1 BOISE, IDAHO, WEDNESDAY, MAY 27, 1998, 9:30 A. M.

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4 COMMISSIONER SMITH: Good morning. We'll

5 commence our hearing.

6 I believe, Mr. Purdy, we're ready for one

7 of your witnesses.

8 MR. PURDY: Thank you. Staff calls Terri

9 Carlock.

10

11 TERRI CARLOCK,

12 produced as a witness at the instance of the Staff,

13 having been first duly sworn, was examined and testified

14 as follows:

15

16 DIRECT EXAMINATION

17

18 BY MR. PURDY:

19 Q Would you state your name?

20 A Terri Carlock.

21 Q By whom are you employed?

22 A The Idaho Public Utilities Commission.

23 Q And have you prefiled direct testimony in

24 this case consisting of --

25 A Thirteen pages.

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Wilder, Idaho 83676 Staff

1 Q -- thirteen pages, thank you, of text?

2 A Yes, I have.

3 Q Your testimony does not include any

4 exhibits; is that correct?

5 A That's correct.

6 MR. PURDY: And I would note that

7 Ms. Carlock also filed a revised page 5 to her testimony

8 on May 12th.

9 Q BY MR. PURDY: Aside from that revised

10 page 5, Ms. Carlock, do you have any corrections or

11 additions to your direct testimony?

12 A Only one. As a result of Phil Obenchain's

13 change as far as the exhibit number, on page 12, line 14,

14 the exhibit number should be "11."

15 Q Thank you. Aside from that, if I were

16 to ask you the same questions today as contained in

17 your prefiled testimony, would your answers be the

18 same?

19 A They would.

20 MR. PURDY: All right. Then with that, I

21 would ask that Ms. Carlock's testimony be spread upon the

22 record as if read and would tender her for

23 cross-examination.

24 COMMISSIONER SMITH: If there's no

25 objection, we will spread the prefiled testimony of

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1 Ms. Carlock upon the record as if read.

2 (The following prefiled testimony of

3 Ms. Terri Carlock is spread upon the record.)

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1 Q. Please state your name and address for the

2 record.

3 A. My name is Terri Carlock. 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 the Accounting Section Supervisor.

9 Q. Please outline your educational background

10 and experience.

11 A. I graduated from Boise State University in

12 May 1980, with a B.B.A. Degree in Accounting and in

13 Finance. I have attended the annual regulatory studies

14 program sponsored by the National Association of

15 Regulatory Utilities Commissioners (NARUC) at Michigan

16 State University. I chaired the NARUC Staff Subcommittee

17 on Economics and Finance and the Ad Hoc Committee on

18 Diversification. I have also attended various finance

19 conferences, including the Public Utilities

20 Finance/Advance Regulation Course at the University of

21 Texas at Dallas, the National Society of Rate of Return

22 Analysts' Financial Forums, the Regulatory Economics and

23 Cost of Capital Conference in Utah, and a Standard &

24 Poor's Corporation Telecommunications Ratings Seminar.

25 Since joining the Commission Staff in May 1980, I have

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1 participated in several audits, performed financial

2 analysis on various companies and have previously

3 presented testimony before this Commission.

4 Q. What is the purpose of your testimony in

5 this proceeding?

6 A. The purpose of my testimony in this Idaho

7 Power Company (Idaho Power) case is to address the

8 following issues:

9 1) The amortization period for accumulated

10 Demand Side Management(DSM)expenditures and carrying

11 costs.

12 2) The appropriate carrying charge rate to

13 utilize for the amortization period going forward.

14 3) The future amount that should be

15 retained in rates as current DSM expense allowance.

16 4) The opportunity for customers to prepay

17 their DSM obligation.

18 5) Idaho Power's additional net revenue

19 requirement and proposed recovery.

20 6) The 1997 revenue sharing amount

21 including the proposed offset for 1997 interest on

22 deferred DSM and intervenor funding paid in IPC-E-96-26.

23 Q. Please provide a brief historical

24 perspective on Idaho Power's DSM programs.

