficial over their expected useful life, would not

 14 the programs be considered bad investments?

 15 A Not necessarily, no.

 16 MR. FOTHERGILL: I see. Thank you very

 17 much.

 18 COMMISSIONER SMITH: Mr. Budge?

 19 MR. BUDGE: No questions.

 20 COMMISSIONER SMITH: Mr. Richey.

 21 MR. RICHEY: No questions.

 22 COMMISSIONER SMITH: Mr. Richardson.

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 CSB REPORTING ARMS (X)

 Wilder, Idaho 83676 Rate Fairness Group

 1 CROSS-EXAMINATION

 2

 3 BY MR. RICHARDSON:

 4 Q Mr. Arms? Over here. Hi. You're an

 5 electrical engineer?

 6 A Yes, sir.

 7 Q And you used to be a vice president with

 8 Idaho Power Company?

 9 A That's correct.

 10 Q Is it your opinion, Mr. Arms, that the

 11 investment Idaho Power has made in DSM measures serve no

 12 useful purpose beyond five years?

 13 A No, it is not.

 14 Q They do actually benefit the Company; is

 15 that your opinion?

 16 A Yes, sir.

 17 MR. RICHARDSON: That's all I have,

 18 Madam Chairman.

 19 COMMISSIONER SMITH: Mr. Purdy.

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 CSB REPORTING ARMS (X)

 Wilder, Idaho 83676 Rate Fairness Group

 1 CROSS-EXAMINATION

 2

 3 BY MR. PURDY:

 4 Q Mr. Arms, you state that, for instance,

 5 residential customers might not be able to participate in

 6 certain DSM programs. Could you explain why that might

 7 occur?

 8 A Well, in my case, I bought a home prior to

 9 good cents programs. I'm certainly not classed as a low

 10 income person. Neither one of the programs would have

 11 any benefit to me.

 12 Q Can you think of any other examples where

 13 one member of a class might be able to participate in a

 14 DSM program, but another member in that same class could

 15 not?

 16 A Not offhand.

 17 MR. PURDY: Thank you.

 18 COMMISSIONER SMITH: Mr. Ripley.

 19 MR. RIPLEY: We have no questions.

 20 COMMISSIONER SMITH: Are there questions

 21 from the Commissioners?

 22 COMMISSIONER NELSON: I don't have any.

 23 Thank you.

 24 COMMISSIONER HANSEN: No.

 25 COMMISSIONER SMITH: Nor I.

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 CSB REPORTING ARMS (X)

 Wilder, Idaho 83676 Rate Fairness Group

 1 Is there redirect, Mr. Jauregui?

 2 MR. JAUREGUI: No, Madam Chairman, there is

 3 not.

 4 COMMISSIONER SMITH: We thank you for your

 5 help, Mr. Arms.

 6 (The witness left the stand.)

 7 COMMISSIONER SMITH: It looks like we're

 8 down to the Staff case.

 9 MR. PURDY: Yes, thank you. The Staff

 10 calls Lynn Anderson.

 11 MR. JAUREGUI: Madam Chairman?

 12 COMMISSIONER SMITH: Mr. Jauregui.

 13 MR. JAUREGUI: If permitted, Mr. Arms may

 14 need to leave. Would it be all right if he could be

 15 excused?

 16 COMMISSIONER SMITH: If there's no

 17 objection, we will excuse Mr. Arms, although I'm sure

 18 he'll want to stay.

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 CSB REPORTING ARMS (X)

 Wilder, Idaho 83676 Rate Fairness Group

 1 LYNN ANDERSON,

 2 produced as a witness at the instance of the Staff,

 3 having been first duly sworn, was examined and testified

 4 as follows:

 5

 6 DIRECT EXAMINATION

 7

 8 BY MR. PURDY:

 9 Q Are you ready to go, Mr. Anderson?

 10 A Yes.

 11 Q Would you please state your name?

 12 A Lynn Anderson.

 13 Q By whom are you employed?

 14 A The Idaho Public Utilities Commission.

 15 Q And have you prefiled direct testimony in

 16 this case consisting of 23 pages of text?

 17 A Yes, I have.

 18 Q And you're sponsoring Staff Exhibit

 19 Nos. 101, 102, 103 and 104?

 20 A Yes.

 21 Q All right. Do you have any corrections or

 22 technical changes to your prefiled testimony or exhibits?

 23 A No, I do not.

 24 Q All right; so if I were to ask you those

 25 same questions today as contained in your prefiled

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 CSB REPORTING ANDERSON (Di)

 Wilder, Idaho 83676 Staff

 1 testimony, would the answers be the same?

 2 A Yes.

 3 MR. PURDY: Madam Chair, I would just ask

 4 that due to testimony filed by other witnesses and other

 5 parties in this case, I might just ask a couple of

 6 additional direct questions at this time.

 7 COMMISSIONER SMITH: Okay.

 8 MR. PURDY: Thank you.

 9 Q BY MR. PURDY: Mr. Anderson, you're

 10 familiar with the testimony of FMC's witness David Bonn

 11 prefiled in this case, are you not?

 12 A Yes, I am.

 13 Q And I'm going to paraphrase, but I believe

 14 his testimony is to the effect that FMC should not have

 15 to pay any DSM-related costs for its second block of

 16 130 megawatts because the price for that power is tied to

 17 market conditions. Is that your understanding?

 18 A Yes.

 19 Q All right. Given this argument, do you

 20 have any clarifications that you'd like to make to your

 21 prefiled testimony?

 22 A Yes. I should state that my proposal for a

 23 uniform percent allocation is applicable only to

 24 customers who are not able to or who do not get a special

 25 contract rate from Idaho Power. For those customers that

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 CSB REPORTING ANDERSON (Di)

 Wilder, Idaho 83676 Staff

 1 do get a special contract rate that is from an

 2 alternative supplier, then I think the DSM charges should

 3 be allocated based upon the same uniform percent

 4 pre-alternative supplier Idaho Power bill, which is a

 5 little cumbersome in words, and then the actual amount

 6 that that customer pays should be based upon or identical

 7 to what Idaho Power proposed in this case and that is a

 8 fixed amount divided by 60 monthly payments.

 9 Q Is that all you have on that point?

 10 A Well, the reason I bring that up is I think

 11 it would be improper to allow customers to opt out of

 12 paying DSM charges just because they are able to get a

 13 special contract. I think these customers like all other

 14 customers were benefited by DSM in the past and will be

 15 in the future by the fact that DSM does reduce the market

 16 price of electricity.

 17 Q Now, you have criticized or, I should say,

 18 you have suggested that Idaho Power's DSM revenue

 19 requirement be reduced pertinent to the Company's

 20 commercial lighting program and if I understand

 21 correctly, your testimony is essentially that the Company

 22 did not perform sufficient evaluations to determine

 23 whether that program was cost effective and consequently,

 24 some of the amounts Idaho Power contends it incurred

 25 should be subtracted from the Company's revenue

 424

 CSB REPORTING ANDERSON (Di)

 Wilder, Idaho 83676 Staff

 1 requirement; is that a fair statement?

 2 A That's correct. It wasn't necessarily

 3 because it was not a cost-effective program, but simply

 4 because there was no evaluation to determine how cost

 5 effective and whether or not it could become more cost

 6 effective by doing things a little bit differently than

 7 what they were doing.

 8 Q All right. Did anything in Mr. Said's

 9 rebuttal testimony, I recognize that that's not yet on

 10 the record, but is there anything contained in that

 11 testimony that has caused you to do some additional

 12 analysis with regard to the commercial lighting program?

 13 A Yes. In Mr. Said's rebuttal testimony, he

 14 did mention for the very first time that the Company

 15 performed some on-site verifications of the commercial

 16 lighting program and so I did have a few days between

 17 when the rebuttal testimony was filed and today's

 18 hearing, so I took a couple of hours and reviewed this

 19 information that was at Idaho Power's headquarters.

 20 I did not have sufficient time to do a

 21 thorough evaluation of the three binders full of data,

 22 but I did go through them page by page and it did appear

 23 that the information that was intended by the forms

 24 contained in these binders was the start of a proper

 25 program evaluation, but I also discovered that the

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 CSB REPORTING ANDERSON (Di)

 Wilder, Idaho 83676 Staff

 1 information contained on the forms was very inconsistent

 2 and often incomplete and that it really wasn't useful for

 3 a thorough evaluation and I would suggest that's probably

 4 why Idaho Power did not do a thorough evaluation, but at

 5 the same time, I think it's worth noting that of the few

 6 forms that were completely filled out, roughly two-thirds

 7 of the site verifications the customers did indicate that

 8 they would have performed essentially the same lighting

 9 retrofits as they did under the program even if the

 10 program had not been in existence, and I did note that

 11 while there were quite a few customers or at least a few

 12 customers who were very pleased with the program, there

 13 were probably just as many customers who were displeased

 14 because of ballast failures or other problems.

 15 Overall, I conclude that while these site

 16 verifications were the beginning of a promising program

 17 evaluation, the enthusiasm apparently dropped off before

 18 the data was all collected and completely disappeared

 19 before any evaluation could have been accomplished.

 20 Q In reviewing these forms, were you able to

 21 ascertain when they were filled out?

 22 A Yes. As Mr. Said said in his rebuttal

 23 testimony, it was during the fourth quarter of 1997.

 24 MR. PURDY: That's all I have in terms of

 25 additional direct. I would ask that the prefiled direct

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 CSB REPORTING ANDERSON (Di)

 Wilder, Idaho 83676 Staff

 1 testimony of Mr. Anderson be spread as if read and that

 2 Exhibits 101 through 104 be marked for identification.

 3 COMMISSIONER SMITH: If there's no

 4 objection, it is so ordered.

 5 (The following prefiled testimony of

 6 Mr. Lynn Anderson is spread upon the record.)

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 CSB REPORTING ANDERSON (Di)

 Wilder, Idaho 83676 Staff

 1 Q. Please state your name and business address

 2 for the record.

 3 A. My name is Lynn Anderson and my business

 4 address is 472 West Washington Street, Boise, Idaho.

 5 Q. By whom are you employed and in what

 6 capacity?

 7 A. I am employed by the Idaho Public Utilities

 8 Commission as a Staff economist.

 9 Q. What are your duties with the Commission?

 10 A. My duties include evaluating electricity,

 11 natural gas, water and telephone utilities' rates,

 12 services, plans and customer petitions, as well as

 13 conducting generic economic and regulatory

 14 investigations. These evaluations and investigations are

 15 generally used in making Staff recommendations to the

 16 Commission for the approval, denial or modification of

 17 utility applications or customer petitions.