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1 A. In January 1987 the Commission initiated

2 a study into Idaho electric utility conservation standards

3 and practices (Case No. U-1500-165) which resulted in

4 Order No. 22299, dated January 27, 1989. This order

5 required that Idaho electric utilities under the

6 jurisdiction of the Commission "give balanced

7 consideration to demand side and supply side resources

8 when formulating resource plans and when procuring

9 resources." Several annual or biennial reports were

10 required to be provided by the electric utilities to keep

11 the Commission informed of progress of procuring

12 conservation resources.

13 In November 1989 through Order No. 22856 for

14 interim approval and Order No. 22926 in January 1990 for

15 final approval, the Commission approved Idaho Power's

16 Good Cents Program. This program was implemented in 1986

17 by Idaho Power but was recognized as a demand side

18 management program by the Commission in 1989, Order No.

19 22299.

20 The following list reflects the programs

21 implemented by Idaho Power, the date the Commission

22 approved Demand Side Management treatment for the program

23 and the Order number issued to approve the program:

24

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1 APPROVAL ORDER

PROGRAM DATE NO.

2

Low Income Weatherization 05/89 22478

3 Good Cents Program 11/89 22856

Design Excellence Award 12/89 22893

4 Manufacturer's Acquisition 12/90 23454

Partners in Industrial

5 Efficiency 06/91 23724

Bell Rapids Project 01/93 24664

6 Agricultural Choices 04/93 24858

Commercial Lighting

7 Efficiency 05/93 24913

8

9 In Order No. 25880, dated January 31, 1995,

10 as part of the full rate case using test year 1993

11 financial data, the Commission approved and reflected in

12 rates the accumulated DSM program costs from 1989 through

13 1993 of $20,317,331. The Commission noted that before

14 commencing each individual program Idaho Power had

15 received authorization from the Commission. The

16 Commission established a 24-year amortization period for

17 the accumulated DSM costs. The DSM balance was included

18 in rate base at the 9.199% allowed rate of return. Also,

19 for future treatment of new DSM costs incurred, a system

20 expense of $1,113,387 was built into rates associated

21 with the Low Income Weatherization Program (LIWA) and

22 overall annual administrative costs for the DSM programs.

23 Future deferred DSM costs were to be accumulated with

24 accrued interest for no longer than three years. Idaho

25 Power must then begin amortizing these deferrals over

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1 24 years.

2 The Good Cents Program was allowed to be

3 discontinued by Order No. 25295 in December 1993 with

4 final construction completed by July 1, 1994. The final

5 payment on the Bell Rapids Project was made in 1996 and

6 the last day to site a Manufacturer's Acquisition Program

7 manufactured home in Idaho Power's service territory was

8 January 26, 1997. In 1997, Idaho Power was also allowed

9 to discontinue the Partners in Industrial Energy

10 Efficiency Program, Order No. 26753, and its Design

11 Excellence Award Program, Order No 26931. Order No.

12 27375, February 27, 1998, approved the discontinuation of

13 the Commercial Lighting Program partially due to Idaho

14 Power's participation in the Northwest Energy Efficiency

15 Alliance (NEEA). Idaho Power has filed to discontinue

16 the Agricultural Choices Program.

17 On July 16, 1997 the Commission, through Order

18 No. 27045, authorized Idaho Power to capitalize and defer

19 its investment in the Northwest Energy Efficiency

20 Alliance. The prudency of NEEA's various programs will

21 be examined prior to allowing Idaho Power to recover the

22 NEEA costs in rates. As part of this order the

23 Commission stated, "(W)e believe it would be timely and

24 appropriate to review the Company's existing deferred DSM

25 investment to determine whether the manner and timing

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1 of recovery is reasonable given the recent movement

2 toward competition in the electric industry. We

3 encourage the Company to initiate a proceeding that would

4 permit a comprehensive review of its existing DSM

5 investment and recovery." Order No. 27045 at 6.

6 Q. Please discuss the review of the requested

7 five-year amortization period for all DSM expenditures

8 deferred prior to December 31, 1997.

9 A. Idaho Power has requested a shorter, five-year

10 amortization period for all deferred DSM costs. Staff

11 evaluated shorter and longer amortization periods along

12 with the five-year amortization period. A search of the

13 Public Utilities Reports, Inc. (PURBASE) was conducted on

14 DSM orders issued since 1993 in other states to determine

15 the amortization periods allowed. The following list

16 reflects the result of this search:

17 Amortization Order

State Company Period Date

18 AZ Citizens Utilities Avg. three years 01/3/97

CA PacifiCorp expense eff. 12/3/93

19 CA PG&E, SDG&E, SCE Three years 12/7/94

OR PG&E Economic life 4/25/97

20 MN Minnesota Power Five years, 3/11/96

begin expense 1996

21 MT Montana Power Ten years 4/28/94

WA WWP Eight years 9/28/95

22

23 Many other states are shortening the amortization periods

24 of deferred amounts and often beginning to expense costs

25 as incurred. However the deferred balances to be

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1 amortized in those states were smaller than the current

2 balances we are discussing in this case. These large

3 deferred balances cause me some concern when reducing the

4 amortization period. I am recommending a five-year

5 amortization period for the unamortized balance of DSM

6 expenditures. A seven-year amortization period would

7 also be reasonable, however.

8 Q. What is the difference in revenue

9 requirement if a seven-year amortization period is used

10 rather than a five-year amortization period?

11 A. The monthly amortization of the pre 1994

12 balance is $207,159 over five years and $124,678 over

13 seven years, a monthly difference of $82,481 with an

14 annual difference of $989,772. The monthly amortization

15 of the post 1993 balance is $380,322 over five years and

16 $289,885 over seven years, a monthly difference of

17 $90,437 with an annual difference of $1,085,244. Based

18 on the deferred balances at December 31, 1997, the total

19 monthly amortization difference is $172,918 with an

20 annual difference of $2,075,016.

21 Q. You previously discussed Order No. 25880 as

22 it relates to the deferral of DSM expenditures for no

23 longer than three years and the amortization of those

24 costs at that time over 24 years. Has Idaho Power begun

25 to amortize the 1994 deferrals?

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1 A. Idaho Power was scheduled to begin the

2 amortization of the 1994 deferrals in January 1998.

3 Because they filed this case on November 26, 1997,

4 amortization of these costs was delayed until the

5 Commission could decide this case. The Idaho Irrigation

6 Pumpers Association witness Yankel raises this as an

7 issue and recommends reducing the balance to be recovered

8 in this case by the amount Idaho Power would have

9 amortized. The 1994 deferrals amounted to $9,988,847.55

10 at December 31 1997. The monthly amortization over 24

11 years with carrying costs at 9.199% would be $86,121.69.

12 The amortization expense on the pre 1994 expenditures is

13 $68,970. Idaho Power has reflected this amortization

14 expense already reflected in rates as a reduction to the

15 total revenue requirement for the pre 1993 expenditures

16 if the faster amortization is approved.

17 Q. Please discuss the rate that should be

18 utilized for the carrying charges.

19 A. The carrying charge established in Order No.

20 25880, January 31, 1995 was the overall rate of return of

21 9.199%. This rate was appropriate to reflect the 24-year

22 amortization period and the possible risks of not

23 recovering the full amount. The 9.199% rate was

24 appropriate unless the Commission approves a faster

25 amortization period. The carrying charge associated with

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1 a faster recovery such as the five-year amortization

2 period or even a ten-year amortization period results in

3 significantly less risk of recovery for Idaho Power. The

4 appropriate carrying charge rate for the shorter

5 amortization period is the debt rate. Since the payment

6 of the accumulated DSM costs would be reasonably assured

7 due to the shorter repayment time frame, the DSM deferred

8 asset should be considered more like a receivable from

9 the ratepayers with the associated lower risk.

10 Therefore, on a going-forward basis, only a reasonable

11 interest rate would be required during the repayment

12 period. Idaho Power issued debt during 1996 at 6.93% and

13 6.85% under a bond rating of "A+". Standard & Poor's

14 upgraded Idaho Power's senior secured debt rating to "AA-"

15 in 1997. A recent issuance of senior bonds with

16 similar ratings was placed at 6.5% by Oklahoma Gas &

17 Electric Company.

18 I recommend a 7% rate be utilized for the

19 carrying charge during the amortization period.

20 Q. Should the carrying charges be grossed up

21 to cover taxes?

22 A. No. Idaho Power will show an expense

23 associated with the amortization expense and interest

24 that will offset the revenue for tax purposes.