 18 Q. Would you please outline your academic and

 19 professional background?

 20 A. I have a Bachelor of Science degree in

 21 government and a Bachelor of Arts degree in sociology,

 22 both from Idaho State University where I also studied

 23 economics and architecture. I studied engineering at

 24 Northwestern University and Brigham Young University and

 25 public administration and quantitative analysis at Boise

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 IPC-E-97-12 ANDERSON (Di) 1

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 1 State University. Over the past 18 years I have attended

 2 many training seminars and conferences regarding utility

 3 regulation, operations, forecasting, and marketing.

 4 I began my employment with the Commission in

 5 1980 as a utility rate analyst. In 1983 I was appointed

 6 as the telecommunications section supervisor and in 1992

 7 I was appointed to my present position as an economist.

 8 I have presented testimony in approximately 50 formal

 9 cases before the Commission.

 10 From 1975 to 1980 I was employed by the

 11 Idaho Transportation Department where I performed

 12 benefit/cost analyses of highway safety improvements and

 13 other statistical analyses.

 14 Q. What is the purpose of your testimony in

 15 this proceeding?

 16 A. I have three primary purposes. First, I

 17 will suggest that Idaho Power Company (Idaho Power;

 18 Company) was prudent in its continuation of most, but not

 19 all, of its demand side management (DSM; conservation)

 20 programs since 1993. Second, I will suggest that Idaho

 21 Power's proposed allocation of DSM costs among customer

 22 classes based upon "ability to participate" is

 23 unwarranted and unnecessarily complex and I will propose

 24 a reasonable and simpler alternative. And third, I will

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 IPC-E-97-12 ANDERSON (Di) 2

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 1 suggest the Company's proposed "percentage increase" rate

 2 design for most customer classes is just and reasonable.

 3 Q. Have you prepared an exhibit summarizing

 4 Idaho Power's DSM costs by program and by year?

 5 A. Yes. Staff Exhibit No. 101 is presented for

 6 general information. The left-hand side of this exhibit

 7 shows Idaho Power's total DSM costs from 1985 through

 8 1997 as reported in its 1997 and 1998 Conservation Plans.

 9 The right-hand side of the exhibit shows the deferred

 10 costs from 1994 through 1997 as shown in Company witness

 11 Greg Said's Exhibit 2 presented in this case. The $2.2

 12 million difference between the two 1994-1997 totals is

 13 presumably the amount the Company expensed during those

 14 four years.

 15 REASONABLE AND PRUDENT DSM

 16 Q. Please briefly explain the processes that

 17 should be involved in utility DSM programs in order for

 18 the Commission Staff to determine that such programs are

 19 reasonable and prudent, thereby enabling it to recommend

 20 to the Commission that utility customers pay for them.

 21 A. In general, DSM programs should be pre-

 22 evaluated for probable cost-effectiveness and should have

 23 implementation and evaluation plans completed before

 24 full-scale implementation begins. Programs should be

 25 continually monitored while they are operational.

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 1 Process evaluations and preliminary program evaluations

 2 should be conducted periodically and the results of both

 3 should be used to modify the program as necessary to

 4 obtain optimal results. Both preliminary and final

 5 program evaluations should reasonably estimate baseline

 6 customer activity that would have occurred absent the

 7 program. Estimating customer activity that would have

 8 occurred had the DSM program not been in place is often

 9 extremely difficult, but it is essential for reliable

 10 evaluations.

 11 Q. Have Idaho Power's planning, implementation

 12 and evaluation of its DSM programs been reasonable and

 13 prudent since the Commission last reviewed this issue in

 14 1995 for programs through 1993?

 15 A. Idaho Power consistently pre-evaluated its

 16 DSM programs as evidenced by the fact that it brought

 17 them to the Commission for its review and approval before

 18 actually implementing them. Each April the Company

 19 submitted to the Commission its Conservation Plan that

 20 included a summary of DSM project activity. These plans

 21 and their appendices sometimes included process and

 22 impact evaluations and always included estimates of

 23 energy savings and cost-effectiveness. However, the

 24 electricity savings were admittedly overstated due to the

 25 very important shortcoming of not being adjusted for the

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 1 estimated energy savings by customers who would have

 2 completed essentially the same energy efficiency

 3 improvement with or without the DSM programs. In spite

 4 of this shortcoming, I conclude that Idaho Power

 5 conducted most, but not all, of its DSM programs

 6 reasonably and prudently.

 7 Q. Which of Idaho Power's DSM programs

 8 continued after 1993 has Staff specifically reviewed?

 9 A. I reviewed three programs, namely the

 10 Design Excellence Award Program (DEAP), the Partners in

 11 Industrial Efficiency Program (PIE), and the Commercial

 12 Lighting Program (CLP). Staff engineer Rick Sterling

 13 reviewed the Agricultural Choices Program (ACP) and I

 14 will present the results of his analysis. Staff did not

 15 specifically review other programs for various reasons.

 16 By 1994 the Good Cents Program was being phased out; the

 17 Manufactured Home Acquisition Program (MAP) was a

 18 regional effort to improve mobile home energy

 19 efficiencies; and Low Income Weatherization is a public

 20 purposes DSM program that was never intended to be

 21 evaluated strictly on the basis of utility cost-

 22 effectiveness.

 23 Q. Please briefly describe the programs and

 24 the conclusions reached regarding the four DSM programs

 25 that were reviewed by Staff.

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 1 A. The descriptions and conclusions of the

 2 four DSM programs are as follows:

 3 Design Excellence Award Program (DEAP)

 4 DEAP promoted using computer modeling to

 5 design more energy efficient commercial buildings by an

 6 incentive ranging from $1,200 to $4,500 paid to

 7 architects, engineers, and contractors. This program

 8 began in 1989 and ended in 1997 after having cost Idaho

 9 Power $2.3 million. It was ended because, according to

 10 Idaho Power, the program achieved a high degree of market

 11 transformation in the commercial building market and

 12 because the program sometimes led to fuel switching in

 13 building design.

 14 In Idaho Power's last rate case before this

 15 Commission, Case No. IPC-E-94-5, Staff recommended

 16 disallowing ratepayer recovery of one-half of the costs

 17 the Company incurred for DEAP during 1992 and 1993

 18 because its cost-effectiveness evaluations did not

 19 attempt to account for buildings that would have been

 20 built to DEAP standards even without the DEAP program.

 21 However, the Commission ultimately allowed full recovery

 22 of costs incurred through the end of 1993.

 23 Since the conclusion of Case No. IPC-E-94-5,

 24 Idaho Power has submitted four annual Conservation Plans

 25 in which it states it continually monitored and evaluated

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 1 DEAP and made improvements to the program prior to ending

 2 it. During 1994 the program was admitted to having been

 3 one of three programs contributing to a DSM shortfall and

 4 having an inefficient $.035 per kWh utility cost. But by

 5 modifying the program in subsequent years, the program

 6 was claimed to improve to $.005 and $.004 per kWh saved

 7 in 1996 and 1997, respectively. However, in none of

 8 these calculations did Idaho Power attempt to adjust its

 9 estimate of energy savings by the amount of energy

 10 savings that would have occurred due to more efficient

 11 building standards and construction practices in the

 12 absence of DEAP.

 13 The Technical Appendix to Idaho Power's 1995

 14 Conservation Plan contains a June 1994, impact analysis

 15 of participants' kWh savings, but only mentions the

 16 "in-the-absence" problem without attempting to adjust

 17 energy savings estimates accordingly. On page 18 of its

 18 analysis, Idaho Power concludes that "...many other

 19 important questions remain. The Company continues to

 20 evaluate ...[DEAP], and is participating in a regional

 21 evaluation effort..." The Technical Appendix to the 1997

 22 Conservation Plan included the executive summary of the

 23 regional evaluation report completed in September, 1996,

 24 by XENERGY, Inc. Among other conclusions XENERGY found

 25 that the actual energy savings of DEAP and another,

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 1 similar Northwest program were about one-half the energy

 2 savings claimed by various utilities. The overstatement

 3 of claimed savings was due largely to the fact that many

 4 program participants would have used energy efficient

 5 building designs even without the programs.

 6 My conclusion is that Idaho Power's

 7 continuation of DEAP from 1994 to 1997 was reasonable and

 8 prudent. The Company undoubtedly understated the

 9 program's actual cost per kWh, but, even so, DEAP was

 10 probably still cost-effective and, more importantly, the

 11 Company has provided evidence that it monitored this

 12 program, modified it to improve results, and participated

 13 in a thorough evaluation.

 14 Partners in Industrial Efficiency (PIE)

 15 The PIE program was restricted to large

 16 customers on Schedule 19 or special contracts. Each

 17 project was required to save at least 100,000 kWh per

 18 year for at least five years for which Idaho Power paid

 19 the lesser of $.10 per kWh saved in the first year or 50%

 20 of the customers direct costs with a cap of $250,000 per

 21 metered account. This program began in 1991 and ended in

 22 1997 (with some projects still pending) after having cost

 23 Idaho Power $3.5 million. The program was ended because

 24 Idaho Power said that some of its large customers

 25 suggested that Idaho Power should discontinue DSM

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 1 programs to avoid adding to deferred costs that increase

 2 the cost of electricity over time. Idaho Power also said

 3 that several of the technologies funded through the PIE

 4 program, such as variable speed drives and efficient

 5 refrigeration, were becoming commonly used by industrial

 6 customers making the program less necessary.

 7 In Case No. IPC-E-94-5 Staff recommended

 8 that the full costs of PIE be recovered from ratepayers.

 9 Even though the program was said to be past due for a

 10 thorough impact evaluation, Staff conceded that allowing

 11 two years of expenditures without an impact evaluation

 12 was not unreasonable. Nevertheless, Staff cautioned that

 13 expenditures being made in 1994, which were not part of

 14 that rate case, were perhaps being made imprudently

 15 because Idaho Power's own process evaluation included in

 16 the Technical Appendix to the 1994 Conservation Plan said

 17 that a significant portion of the estimated energy

 18 savings attributed to PIE may have occurred even without

 19 the program. In other words, the claimed utility cost of

 20 $.008 per kWh during 1993 was understated by a

 21 significant but unknown amount.