25 Therefore, there will not be additional taxes associated

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1 with the amortization.

2 Q. Please discuss the future level of DSM

3 expense that should be retained as a current expense

4 allowance.

5 A. In Order No. 25880 the Commission allowed

6 $1,113,387 to be added to Idaho Power Company's system

7 revenue requirement to expense as incurred Low Income

8 Weatherization (LIWA) and general administrative costs

9 related to DSM programs. The Idaho jurisdictional amount

10 is $1,060,909. All the DSM programs except LIWA have

11 been discontinued and replaced by Idaho Power's

12 participation in a regional DSM association, NEEA. On a

13 going-forward basis the administrative costs will be

14 significantly reduced. This reduction has already been

15 seen in 1996 and 1997. The actual Idaho jurisdictional

16 expenses booked for LIWA and administrative costs were

17 $228,168 in 1996 and $196,900 in 1997. The average of

18 these two years is $212,534. This is the amount that

19 should be reflected in rates on a going-forward basis.

20 Therefore, the excess average amount reflected in base

21 rates over the amount incurred is $848,375 annually or

22 $70,698 monthly. The DSM monthly amortization amount

23 should be reduced by this $70,698 monthly amount to

24 reflect the net DSM monthly revenue requirement.

25 Q. You and other witnesses have mentioned

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1 providing an opportunity for customers to prepay their

2 DSM obligation. How would this be accomplished?

3 A. Idaho Power could allow Schedule 19 and

4 Special Contract customers to prepay their DSM obligation

5 to avoid the carrying charges. These customer classes

6 are small enough that the administrative cost incurred by

7 Idaho Power would not be excessive. The question

8 remaining would be how many of these customers would be

9 interested in prepaying this obligation if the carrying

10 charge is 7%.

11 Q. Please explain how you have calculated the

12 total revenue requirement to recover the DSM amortization

13 costs.

14 A. The final revenue requirement will change

15 based on the decisions the Commission will make on

16 various issues. I propose that the final revenue

17 requirement be calculated based on the estimated deferred

18 costs at June 30, 1998. I have used the DSM balances at

19 December 31, 1997 adjusted for Staff witness Anderson's

20 disallowance of $274,000 as the starting amount to be

21 amortized. Idaho Power requested that the amortization

22 begin January 1998. I have used July 1998 as the

23 beginning amortization period and calculated additional

24 carrying charges on the balance through June 1998. The

25 equity return portion, 55%, of the carrying charges is

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1 grossed up using a factor of .642 for taxes. The

2 additional amortization through June 1998 is also

3 deducted. I have calculated the total adjusted balance

4 at $33,717,175. The amortization of this balance over 60

5 months at a carrying charge of 7% is $667,640 monthly.

6 This amortization is reduced by the expense adjustment of

7 $70,698 discussed above and the $68,970 amortization

8 already reflected in rates from IPC-E-94-5. The net

9 additional monthly revenue requirement is $527,972 or

10 $6,335,664 annually.

11 Q. Please explain the calculation of the 1997

12 revenue sharing numbers.

13 A. The 1997 revenue sharing numbers are

14 shown on Idaho Power witness Obenchain's Exhibit No. 11.

15 These calculations have been reviewed with no adjustments

16 proposed to the base figures. The total revenue to be

17 shared is $15,143,891. The customers portion is 50% or

18 $7,571,946.

19 Q. Are there any adjustments to these base

20 numbers?

21 A. Yes, Idaho Power has reduced this base

22 sharing number by the 1997 DSM interest, intervenor

23 funding awarded of $5400 in IPC-E-96-26 and taxes on the

24 carrying charges accrued.

25 Q. Do you accept these reductions to the 1997

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1 revenue sharing amount?

2 A. I accept the theory but I have adjusted the

3 amount of gross up for taxes. The DSM carrying charge

4 accrued during 1997 is $1,597,556 and the carrying charge

5 accrued on the intervenor funding is $150. The accruals

6 are treated similarly to AFUDC so only the equity portion

7 is grossed up (total of 55%). The gross up at .642

8 results in a tax allowance of $564,150. The total

9 reduction with this change is $2,167,256. Therefore the

10 amount to be shared is $5,404,690.