 22 Idaho Power completed an impact evaluation

 23 of PIE by June 1995 in which the problem of customers

 24 receiving PIE funding for doing projects they would have

 25 done anyway was discussed. This evaluation said that the

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 1 Company had used its discretionary authority to not fund

 2 some projects that likely would have been completed

 3 absent PIE funding, but it also noted that improvements

 4 in the screening process were still desirable and

 5 possible. Nevertheless, this evaluation report concluded

 6 that in spite of its shortcomings, the PIE project was

 7 cost-effective; that is, that it saved electricity at a

 8 cost below the avoided cost of producing electricity.

 9 After adjusting for underestimated energy savings and for

 10 self-reported "free-riders," the report estimated the

 11 utility cost for the PIE program through 1994 to be about

 12 $.007 per kWh saved.

 13 My conclusion regarding whether Idaho

 14 Power's continuation of PIE from 1994 to 1997 was

 15 reasonable and prudent is that it probably was.

 16 Commercial Lighting Program (CLP)

 17 CLP was restricted to commercial and

 18 industrial customers for the promotion of efficient

 19 lighting equipment. Idaho Power paid $200 per kW saved

 20 up to 40% of the project cost. This program began in

 21 1993 and ended in 1997 after having cost the Company $1.5

 22 million. The program was ended because Idaho Power

 23 wanted to reduce the deferral of DSM expenditures and

 24 because the Northwest Energy Efficiency Alliance, which

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 1 the Company was helping to fund and direct, was said to

 2 be a better approach to conservation.

 3 This lighting efficiency program had begun

 4 just prior to the processing of Case No. IPC-E-94-5 and

 5 there was no evidence for Staff to recommend against

 6 ratepayer funding of expenditures incurred up to that

 7 time. However, Staff was concerned with the high

 8 turnover of retail operations and resulting display

 9 changes that could cause the removal of efficient

 10 lighting equipment. Staff cautioned that future

 11 expenditures may be disallowed if the purported

 12 electricity savings and the persistence of those savings

 13 over time cannot be proven.

 14 Other than the one-page summaries contained

 15 in each of the Conservation Plans, Idaho Power provided

 16 no process or impact evaluations regarding this program

 17 even though in the 1995 Plan it said an impact evaluation

 18 was scheduled for 1996. In the annual one-page summaries

 19 there is no mention of possible lack of energy savings

 20 persistence over time due to retail building turnover

 21 and, in fact, the Plans consistently used an average 12-

 22 year life for lighting retrofits to calculate levelized

 23 costs per kWh saved. Furthermore, the purported total

 24 levelized utility cost of $.007 per kWh saved is admitted

 25 to have been estimated without consideration of the

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 1 probability that many projects would have been completed

 2 even without the program.

 3 My conclusion is that Idaho Power was not

 4 reasonable and prudent in its continuation of the

 5 Commercial Lighting Program beyond 1995 without having

 6 completed, or even initiated, either a process evaluation

 7 or an impact evaluation. Thus, I recommend the

 8 Commission not allow ratepayer recovery of the $274,000

 9 the Company accumulated in 1996 and 1997 in its deferred

 10 account for this program. I should point out that the

 11 deferred amount is only 40% of the total amount Idaho

 12 Power spent for this program in those two years; the

 13 remaining 60% was apparently expensed and paid by

 14 customers through existing rates.

 15 Agricultural Choices Program (ACP)

 16 ACP consists of three components for large,

 17 medium, and small existing systems, plus a fourth

 18 component for new irrigation systems. The large and

 19 medium components have been available to customers since

 20 1993, while the small and new components were added in

 21 late 1994.

 22 For large systems, customers must obtain an

 23 engineering analysis and submit a proposal to Idaho

 24 Power. The Company pays a financial incentive for

 25 approved energy efficiency improvements after project

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 1 completion. For medium systems, either Idaho Power or a

 2 contractor conducts a system audit to identify

 3 modifications qualifying for incentive payments. For

 4 small systems, customers work with irrigation system

 5 dealers to identify and implement efficiency

 6 improvements. Under the new systems program component,

 7 incentive payments are made based on meeting standards

 8 for pump efficiency, flow, water velocity, friction loss,

 9 system pressure, and/or variable speed drive motors or

 10 multiple motor pumping plants. On March 27, 1998, Idaho

 11 Power applied to the Commission to discontinue this

 12 program effective May 1, 1998. (Case No. IPC-E-98-4)

 13 The Agricultural Choices Program was

 14 preceded by pilot irrigation programs in Blackfoot and in

 15 the Mini-Cassia area. It was also preceded by the

 16 irrigation conservation project at Bell Rapids. Detailed

 17 evaluations were made of the pilot programs in Blackfoot

 18 and Mini-Cassia. Information from these evaluations was

 19 used to design the Agricultural Choices Program.

 20 Idaho Power claims a real, levelized utility

 21 cost for the Agricultural Choices Program of $.019 per

 22 kWh saved, which is probably cost-effective in the long

 23 run. However, in order for the Company's test of cost

 24 effectiveness to be valid, there must be assurance that

 25 the cost and savings figures used in the analysis are

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 1 accurate. While costs should be easily verifiable,

 2 savings are not.

 3 In its response to Staff production

 4 requests, the Company stated that program energy savings

 5 have been made based on engineering estimates. The

 6 Company concedes that no field tests or measurements

 7 intended to verify energy savings for irrigation system

 8 retrofits were made under the Agricultural Choices

 9 Program. However, the Company points out that field

 10 verification was made in the Mini-Cassia pilot program,

 11 and an extensive impact analysis was done for the

 12 Blackfoot project, confirming that engineering estimates

 13 are an accurate means of estimating energy savings for

 14 irrigation system retrofits. Given the variability of

 15 field verification caused by weather differences,

 16 cropping patterns, and other factors, Staff believes that

 17 engineering estimates are an accurate means of

 18 determining energy savings of individual program

 19 participants. As with other DSM programs, the Company's

 20 cost-effectiveness calculations did not include any

 21 estimate of irrigation improvements that would have been

 22 made by participants in the absence of the program, but

 23 Staff believes that the participants in this program,

 24 compared to participants in other programs, would have

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 1 been less likely to have completed improvements on their

 2 own in the absence of the program.

 3 Staff's conclusion is that the Agricultural

 4 Choices Program was conducted reasonably and prudently by

 5 Idaho Power.

 6 CLASSIFICATION OF DSM COSTS AND ALLOCATION AMONG CUSTOMER

 CLASSES

 7

 8 Q. How have DSM costs incurred by Idaho Power

 9 been classified and allocated among customer classes in

 10 the past?

 11 A. The Commission has approved classification

 12 of DSM costs between energy and demand in "...the same

 13 manner in which generation resources are classified,

 14 i.e., on the basis of the system load factor." (Order

 15 No. 25880, page 29, Case No. IPC-E-94-5) Allocation of

 16 these costs among customer classes is then accomplished

 17 in the same manner as any other production resource.

 18 Q. What is the justification for this method of

 19 classification and allocation?

 20 A. The justification for almost all of Idaho

 21 Power's DSM programs was that they were the least-cost

 22 resources for meeting its customers' demand for

 23 electricity and, as such, it follows that DSM costs

 24 should be classified and allocated among customer classes

 25 just as generation resources are. The one possible

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 1 exception to this justification is the Low Income

 2 Weatherization Program, which did not necessarily have to

 3 meet the same least-cost criteria, although it was

 4 anticipated that it would reduce "uncollectibles" and

 5 provide other societal benefits in addition to saving

 6 electricity at a claimed cost of $.015 per kWh. In any

 7 event, this program comprised only about 5% of the

 8 Company's DSM costs and thus does not materially affect

 9 the overall justification for the system load factor

 10 method of classification and allocation.

 11 Q. Please briefly describe Idaho Power's

 12 proposed allocation of DSM costs in its present

 13 application.

 14 A. Idaho Power proposes that DSM costs incurred

 15 prior to 1994 be allocated as directed by the Commission

 16 in Case No. IPC-E-94-5, i.e. classified by system load

 17 factor and allocated accordingly. But the Company

 18 proposes that DSM costs incurred after 1993 (69% of the

 19 $42 million requested, including carrying charges and

 20 taxes associated with prior programs) be allocated based

 21 upon the ability of the customer class to participate in

 22 programs.

 23 Q. What is the justification offered by Idaho

 24 Power for this proposed change to DSM cost classification

 25 and allocation.

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 1 A. Idaho Power witness Greg Said, on pages 11

 2 and 12 of his prefiled testimony, says only that in the

 3 past DSM was viewed as a system resource, but that now

 4 DSM is "viewed from the perspective of the benefits ...

 5 that customers receive from expenditures made on their

 6 behalf."

 7 Q. Please explain why you believe Idaho Power's

 8 allocation of post-1993 DSM costs based upon "ability to

 9 participate" is unwarranted.

 10 A. As explained earlier, all but one of Idaho

 11 Power's DSM programs and 95% of its total costs were

 12 justified by their being least-cost resources. In other

 13 words, all customers benefitted from DSM, whether they

 14 participated, could have participated but did not, or

 15 were excluded from participation. While participants may

 16 have benefitted more than did non-participants, they

 17 usually had to pay some of the up-front costs and bear

 18 some of the risk that the DSM measure would not produce

 19 the expected energy savings in their particular

 20 situations. Non-participants, on the other hand, always

 21 benefitted from successful DSM programs and did not have

 22 to pay any up-front costs. It seems unnecessary and

 23 unreasonable to now, after the fact, change the cost

 24 allocation of programs that benefit all customers from a

 25 method that charges all customers to one that charges

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 1 only those who happened to be classified as "able to

 2 participate," whether or not they did, in fact,

 3 participate and whether or not it was cost-effective for

 4 particular customers.

 5 The Committee on Energy Conservation of the

 6 National Association of Regulatory Utility Commissioners

 7 in a report titled "Cost Allocation for Electric Utility

 8 Conservation and Load Management Programs" (February,

 9 1993) would seem to agree that the proposed change is not

 10 warranted. In this report the Committee said:

 11

 For costs related to conservation and

 12 load management programs which have been

 implemented on a least cost basis and

 13 which serve a resource function, cost

 causation is generally not related to

 14 participation in, eligibility to

 participate in, or the receipt of

 15 benefits from such programs. Such

 expenditures would not have been incurred

 16 except for their contribution to meeting

 system-wide or regional kW and kWh

 17 requirements. (p. 3)

 18 To the extent that regulators may be

 concerned with rate impacts on

 19 non-participating customers, allocating

 costs to participating customer classes

 20 may not be an effective means for

 addressing that concern. Direct

 21 allocation will protect some

 non-participants, but may lead to

 22 significantly higher rate increases for

 non-participating consumers in the

 23 participating customer class. (p. 4)

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 1 In addition, Idaho Power's proposal adds

 2 unnecessary complexity by requiring a melding of two

 3 completely different classification/allocation methods

 4 for programs that span both time periods. Although the

 5 proposal may be workable, it is unwarranted and less

 6 easily understood by customers who will be required to

 7 pay these costs. Idaho Power has not provided any

 8 reason, let alone a compelling one, to justify this

 9 proposed change.

 10 Q. What is your recommendation regarding

 11 allocation of DSM costs among customer classes?

 12 A. I propose that DSM costs (both pre-1994 and

 13 post-1993) not be explicitly allocated, but instead that

 14 customers total electricity bills be increased by a

 15 uniform percentage. For a small increase such as

 16 proposed in this case, a uniform percent increase will

 17 not unreasonably distort the historical system load

 18 factor classification/allocation. A uniform percent

 19 increase has the advantages of being readily understood

 20 by customers and quickly and easily implemented in tariff

 21 changes without requiring verification of complex energy

 22 and demand usage patterns and calculations. Uniform

 23 percent rate changes are often used to implement small,

 24 incremental rate changes that occur outside of a general

 25 rate case application.

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 1 The top half of Staff Exhibit No. 102 shows

 2 the revenue requirement from various customer classes

 3 using a uniform percent distribution compared to the

 4 Company's proposal.

 5 RATE DESIGN FOR RECOVERY OF DSM COSTS

 6 Q. Please briefly describe Idaho Power's

 7 proposed rate design for recovery of its DSM costs.

 8 A. Except for special contract customers, the

 9 Company proposes a class-specific uniform percent rate

 10 increase spread over five years. The percent increase

 11 would be calculated by dividing one-sixtieth (1/60) of

 12 each customer classes DSM revenue requirement by the

 13 1996 normalized total monthly revenue. The five-year

 14 period for individual customer classes could be shortened

 15 in the event of increased electricity sales due to

 16 customer growth or increased usage per customer, thus the

 17 actual termination date of the charges would likely be

 18 different for each customer class. The four special

 19 contract customers would be charged a flat monthly fee

 20 for five years equal to one-sixtieth (1/60) of their

 21 total revenue requirement.

 22 Q. Do you concur with the Company's proposed

 23 rate design?

 24 A. Not exactly. Idaho Power has provided no

 25 rationale for treating the four special contract

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 1 customers any differently than all other customers.

 2 Thus, I recommend that all customers be treated equally.

 3 In other words, if the Commission granted Idaho Power its

 4 full requested rate increase, all customers' bills,

 5 including those of special contract customers, would

 6 increase by 1.82% until the revenue amount was collected

 7 in approximately 60 months.

 8 The bottom half of Staff Exhibit No. 102

 9 shows the percentage rate increases proposed by the

 10 Company compared to my proposed uniform percent increase.

 11 The top half of Staff Exhibit No. 103 shows

 12 the effects of Idaho Power's requested temporary rate

 13 increases on average bills, low bills and high bills in

 14 various customer classes. The bottom half of that

 15 exhibit shows the effects of the Company's revenue

 16 request, but with Staff's allocation method.

 17 Q. Staff witness Carlock has recommended a

 18 lower revenue requirement than that requested by Idaho

 19 Power, including your recommendation of disallowing

 20 $274,000 of CLP expenditures. Do your recommendations

 21 regarding classification, allocation and rate design

 22 change with a lower revenue requirement?

 23 A. No. The absolute amounts change but my

 24 recommendation for a uniform percent rate increase among

 25 all customer classes does not change. Staff Exhibit

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 1 No. 104 shows the estimated effects on monthly bills over

 2 a five-year period to be a 1.36% increase using Ms.

 3 Carlock's recommended lower revenue requirement compared

 4 to the Company's 1.82% requested increase.

 5 SUMMARY OF TESTIMONY

 6 Q. Would you please summarize the major points

 7 of your testimony?

 8 A. Idaho Power has not presented sufficient

 9 documentation to determine that its continuation since

 10 1993 of the Commercial Lighting Program was reasonable

 11 and prudent and I have recommended disallowing ratepayer

 12 recovery of the $274,000 deferred in 1996 and 1997.

 13 Idaho Power's proposed classification and

 14 allocation of pre-1994 DSM costs based on the system load

 15 factor is consistent with prior Commission orders, but

 16 its proposed allocation of post-1993 costs based on

 17 "class ability to participate" is unwarranted and

 18 unnecessarily complicates a relatively minor rate

 19 increase. As a simple and reasonable alternative I

 20 recommend a uniform percent rate increase for all

 21 customers, including those with special contracts, to

 22 recover all DSM costs This recommendation does not

 23 materially affect existing cost classification and

 24 allocation and is easily compatible with the Company's

 25

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 1 proposed uniform percent rate increases within customer

 2 classes.

 3 Q. Does this conclude your direct testimony in

 4 this proceeding?

 5 A. Yes, it does.

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 1 (The following proceedings were had in

 2 open hearing.)

 3 COMMISSIONER SMITH: Do you have questions,

 4 Mr. Budge?

 5 MR. BUDGE: No questions.

 6 COMMISSIONER SMITH: Mr. Richey.

 7 MR. RICHEY: I've got just a few.

 8

 9 CROSS-EXAMINATION

 10

 11 BY MR. RICHEY:

 12 Q Mr. Anderson, in your prefiled testimony,

 13 you state that non-participants of the DSM program always

 14 benefit from these programs. Can you tell me what

 15 benefits you mean from that statement?

 16 A A lower cost of electricity for Idaho Power

 17 and its customers.

 18 Q And is that true in all cases? With DSM

 19 expenditures, is it always going to result in lower power

 20 costs?

 21 A Theoretically or specifically to Idaho

 22 Power's programs?

 23 Q Specifically -- well, theoretically first.

 24 A Theoretically, no. Sometimes, certainly,

 25 the cost of a DSM program can exceed the cost of

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 1 producing electricity.

 2 Q So your statements with respect to a

 3 non-participant benefiting from DSM programs, it is

 4 specific to the Idaho Power program, it's not a general

 5 statement?

 6 A Yes.

 7 Q And did you -- have you quantified that to

 8 show what the benefit is to each non-participant of these

 9 programs?

 10 A No, I have not gone ahead and made the

 11 calculations that if Idaho Power had paid for a resource

 12 rather than the DSM costs that they claim in their

 13 conservation plans, no, I haven't calculated that

 14 difference and multiplied it out and divided by the

 15 number of customers.

 16 Q But you're certain that it is the case that

 17 with respect to Idaho Power's programs that

 18 non-participants always benefited more than the costs

 19 they're going to be asked to incur to pay these back?

 20 A In total, yes.

 21 Q In total, that's looking as a customer base

 22 as a whole, not class by class?

 23 A No, that is class by class, but it's their

 24 total DSM program. There are a couple of programs that

 25 were marginal, I guess I should say, but in total, the

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 1 DSM costs were below production costs.

 2 Q On page 19 of your testimony, you state

 3 that with respect to Idaho Power's allocation proposal,

 4 Idaho Power has not provided compelling reason to justify

 5 the proposed change. Do you agree with that?

 6 A That I made that statement?

 7 Q Yes.

 8 A Yes.

 9 Q Is it your opinion, sir, that a compelling

 10 reason is needed to justify any of the changes Idaho

 11 Power is requesting in this application?

 12 A In general, yeah, or at least a good

 13 reason. If not a compelling one, at least a good reason.

 14 Q Well, is there a difference between, as far

 15 as requiring a compelling reason, is there a difference

 16 between Idaho Power's request, allocation request, and

 17 their request for a change in amortization period, would

 18 they not also need a compelling reason to change the

 19 amortization period in your view?

 20 A Well, my answer was that they would need at

 21 least a good reason, not necessarily a compelling one.

 22 Q And my question is, can you tell me what

 23 the difference would be why the allocation would be

 24 compelling and the amortization period would just be

 25 good?

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 1 A I did not say that they had a compelling or

 2 needed a compelling reason to change the allocation. I

 3 just said they did not have a reason, let alone a

 4 compelling one. Perhaps my words have --

 5 Q Can we look at that real quick? Maybe I've

 6 just mischaracterized what you've said.

 7 A That was at page 15?

 8 Q Page 19, lines 7 through 10, I believe, is

 9 the sentence I'm referring to and you can just read that

 10 and maybe explain if I've mischaracterized it.

 11 A "Idaho Power has not provided any reason,

 12 let alone a compelling one, to justify this proposed

 13 change." I guess you're assuming by my words "let alone

 14 a compelling one" that I think it should have to have a

 15 compelling reason. Perhaps to get out of this, could I

 16 strike those words?

 17 Q Well, I like those words.

 18 A Compelling reasons are always better than

 19 just good reasons, but I don't know that the Commission

 20 needs a compelling reason to make any changes for any

 21 utility requirement. They need a reason, a good reason,

 22 and if it's a compelling reason, then I think the

 23 Commission would be compelled to make that change.

 24 Q But you would agree that there has to be at

 25 least a -- there's got to be some benchmark of at least a

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 1 good reason to make any of these changes; would you agree

 2 with that?

 3 A Yes, I would.

 4 Q And would you also agree that -- strike

 5 that question. In your view, I was going to ask you how

 6 one would go about telling a compelling reason for

 7 change, but from your experience, how would one go about

 8 telling a good reason for change, requesting a change in

 9 an application such as this?

 10 MR. PURDY: I'm sorry, I think we need a

 11 little clarification. I'm personally getting lost as to

 12 whether we're talking about the amortization period or

 13 some other issue. Perhaps counsel could clarify a little

 14 bit.

 15 MR. RICHEY: Sure, I would be happy to.

 16 Q BY MR. RICHEY: In the case of Idaho

 17 Power's application requesting a change in the allocation

 18 process, if it needs a good reason to do that, what would

 19 you base a good reason on from your experience and in

 20 your opinion?

 21 A From my experience, a good reason to make

 22 any changes to rates, there's any number of good reasons,

 23 revenue requirement, change in circumstances since the

 24 last Commission decision was made, that can affect

 25 allocation changes. I guess I need something more

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 1 concrete. When you asked that question, I could just

 2 envision hundreds of good reasons.