11 Q. How do you propose to reflect this sharing

12 amount?

13 A. I propose to use the sharing amount to

14 cover the additional monthly revenue requirement until it

15 is exhausted. I also propose to take the time value of

16 money into account at 7%. Using the sharing present

17 value of $5,404,690, an interest factor of 7%, and the

18 monthly revenue requirement of $527,972 the offset can be

19 made for 10.7 months. I propose that the actual increase

20 reflected on customer bills coincide with the 1999 PCA

21 change and 1998 revenue sharing review on May 15, 1998 or

22 10.5 months from July 1998.

23 Q. Does this conclude your direct prefiled

24 testimony?

25 A. Yes, it does.

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1 (The following proceedings were had in

2 open hearing.)

3 COMMISSIONER SMITH: Mr. Budge, do you have

4 questions?

5 MR. BUDGE: No questions, thank you.

6 COMMISSIONER SMITH: Ms. O'Leary.

7 MS. O'LEARY: Yes, I do have some

8 questions.

9

10 CROSS-EXAMINATION

11

12 BY MS. O'LEARY:

13 Q What is your understanding of the reason

14 the Commission invited Idaho Power to initiate a

15 proceeding to review its existing DSM recovery?

16 A I don't believe the Order was really

17 explicit in that area, but the way I read it was that

18 they were not in favor of the public purposes charge, but

19 they did think that it was time to look at the way DSM

20 was recovered and to me that meant recovery in general.

21 Q There was some reference in your testimony

22 to recent movement toward competition in the electric

23 industry. What did you mean by that and what effect does

24 that have on the Company's recovery of its DSM

25 investments?

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1 A I see the changes in the industry, the

2 electric utility industry, as bringing up several issues

3 that will have to be dealt with down the line, such as

4 recovery of items that may not be associated with

5 physical assets, regulatory assets such as the DSM, and

6 in looking at that, it seemed reasonable to consider

7 different recovery time periods so that other issues may

8 not have to be dealt with later, such as how do you

9 recover this DSM charge that is now in rates if there is

10 an open market. That is something that would have to be

11 dealt with later on.

12 Q Okay; so there is a concern for potential

13 stranded assets?

14 A I don't know that it would be necessarily

15 stranded. I didn't go to that aspect of the

16 consideration, but I did look at how you would have to

17 actually recover it and you may have to change that

18 recovery down the line as the market changes.

19 Q And what is the reason for not waiting

20 until that point in time so that whatever resolution is

21 devised reflects the actual facts at that time as opposed

22 to speculation?

23 A I saw that the DSM was an issue that could

24 be dealt with by itself and it had -- you could have

25 various time frames that you could recover it over and

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CSB REPORTING CARLOCK (X)

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1 each one of them would have some rational reason for that

2 time frame and so this type of a change made sense to me.

3 Q So speaking of rational reasons, what did

4 you base your five-year amortization schedule on?

5 A I looked at what reasonable periods would

6 be, such as those authorized by other commissions and

7 mainly in more recent time periods what their orders

8 showed and I have a list of those orders in my testimony

9 and the time periods that they have chosen.

10 Q Okay. Now, would that be the cases that

11 you've cited at page 6 of your testimony?

12 A That's correct.

13 Q Do you have proper citations for those

14 cases?

15 A I do. Most of the references are primarily

16 the PURBASE references, the number as to where you can

17 find it. Some of them I actually have case numbers.

18 Q And that's what I would be looking for when

19 I say proper citations, the actual citation one would use

20 to find the case.

21 A For the Citizens Utilities case, it is

22 Docket E-1032-95-433 and --

23 Q I'm sorry, E- --

24 A -- 1032-95-433.

25 Q Okay.

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CSB REPORTING CARLOCK (X)

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1 A And the other docket number on this order

2 is E-1032-95-040 and it's Decision No. 59951.

3 Q Okay, that's for the Arizona case?

4 A For the Arizona case, yes.

5 Q You don't have PUR report citations?

6 A No, I do not off of this, other than it

7 came, it was PUR 4th and the number is 86443 for the

8 computer location.