 3 Q I think you've answered that. Do you have

 4 any testimony, any opinion -- strike testimony -- do you

 5 have any opinion with respect to Idaho Power's request to

 6 change the amortization period from 24 years to five

 7 years that you'd like to share?

 8 A I wish you'd keep that question to

 9 testimony, then I could easily say no. I'm pretty

 10 ambivalent about that. I'm a person who likes to pay

 11 things off early, so I personally might not even mind a

 12 one-year amortization, but on the other hand, I can see

 13 lots of reasons for leaving it at a much longer time

 14 period.

 15 Q Can you state what some of those might be?

 16 MR. PURDY: I'm sorry, I'm going to have to

 17 object. Clearly, Ms. Carlock is the Staff witness who's

 18 filed testimony on this subject and while Mr. Anderson no

 19 doubt has an opinion, nonetheless, the Staff position on

 20 this issue is stated in Ms. Carlock's testimony and I

 21 think she would be the proper witness to answer it.

 22 COMMISSIONER SMITH: Mr. Richey?

 23 MR. RICHEY: Yeah, I'll save the questions

 24 for the next witness.

 25 COMMISSIONER SMITH: Thank you.

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 1 MR. RICHEY: That's all the questions I

 2 have.

 3 Mr. Richardson.

 4 MR. RICHARDSON: Thank you,

 5 Madam Chairman.

 6

 7 CROSS-EXAMINATION

 8

 9 BY MR. RICHARDSON:

 10 Q At the risk of going too far, let me ask

 11 you, Mr. Anderson, you were here throughout the

 12 proceeding today?

 13 A Yes, pretty much.

 14 Q Were you present when there were some

 15 questions and answers about the -- of Dr. Peseau relative

 16 to whether he viewed this as an accounting or an

 17 economist issue in terms of the amortization period?

 18 A I remember something about that.

 19 Q Do you recall that Dr. Peseau concluded, I

 20 think it was counsel for Idaho Power Mr. Ripley, that he

 21 thought that this was not an accounting issue because the

 22 accountants apparently, I'll just paraphrase, can just

 23 plug in the numbers and come up with an answer, but the

 24 question of the appropriate amortization period was

 25 properly an economics issue; do you recall that?

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 1 MR. PURDY: Madam Chair, I'll have to

 2 interpose the same objection that I made a moment ago. I

 3 believe that Ms. Carlock is the Staff witness who is

 4 sponsoring and presenting this testimony and I think it's

 5 not an efficient use of the Commission's time to ask

 6 these questions of Mr. Anderson.

 7 COMMISSIONER SMITH: Mr. Richardson?

 8 MR. RICHARDSON: Madam Chairman, this

 9 witness has testified in his prefiled testimony that he

 10 is the Staff economist. I'm trying to explore what that

 11 means in terms of where his areas of expertise lie.

 12 MR. PURDY: Well, regardless of where his

 13 areas of expertise lie, he has the expertise to testify

 14 on the issues that he has presented testimony on. Those

 15 do not include the amortization period.

 16 MR. RICHARDSON: I'll save them for

 17 Ms. Carlock.

 18 COMMISSIONER SMITH: Thank you,

 19 Mr. Richardson.

 20 Mr. Jauregui.

 21 MR. RICHARDSON: I'm not finished.

 22 COMMISSIONER SMITH: I keep trying. Okay.

 23 MR. RICHARDSON: And I will do my best as

 24 well.

 25 COMMISSIONER SMITH: I know.

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 1 Q BY MR. RICHARDSON: You state on page 2

 2 that one of the primary purposes of your testimony is to

 3 suggest that Idaho Power was prudent in its continuation

 4 of most, but not all, of the demand side management

 5 programs; correct?

 6 A Yes.

 7 Q Okay; so essentially, you conducted a

 8 prudency evaluation of the DSM programs?

 9 A At least some, yes.

 10 Q Are you aware of whether or not Idaho Power

 11 addresses prudency in its direct case?

 12 A I can't recall that it does.

 13 Q If you recall, would you let us know

 14 because I don't recall that either, so you're sort of

 15 doing the Company's case for it, aren't you, in terms of

 16 prudency?

 17 A No, I think the Company needed, should have

 18 presented more evidence that its programs and its

 19 implementation of those programs was prudent.

 20 Q And it didn't present any, did it?

 21 A Not directly associated with the case until

 22 after production requests were asked.

 23 Q Until after you asked about prudency, they

 24 came forward and said, yeah, we think these are prudent

 25 investments?

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 1 A Yes.

 2 Q Let's look at the DEAP program mentioned in

 3 your testimony at page 6. Backtrack a bit first, let's

 4 go back to page 5, lines 14 through 23, you talk about

 5 several programs that you specifically did not review for

 6 prudence. Do you see that?

 7 A Yes.

 8 Q Do you know if this -- do you have any idea

 9 whether the investments in those programs are or are not

 10 prudent?

 11 A Well, at least one or more the Commission

 12 did rule -- well, actually, I believe most of these the

 13 Commission did rule they were prudent at the time the

 14 Commission reviewed the information during Idaho Power's

 15 last rate case about three years ago.

 16 Q And we're talking prudency, aren't we, just

 17 between that time and today?

 18 A Yes, that's all I looked at.

 19 Q So just between that time and today, do you

 20 have any idea as you sit here this afternoon whether any

 21 of those investments in those programs were prudent?

 22 A My assumption is that they were prudent and

 23 if by chance they weren't, I'm not sure that Idaho Power

 24 had an awful lot of control or certainly didn't have

 25 complete control of some of them.

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 1 Q They were spending ratepayer dollars on

 2 those?

 3 A That's correct.

 4 Q Okay, and your assumption is that they're

 5 prudent and you testify here on page 5, line 14, "Staff

 6 did not specifically review other programs for various

 7 reasons," and then you list these. What is your

 8 assumption that these investments are prudent based upon?

 9 A The fact that they were determined to be

 10 prudent in the last rate case.

 11 Q And so -- finished?

 12 A Yes.

 13 Q -- for the time period from the last rate

 14 case to today, do you have an assumption that those are

 15 prudent investments?

 16 A I guess by my testimony there's at least an

 17 implicit assumption that they were prudent because I

 18 didn't look at them and find them to be imprudent.

 19 Q You did not look at them or you did look at

 20 them and found them not to be imprudent? The double

 21 negatives confused me, I'm sorry.

 22 A It was intended to confuse you.

 23 Q It worked.

 24 A I did give a cursory review of all of those

 25 programs, but I didn't look at any of them in detail. By

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 1 my cursory review, I couldn't see anything that was going

 2 to be fruitful for the reasons stated and the other

 3 assumptions in the programs.

 4 Q Tell me about your cursory review.

 5 A I looked at the reports in the conservation

 6 plans and the technical appendices.

 7 Q You looked at the reports that were filed

 8 with the Commission on an annual basis?

 9 A Yes.

 10 Q You didn't go to the Company and say let me

 11 look at your files?

 12 A No, I did not.

 13 Q No audits were done?

 14 A Well -- I'll let my answer stay.

 15 Q Were any audits completed?

 16 A Not by me.

 17 Q By anyone at the Staff?

 18 A Not that I'm aware.

 19 Q Now, let's go to the DEAP program. On

 20 page 6 of your testimony, you comment that the last time

 21 the Staff looked at this program it sought to disallow

 22 half of the costs because its cost-effective evaluations

 23 did not attempt to account for buildings that would have

 24 been built to DEAP standards without the DEAP program;

 25 correct?

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 1 A Yes.

 2 Q Now, why is that a flaw in a conservation

 3 program? Why did the Staff recommend such a large

 4 disallowance?

 5 A I would have to review Staff witness Wayne

 6 Hart's testimony if you want me to cite exactly.

 7 Q Well, on page 6 of your testimony, you say

 8 "Staff recommended disallowing" -- I'm reading starting

 9 at about line 14. "Staff recommended disallowing

 10 ratepayer recovery of one-half of the costs the Company

 11 incurred for DEAP during 1992 and 1993 because its

 12 cost-effectiveness evaluations did not attempt to account

 13 for buildings that would have been built to DEAP

 14 standards even without the DEAP program," and you're

 15 testifying that you would have to go back and read

 16 someone else's testimony to know what that means?

 17 A No.

 18 Q Why is that a problem, then?

 19 A I guess it's not a problem. I don't know

 20 why you're asking me the question. My testimony stays

 21 the same.

 22 Q I'm just trying to understand --

 23 MR. PURDY: I'm sorry, were you finished?

 24 THE WITNESS: Yes.

 25 MR. PURDY: Okay.

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 1 Q BY MR. RICHARDSON: I'm just trying to

 2 understand why it's a flaw in the conservation program if

 3 half the buildings that would have been -- that had been

 4 beneficiaries of the program would have been built to

 5 those standards anyway. It seems it's a fairly

 6 fundamental question, why is that an issue?

 7 A Okay, it's just because, then, if that's

 8 true, then the cost effectiveness is half of what the

 9 Company says it is.

 10 Q Okay. On page 7 of your testimony at

 11 line 7 you state, "However, in none of these calculations

 12 did Idaho Power attempt to adjust its estimate of energy

 13 savings by the amount of energy savings that would have

 14 occurred due to more efficient building standards and

 15 construction practices in the absence of DEAP." Is that

 16 the same issue?

 17 A Yes.

 18 Q Now, you were not the Staff witness who

 19 testified in the last case that's referenced in your

 20 testimony, were you?

 21 A That's correct.

 22 Q And who was?

 23 A Wayne Hart.

 24 Q And did Wayne Hart review this program for

 25 this case?

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 1 A No, he did not.

 2 Q Now, at the bottom of page 7 of your

 3 testimony, you note that XENERGY found that the actual

 4 savings of the DEAP program were about one-half the

 5 energy savings claimed by the utilities. Do you see

 6 that?

 7 A Yes.

 8 Q And then you state that the overstatement

 9 of claimed savings was due largely to the fact that many

 10 program participants would have used energy efficient

 11 buildings without the programs; correct?

 12 A Yes.

 13 Q So the same flaw from the last case,

 14 according to the Staff, flows through to this case;

 15 correct?

 16 A That's correct.

 17 Q And then your conclusion is that the

 18 Company's investment was reasonable and prudent?

 19 A While the same flaw existed, the Company

 20 did participate in this third-party evaluation, that's

 21 the difference, and even after the third-party

 22 evaluation, that party's conclusion was that the program

 23 was still cost effective. It was just at a different

 24 number than what the Company had claimed in conservation

 25 plans and the fact that the Company funded this

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 1 evaluation, yes, I did find the program to be prudent.

 2 Q So even though the energy savings were

 3 overstated by a factor of one-half and this other party

 4 said that the program was cost effective, your conclusion

 5 is qualified, if you will, by the word "probably" cost

 6 effective? That's at page 8, line 10.

 7 A I'm sorry for the delay. I'm trying

 8 frantically to remember why exactly I inserted the word

 9 "probably."

 10 Q Take all the time you need, Mr. Anderson.

 11 A Well, I don't know that I'm going to

 12 remember exactly why I inserted that word.

 13 COMMISSIONER SMITH: Would you like to take

 14 it out?

 15 THE WITNESS: I could either take it out if

 16 that would shorten this or I could review the information

 17 again and see if I want to take it out.

 18 Q BY MR. RICHARDSON: Well, let me ask you

 19 this, Mr. Anderson: Did you conduct an independent

 20 evaluation of the cost effectiveness of this program?

 21 A No, I did not and perhaps that's why I

 22 inserted the word probably.

 23 Q Is that true for your evaluation of the PIE

 24 program because you used the same word probably in there

 25 as well if I'm right on page 10, line 15?

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 1 A Yes, I'm sure I could or did.

 2 Q If you'd like to refer to it, it's page 10,

 3 line 15. On the PIE program, you reach the same

 4 conclusion that it probably was prudent.

 5 A Yes.

 6 Q And you qualify that because you didn't

 7 conduct an evaluation; correct?

 8 A No, I did not.

 9 Q All right. Looking at that PIE program, it

 10 appears that you observe that the Company was funding

 11 projects that should not be funded. Do you see that? At

 12 the bottom of page 9 you say, "This evaluation said that

 13 the Company had used its discretionary authority to not

 14 fund some projects that likely would have been completed

 15 absent PIE funding, but it also noted that improvements

 16 in the screening process were still desirable and

 17 possible." Do you see that?

 18 A Yes.

 19 Q Do we know how many or what percentage of

 20 the PIE program costs didn't get screened out?

 21 A I do not know that.

 22 Q But you would agree that the Company should

 23 have improved its screening process; correct?

 24 A I would not disagree that the Company said

 25 it could still improve its screening process and I assume

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 1 they did after that.

 2 Q But you don't know for a fact that they

 3 should have because you didn't conduct an independent

 4 evaluation; correct?

 5 A Yes.

 6 Q Okay. Would you say on sort of a global

 7 basis -- let's go back to the Company's application here

 8 and this is a quote from the Commission Order that

 9 appears in lots of folks' testimony. Referencing that

 10 Commission Order 27200 where Mr. Said talks about how the

 11 Commission issued this Order that says, "In the

 12 meantime" -- it says, "We encourage the Company to

 13 initiate a proceeding that would permit a comprehensive

 14 review of its existing DSM investment and recovery."

 15 Would you conclude that the Staff has conducted a

 16 comprehensive review of the Company's DSM investment and

 17 recovery in this case?

 18 A Yeah. It's perhaps not -- comprehensive is

 19 a relative term and certainly, the Staff could have

 20 conducted a more thorough review, but I think it was

 21 comprehensive.

 22 Q In the fact that you read the Company's

 23 reports?

 24 A And evaluated what was in those reports.

 25 Q And I just want to be clear at the risk of

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 1 an objection, but I'm going to try and avoid it, you have

 2 no authority or, I guess, portfolio to discuss the

 3 amortization period length; correct? All those questions

 4 should be directed to Ms. Carlock?

 5 A That would be much better, yes.

 6 Q Is that a yes?

 7 A Yes.

 8 MR. RICHARDSON: Thank you. That's all I

 9 have, Madam Chairman.

 10 COMMISSIONER SMITH: Mr. Jauregui.

 11 MR. JAUREGUI: No questions.

 12 COMMISSIONER SMITH: Mr. Ward.

 13 MR. WARD: Yes.

 14

 15 CROSS-EXAMINATION

 16

 17 BY MR. WARD:

 18 Q Mr. Anderson, I didn't have any questions

 19 until your additional comments and, obviously, since my

 20 questions are going to be directed to your live comments,

 21 I'll try to paraphrase your comments as accurately as

 22 possible. In your testimony at pages 20 and 21, bottom

 23 of 20, if you'd turn to that testimony, beginning with

 24 the question at line 22 --

 25 MR. PURDY: I'm sorry, what page again,

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 1 Counsel?

 2 MR. WARD: 20, page 20, line 22.

 3 MR. PURDY: Thank you.

 4 Q BY MR. WARD: Do you have that in front of

 5 you, Mr. Anderson?

 6 A Yes.

 7 Q There you're asked, "Do you concur with the

 8 Company's proposed rate design?"

 9 And you answer, "Not exactly. Idaho Power

 10 has provided no rationale for treating the four special

 11 contract customers any differently than all other

 12 customers." You go on, and I won't read that all, you go

 13 on to recommend that all customers be treated equally by

 14 the use of a rate design that amounts to a uniform

 15 percentage increase on all customers' bills; is that

 16 correct?

 17 A Yes.

 18 Q Now, I'm not sure whether I understood you

 19 correctly, but did I understand you in response to

 20 questions from counsel in additional direct to say that

 21 because FMC has had the temerity to propose that their

 22 second block should not receive any DSM allocations that

 23 you therefore propose in their case that the somewhat

 24 higher Idaho Power allocation should be used simply

 25 because they proposed that?

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 1 A No, not simply because FMC proposed that

 2 there not be any DSM allocation to their second block.

 3 Q What did you say in response to counsel?

 4 What did you mean to say or what was your intent?

 5 A My intent was just to clarify that my

 6 proposed allocation and rate design really only works for

 7 customers of Idaho Power who are customers of Idaho

 8 Power. For any customer who is able to negotiate a

 9 special contract that essentially opts them out of paying

 10 DSM costs -- this is getting into a long sentence -- then

 11 those customers the allocation should be based on what

 12 Idaho Power's total bill to that customer would have been

 13 pre, before this special contract.

 14 Q All right.

 15 A I'm sorry, I didn't state that very well,

 16 but I think you know what I mean.

 17 Q Let me paraphrase and see if I understand

 18 now. What you're saying is, then, the 1.82 percent

 19 regardless of whether -- regardless of what the

 20 contractual disposition of the second block is, the

 21 1.82 percent should be applied to FMC's total bill prior

 22 to the new contract?

 23 A Yes.

 24 Q All right. Now, then you went on to say

 25 that even as to the second block, FMC has benefited in

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 1 the past and will in the future from DSM measures, and I

 2 think I caught your quote exactly there. Now, as to

 3 expenditures made in the past and that are now in dispute

 4 here, let's keep in mind that the questions I'm going to

 5 ask you here are about those expenditures, okay, prior

 6 to, let us say, today, okay?

 7 A Okay.

 8 Q Now, it can be argued that at the time

 9 those expenditures were made, FMC was a customer, of

 10 course, and to the extent non-participating customers are

 11 deemed to benefit, that same contention can be made with

 12 respect to FMC subject to whatever conclusion we reach

 13 about the impact of interruptibility. Would you agree

 14 with me on that?

 15 A Yes.

 16 Q Okay; so let's leave that aside now and

 17 subject to the disputes about interruptibility and what

 18 that means, let's go to today's contract, the '98

 19 contract. Now, as to today's contract, clearly, the

 20 Commission has the authority to make some allocation to

 21 both the primary -- the first and the second block if it

 22 chooses to do so, but isn't it a fact, Mr. Anderson, that

 23 at some point there must be a disconnect between DSM

 24 programs and the second block of power purchased by FMC?

 25 Let me ask it another way. Are you

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 1 seriously contending that DSM programs have any

 2 discernible impact on a Pacific Northwest power market

 3 which drives the price for FMC's second block of power,

 4 are you seriously contending that?

 5 A Yes, I am.

 6 Q That Idaho Power's --

 7 A DSM programs in the Northwest do affect

 8 market prices, there's no question about it.

 9 Q Mr. Anderson, if the price paid to Idaho

 10 Power for power reflects the market price, do you think

 11 that price reflects in part payment for DSM programs that

 12 may be undertaken by participants in the market?

 13 A It depends on whether or not those DSM

 14 costs are in the price. If you want to try that question

 15 again, I didn't see it as --

 16 Q Well, let me put it this way,

 17 Mr. Anderson: Suppose we focus on dollars. Let's assume

 18 we talk about dollars that will be spent from this day

 19 forward, okay, for DSM programs?

 20 A Okay.

 21 Q Now, it's one thing to say that a customer

 22 whose prices are based on market prices has some

 23 responsibility for past DSM expenditures, that's the

 24 exception I told you to set aside. We may quarrel about

 25 that, but that's a different question. For tomorrow's

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 1 dollars, does the fact that a DSM expenditure spent

 2 tomorrow may lower ratepayers' overall costs because its

 3 cost effective, does that have any benefit whatsoever to

 4 FMC's second block price?

 5 A Yes, I think it does.

 6 Q And how does it benefit it?

 7 A It reduces the market price.

 8 Q Does it necessarily -- well, first of all

 9 as a practical matter, are you seriously telling me that

 10 the very tiny DSM expenditure for Idaho Power which is

 11 only a fraction of the Northwest market has any effect on

 12 that market price?

 13 A Going forward, Idaho Power's primary DSM

 14 program is its involvement in the Northwest Energy

 15 Efficiency Alliance and, yes, I think that will have an

 16 effect on market prices.

 17 Q And let me ask it another way: Do you

 18 suppose that participants in the market when selling into

 19 the market seek to recover some portion of their DSM

 20 costs in those market sales if they can, if the market

 21 price will let them do so?

 22 A Could you just restate that? I think I

 23 missed a word.

 24 Q Do you suppose that participants in the

 25 market, that is, sellers in the Northwest market, attempt

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 1 to recover some portion of their DSM costs, just like

 2 they recover all other resource costs, in market sales as

 3 well as in sales to their own indigenous customers?

 4 A Certainly, sellers in the market sell at

 5 the highest price they can which depends on demand. If

 6 it recovers twice what their costs are, that's fine with

 7 them.

 8 Q And in fact, it could be the case that in

 9 any given case, FMC could be paying Idaho Power twice

 10 what its costs are or, for that matter, half what its

 11 costs are; correct?

 12 A That's correct.

 13 Q And isn't that a complete disconnect

 14 between Idaho Power's costs -- isn't it clear that going

 15 forward, at least, there's a complete disconnect between

 16 Idaho Power's costs and the price FMC pays and the price

 17 any other ratepayer pays in the second block?

 18 A You said any other ratepayer pays.

 19 Q Presumably -- I don't want to get into a

 20 quarrel, Mr. Anderson. I'll ask it just one more time.

 21 Would you agree with me that other ratepayers' rates are

 22 presumably based on Idaho Power's costs in some fashion?

 23 A Today, yes.

 24 Q Today and tomorrow and as long as Idaho

 25 Power is a regulated entity?

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 1 A Yes.

 2 Q Would you agree with me that there's a

 3 complete disconnect between Idaho Power's costs and FMC's

 4 price for the second block of power going forward?

 5 A I guess I wouldn't see it as a complete

 6 disconnect, but, no, there's not as much connection.

 7 It's not as direct. I still see some connections.

 8 MR. WARD: Okay, that's fair enough. Thank

 9 you. That's all I have.

 10 COMMISSIONER SMITH: Mr. Gollomp.

 11 MR. GOLLOMP: No.

 12 COMMISSIONER SMITH: Mr. Fothergill.

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

 14 questions.

 15

 16 CROSS-EXAMINATION

 17

 18 BY MR. FOTHERGILL:

 19 Q Beginning on page 2, line 16 of your

 20 testimony, you describe your purpose and you testify that

 21 IPC's proposed allocation of DSM costs among customers

 22 based upon ability to participate is unwarranted and the

 23 Company witness Mr. Said has testified that the change it

 24 is making is based on a change in the way DSM

 25 expenditures are currently viewed, implying an alteration

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 1 in thinking on this and I was wondering, what is your

 2 response to their argument?

 3 A My response was I didn't understand the

 4 argument.

 5 Q You did not understand their argument?

 6 A No, I did not.

 7 Q I see, but you do say it's unwarranted?

 8 A The change in allocation? Yes, I said that

 9 was unwarranted.

 10 Q Let me ask you one further thing. Don't

 11 you think a standard such as ability to participate may

 12 be a detriment to public support for DSM programs?

 13 A It could be, yes.

 14 Q It could be?

 15 A Yes.

 16 MR. FOTHERGILL: Thank you. That's all I

 17 have.

 18 COMMISSIONER SMITH: Mr. Ripley.

 19 MR. RIPLEY: Yes.

 20

 21 CROSS-EXAMINATION

 22

 23 BY MR. RIPLEY:

 24 Q Mr. Anderson, perhaps I can approach it

 25 this way: You were asked a number of questions by

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 1 counsel for the Industrial Customers in reference to the

 2 Company's DEAP program. Do you recall that?

 3 A Yes.

 4 Q Well, if I turn to page 7 of your prepared

 5 testimony and I read lines 1 through 12, are you not

 6 saying in your testimony that Idaho Power Company made

 7 changes to the DEAP program?

 8 A Yes, that's what it says.

 9 Q So if you were looking at the 1993

 10 criticisms of the Staff and then looked at the 1994

 11 ongoing program of Idaho Power Company, Idaho Power

 12 Company made changes to DEAP, did it not?

 13 A Yes.

 14 Q Wasn't that true as to all of the programs,

 15 that they were not static programs, but that the Company

 16 attempted to make changes to its conservation programs

 17 taking into account what it was learning in those

 18 particular conservation programs?

 19 A Certainly many or most. I'm not sure if

 20 every single program was changed.

 21 Q Many or most?

 22 A Yes.

 23 Q Now, in addition, I'm troubled somewhat by

 24 your recommendation, obviously, to discontinue a portion

 25 of the commercial lighting program expenditures and let

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 1 me ask you this: First, as you and Ms. Carlock note,

 2 before the Company engaged in any conservation program,

 3 it obtained approval from the Commission for that

 4 particular program.

 5 A Yes.

 6 Q And each year under the Commission's

 7 requirements it filed a conservation report in which it

 8 pointed out the detriments as well as the benefits of

 9 those particular conservation programs; true?

 10 A Yes. Some were more thorough, some

 11 programs were described more thoroughly, than others, but

 12 that's true, yes.

 13 Q But the Company did submit information

 14 which could be viewed as being critical of the program?

 15 A Yes.

 16 Q Now, the Company recently has filed an

 17 application to discontinue the agricultural choices

 18 program. Are you generally aware of that?

 19 A Yes.

 20 Q And the Company received criticism from the

 21 Irrigators and from the Staff that the Company could not

 22 choose to discontinue any programs on its own, it had to

 23 apply to the Commission for discontinuance of those

 24 programs.

 25 A Yes.

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 1 Q So, on the one hand, the Company is

 2 obligated to continue the programs until it receives

 3 authorization from the Commission to discontinue the

 4 program?

 5 A Yes.

 6 Q While, at the same time, it's subject

 7 evidently to some criticism that it should not continue

 8 the programs if they're not cost effective.

 9 A That's true.

 10 Q That's somewhat of a conflict, is it not?

 11 A Well, certainly, there's some tension

 12 there, but if the Company sees that a program is not

 13 producing cost-effective benefits, then it should

 14 immediately either file to change the program or

 15 discontinue or whatever.

 16 Q Now, let's choose the PIE program as an

 17 example. About how long did it take the Company to

 18 discontinue the PIE program after it applied, roughly? A

 19 year-and-a-half?

 20 A I'll accept that, subject to check. I

 21 don't recall.

 22 Q And, again, I don't mean to chisel in the

 23 granite the year-and-a-half, but it took a considerable

 24 period of time for the Company to discontinue that

 25 program, did it not?

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 1 A Yes, but I don't think it was -- when the

 2 Company applied to discontinue, correct me if I'm wrong,

 3 I don't think it was because the program was not cost

 4 effective.

 5 Q That's right, it just desired to

 6 discontinue the program.

 7 A And perhaps that explains why it took so

 8 long to discontinue it.

 9 Q All right, and let's look at the commercial

 10 lighting program. If I understood your answers to your

 11 counsel, the commercial lighting program you are not

 12 contending is not cost effective. I know I put a double

 13 negative in there, but you're not contending that the

 14 commercial lighting program is not cost effective, are

 15 you?

 16 A No, I'm not, but what I'm saying is that

 17 there was not a proper evaluation or really any

 18 evaluation of any kind that was conducted to actually

 19 determine whether or not it was cost effective or whether

 20 it could be made more cost effective even if it was cost

 21 effective.

 22 Q But I find it some bewildering that you as

 23 the Staff member do not take a position as to whether

 24 commercial lighting is cost effective or not and yet you

 25 recommend disallowance of some of the Company's

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 1 expenditures. Am I paraphrasing your testimony correctly

 2 on this issue?

 3 A I think that's pretty close.

 4 Q All right. Now, if the Company applied to

 5 the Commission for discontinuance of commercial lighting,

 6 could it apply on grounds other than it was not cost

 7 effective prior to the time it began to discontinue its

 8 DSM programs for industry changes?

 9 A Certainly, the Company can apply to the

 10 Commission to discontinue any program for any number of

 11 reasons.

 12 Q But being reasonable, what do you think the

 13 Commission's reaction would have been had the Company

 14 applied to discontinue a program and when asked is it

 15 cost effective, the Company would have said, oh, yes,

 16 it's cost effective, but we desire to discontinue the

 17 program anyway?

 18 A Well, I'm having a number of problems with

 19 that because a program that's cost effective -- it can be

 20 cost effective for several years, but most programs have

 21 a life of cost effectiveness and after awhile they often,

 22 if not usually or always, become ineffective programs.

 23 Q Let's explore that. The commercial

 24 lighting program that we are discussing has been

 25 discontinued by the authorization of the Commission?

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 1 A Yes.

 2 Q So now what we're doing is we are going

 3 back in time and saying we're going to disallow some of

 4 the expenditures the Company made for commercial

 5 lighting, but not on the grounds that it was not cost

 6 effective, but on the grounds that the Company should

 7 have done more evaluations and reports?

 8 A That's basically it, yes.

 9 Q Now, the evaluation and the reports would

 10 have been used to do what? Evaluate whether the program

 11 should be continued or not?

 12 A Could have been or modified. When Idaho

 13 Power had its last rate case and Staff witness Wayne Hart

 14 looked at several of your programs, he did look at the

 15 commercial lighting program which was just beginning at

 16 that time and said if the savings aren't verified through

 17 an evaluation, the Company should be cautioned that some

 18 of their costs may be disallowed in the future.

 19 Q But isn't the ultimate disallowance

 20 discontinuance of the program? Surely, you would not

 21 recommend that Idaho Power Company continue a program

 22 after Staff had recommended disallowance of the

 23 expenditures?

 24 A I can't envision that happening, but --

 25 Q Well, it can't, can it? Surely, the

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 1 Company is entitled to recover its expenditures in a DSM

 2 program if it's required to continue that program.

 3 A Yes, if it continues the program reasonably

 4 and prudently, but not if it doesn't do so.

 5 Q Okay, if it's not being reasonable and

 6 prudent, wouldn't the Commission say discontinue the

 7 program?

 8 A The Commission might or the Commission

 9 might just say continue it but in a reasonable and

 10 prudent manner.

 11 Q Okay, and if it continued it in a

 12 reasonable and prudent manner, would the Company be

 13 entitled to recover its expenditures?

 14 A Yes, it would.

 15 Q So what we have here is the situation where

 16 you're critical of the Company not because the program

 17 was not cost effective or was cost effective, but that

 18 certain reports were not prepared upon which you could

 19 make a determination as to whether or not the program

 20 should be continued?

 21 A No, whether or not the program was in fact

 22 cost effective. Simply stating so in the conservation

 23 plans was not sufficient evidence to me to determine that

 24 it was reasonable and prudent.

 25 Q Now, the cost effectiveness of the plan

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 1 that you're looking it is whether or not there would be

 2 free riders; true?

 3 A That's certainly part of it, but I have a

 4 hard time with the term "free rider," but we'll let that

 5 go.

 6 Q Now, let's not let that go because it's

 7 important to your recommendation to disallow the 274,000,

 8 because you say a number of these customers would have

 9 installed the lights any way; true?

 10 A Yes.

 11 Q That's a free rider, is it not?

 12 A That's not what I term a free rider and

 13 that's getting into that other problem I have with the

 14 use of that term.

 15 Q Well, if the customer would have installed

 16 the lights anyway, are you saying that the Company should

 17 not have made any contributions toward the installation

 18 of those lights?

 19 A I'm just saying the cost-effectiveness

 20 evaluation should have taken that into account.

 21 Q All right. Now, the cost-effectiveness

 22 evaluations that the Company prepared on the conservation

 23 plans always indicated that the commercial lighting

 24 program was one of the most cost-effective programs.

 25 A That was a question?

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 1 Q Yes.

 2 A Yes, I believe it did.

 3 Q Now, if we're not going to put a lot of

 4 weight on whether these individuals would or would not

 5 have made the expenditures for the lights, then what we

 6 have to go to is Mr. Hart's other criticism which was

 7 that you should go out and determine if the lights have

 8 remained, the light fixtures have remained, in existence

 9 so that there is a continued savings. That was one of

 10 his --

 11 A Yes.

 12 Q Now, the reports that you reviewed show

 13 that that persistence remained; that is, the lights did

 14 remain in existence.

 15 A I can't say that those reports --

 16 MR. PURDY: I object.

 17 Q BY MR. RIPLEY: Yeah, it is. Isn't it in

 18 the reports?

 19 COMMISSIONER SMITH: Is that an objection,

 20 Mr. Purdy?

 21 MR. PURDY: That was an objection.

 22 COMMISSIONER SMITH: I didn't hear it.

 23 MR. PURDY: I'm sorry. I objected and I'm

 24 asking Counsel to either put these in question form or

 25 save this for oral argument.

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 1 Q BY MR. RIPLEY: Didn't the reports indicate

 2 that you reviewed that there was a persistence of the

 3 lights remaining in place?

 4 A No, they did not. The reports were often,

 5 as I said, they were inconsistently completed and often

 6 let blank. Like I said, the reports contained fairly

 7 poor data, although the format looked promising and if

 8 the Staff had been informed that these reports even

 9 existed after we asked for any such reports several

 10 times, then perhaps I could have made a more thorough

 11 study and perhaps would be a friendlier witness right

 12 now.

 13 Q Be that as it may, Mr. Anderson, what

 14 you're testifying is that you needed the reports to

 15 determine if the program should be continued or modified?

 16 A Yes.

 17 Q And the program has been discontinued?

 18 A Yes, it has.

 19 Q And you're still recommending that the

 20 Company expenditures be disallowed even though it takes a

 21 Commission order to permit the Company to discontinue any

 22 of its DSM programs?

 23 A Yes, for a small part of the program. As I

 24 point out, it's only the last two years and it's only

 25 about 30 or 40 percent of the program costs during those

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 1 years. Yes, I am recommending disallowance of those

 2 costs because of the failure to provide any performance

 3 evaluation.

 4 Q Okay. Now, one final question. When the

 5 Company defers an expenditure, it reduces its expenses in

 6 the year that the expenditure has been made; is that

 7 correct?

 8 A Yes.

 9 Q If it reduced its expenses in the year 1997

 10 when you've testified that certain amounts should be

 11 disallowed, wouldn't that increase the expenses in that

 12 year to the extent you've disallowed the deferral of that

 13 expense? Do you want me to go through it again?

 14 A Yes.

 15 Q Okay, my question is simply this: Let's

 16 take 1997. The Company makes an expenditure of, say,

 17 $5.00 for a light fixture which it defers into its DSM

 18 accumulated account. Are you with me so far?

 19 A Okay.

 20 Q Now, under that assumption, it reduces its

 21 expenses by five years in -- by $5.00 in 1997 because

 22 it's deferred the expense into an asset account, if you

 23 will, the regulatory asset account, all right?

 24 A Okay.

 25 Q So, therefore, it has reduced its expenses

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 1 in 1997.

 2 A That's correct.

 3 Q Now, if it's underearning sharing and it

 4 reduces its expenses by $5.00, who gets the benefit of

 5 that reduction other than the stockholder? Does the

 6 customer?

 7 A I'm not intimately familiar with the

 8 Company's revenue sharing plan, but after a certain

 9 amount, yes, the customers do share with the stockholders

 10 in that benefit.

 11 Q So the Company made an expenditure,

 12 deferred it, you're going to disallow it, now it must

 13 write off that expenditure in 1998, is that the ultimate

 14 result of your recommendation?

 15 A Yes, I assume so. I'm not familiar with

 16 how the Company does its accounting.

 17 Q Should I ask Ms. Carlock the effective

 18 recommendations?

 19 A Yes.

 20 MR. RIPLEY: Okay. That's all the

 21 questions I have.

 22 COMMISSIONER SMITH: Thank you,

 23 Mr. Ripley.

 24 Do we have questions from the Commission?

 25 COMMISSIONER HANSEN: I believe I have

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 1 one.

 2 COMMISSIONER SMITH: Commissioner Hansen.

 3

 4 EXAMINATION

 5

 6 BY COMMISSIONER HANSEN:

 7 Q Mr. Anderson, I'd like to ask you, are you

 8 aware of any time, say, in the last eight or ten years

 9 that the Staff has reviewed and upon the review have

 10 recommended to the Commission to disallow any of Idaho

 11 Power's DSM programs or to discontinue those programs?

 12 A Was that two questions, to disallow the

 13 costs or to discontinue?

 14 Q Right.

 15 A Certainly, yes, the Staff has reviewed

 16 programs and recommended the disallowance of certain

 17 expenditures. The second question, I'm not --

 18 Q Are you aware of the Staff recommending to

 19 discontinue any of those programs?

 20 A I can't recall that, but I wasn't really

 21 involved with Idaho Power's DSM at that time. I'm only

 22 familiar with the Staff's recommendation to disallow

 23 expenses because I read the testimony in the Idaho Power

 24 rate case. I didn't do sufficient research to see if the

 25 Staff had ever recommended discontinuing a program.

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 1 COMMISSIONER HANSEN: That's all I have.

 2 COMMISSIONER SMITH: And I just have one,

 3 Mr. Anderson.

 4

 5 EXAMINATION

 6

 7 BY COMMISSIONER SMITH:

 8 Q In his questioning, Mr. Richardson seemed

 9 to be criticizing the Staff, in essence saying you did

 10 the Company's work for them by some kind of prudency

 11 analysis, and I'm curious whether you believe that it's a

 12 PUC Staff function to do that kind of analysis.

 13 A No, I do not. I felt compelled in this

 14 case that we had to review, but like I told

 15 Mr. Richardson, I had hoped the Company would have

 16 presented its case better than what it did.

 17 Q So you don't think the Staff needs to be

 18 concerned with prudency?

 19 A No, that was not my intent at all. We do

 20 need to review it. It's just more difficult when the

 21 Company doesn't make its own case and we have to, in

 22 essence, go fishing for it.

 23 COMMISSIONER SMITH: Do you have redirect,

 24 Mr. Purdy?

 25 MR. PURDY: I do, several, thank you.

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 1 REDIRECT EXAMINATION

 2

 3 BY MR. PURDY:

 4 Q Mr. Anderson, I believe that you were asked

 5 some questions about whether Staff conducted some type of

 6 evaluation or audit, as Commissioner Smith just

 7 mentioned, and you said that with respect to certain

 8 programs or certain years during certain programs, you

 9 did not go in and conduct some type of an audit or

 10 analysis. Was that the gist of your testimony?

 11 A Yes.

 12 Q You're not saying, are you, though, that

 13 the Staff never audited the Company's books and records

 14 to determine whether the amounts that they are claiming

 15 in this case, seeking recovery for in fact, are

 16 consistent with their books and records, you're not

 17 making that assertion?

 18 A No, not at all. In fact, I'm quite certain

 19 the Commission auditing Staff did that.

 20 Q I wanted to make that distinction, thank

 21 you. Now, you were asked questions by Mr. Richardson

 22 about the Commission's Order, I've lost track of the

 23 number, but where Idaho Power was invited in for a

 24 comprehensive review of the manner in which its DSM costs

 25 are recovered; correct?

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 1 A Yes.

 2 Q All right. Now, in your opinion, could

 3 that mean that the Commission was inviting Idaho Power to

 4 come in to do just that, to determine how those costs

 5 should be recovered and not simply whether those costs

 6 were prudently incurred? Is it possible that that's what

 7 the Commission meant by a comprehensive review?

 8 A Certainly, that's possible.

 9 Q Now, we talked a little bit about Idaho

 10 Power's position with respect to DSM and you acknowledged

 11 there might be some tension, I think was the word you

 12 used, in how to manage these DSM programs, but I guess my

 13 question is, isn't it pretty much a fundamental fact of

 14 regulation and regulatory rate setting that the utility

 15 bears the burden of establishing or of proving that its

 16 expenses that it seeks recovery for during the course of

 17 a rate case or any type of rate proceeding were in fact

 18 prudent or reasonable?

 19 A I think that's generally the case, yes.

 20 Q And is that the primary purpose of

 21 performing an evaluation of a DSM program to determine

 22 whether those costs are being prudently incurred?

 23 A Yes, I suppose that's part of it, although

 24 the question of prudence is really one that includes

 25 whether or not there was a proper evaluation. The

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 1 evaluation generally gets more at the cost effectiveness

 2 as an impact evaluation or a procedural evaluation. The

 3 test of prudence usually comes after.

 4 Q All right. Would it be fair to say that a

 5 cost-effectiveness evaluation is one benchmark anyway of

 6 whether a program is prudent or whether it's prudent to

 7 continue that program?

 8 A Certainly.

 9 Q All right, and to your knowledge, is there

 10 anything that prevented Idaho Power at any point in time

 11 from coming before the Commission seeking to terminate

 12 any of its DSM programs if it believed that they were no

 13 longer cost effective and therefore no longer prudent?

 14 A Not that I'm aware of.

 15 MR. PURDY: That's all I have. Thank you.

 16 COMMISSIONER SMITH: Thank you, Mr. Purdy,

 17 and thank you for your help, Mr. Anderson.

 18 (The witness left the stand.)

 19 COMMISSIONER SMITH: It seems to me that

 20 this might be a good place to stop for the day and take

 21 up again tomorrow morning at 9:30.

 22 Mr. Ripley.

 23 MR. RIPLEY: I was just wondering if we

 24 could start at 9:00 simply because then I think the odds

 25 are we'd be done at noon.

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 1 COMMISSIONER SMITH: We have Ms. Carlock

 2 and we have your two rebuttal witnesses.

 3 MR. RIPLEY: Yes. The choice is obviously

 4 the Commission's.

 5 COMMISSIONER SMITH: 9:30.

 6 (The Hearing recessed at 4:30 p.m.)

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