9 Q Okay, that's for the Arizona case?

10 A That's for the Arizona case, yes.

11 MR. PURDY: Madam Chair?

12 COMMISSIONER SMITH: Mr. Purdy.

13 MR. PURDY: This is more in the nature of,

14 I guess, a suggestion rather than an objection, but we'd

15 be happy to share this information with counsel during

16 the break. Perhaps our time would be better utilized to

17 cross-examine Ms. Carlock about the substance of her

18 testimony or the relevance of these cases.

19 MS. O'LEARY: That would be fine.

20 COMMISSIONER SMITH: I agree, Ms. O'Leary.

21 Unless there's some burning reason to have these

22 citations in the record, I would appreciate if you got

23 them later.

24 MS. O'LEARY: That's fine, I just would

25 like to have the citations. Primarily, I should say the

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1 Oregon case we were unable to locate that with the

2 information provided.

3 THE WITNESS: I will make a list for you.

4 Q BY MS. O'LEARY: Okay. Would you explain

5 how each of these cases, what you looked at? Did you

6 just simply look at the time frame that was used for

7 amortization or did you look for cases that specifically

8 the facts were similar to the facts here?

9 A I looked for time frames and I also looked

10 for the magnitude of the dollar amount that was being

11 considered and that is one of the reasons why I didn't

12 believe that expensing like some of the companies have

13 done or some of the commissions have authorized would be

14 appropriate is because the dollar amount for this

15 situation is significantly greater than the dollar

16 amounts for other jurisdictions.

17 Q Okay. In the California PacifiCorp case,

18 is it your understanding that that case is dealing

19 specifically with future costs only?

20 A They dealt with the amortization that was

21 currently in rates and then they dealt with how they were

22 going to treat ongoing expenses and that would be

23 expensed from that date forward. The amounts prior to

24 that were still being amortized.

25 Q And you're saying that that was being

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1 amortized as an expense?

2 A The amortization itself would be an

3 expense, but the full amount was amortized over a set

4 period of time.

5 Q Okay, and then the Minnesota case, what

6 were the two reasons that were cited there for going with

7 the schedule that they went with, do you recall?

8 A I would have to look for the exact

9 reasons. I'm not clear in my mind what they were at this

10 point without reading it again.

11 Q Okay, at page 39 of that decision, they are

12 citing, the commission there is citing, two key

13 benefits: First, shorter amortization would reduce the

14 potential risk of stranded DSM assets; and the second

15 reason cited was an improved cash flow. Does that sound

16 familiar?

17 A That does sound familiar, yes.

18 Q Okay, and in The Washington Water Power

19 case that you cited, September 28th, 1995 decision,

20 wasn't that a merger-related decision, those costs had to

21 do with a merger?

22 A They had various aspects that they had

23 discussed and the merger was one of those, yes.

24 Q And those were the costs that they were

25 talking about in the amortization?

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1 A The merger-related costs? The amortization

2 of the DSM costs.

3 Q But relative to the merger?

4 A DSM was considered at the time of the

5 merger and it was not only because of the merger that

6 they looked at the DSM costs. That was just one item

7 that they had looked at.

8 Q And in the Montana case, that was a

9 10-year; is that right?

10 A That's right.

11 Q Okay. In your testimony, I believe you

12 said that you were recommending a five-year amortization

13 schedule, but you also stated that you thought a

14 seven-year schedule would be reasonable?

15 A I think there is evidence to show that

16 various time frames would be appropriate. I looked at

17 the five-year and it seemed reasonable, but also a seven-

18 or a ten-year would be reasonable. There's nothing to

19 dictate one particular time frame. That's part of the

20 judgment that would have to be made by the Commission.

21 Q And what about a 24-year?

22 A The 24-year would be supported by the

23 useful life. There's nothing to show that that has been

24 changed, but I believe that it is reasonable to shorten

25 the time frame.

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1 Q More reasonable to shorten it than not?

2 A I felt that the five-year or a shorter time

3 frame was more reasonable than the 24-year, yes.

4 Q And that was based again on?

5 A Based again on looking at trends and part

6 of those trends were a result of industry changes.

7 Q Okay, and what about Idaho specific

8 reasons? Other than looking at what's going on in other

9 jurisdictions, did you take into consideration factors

10 peculiar to or specific to Idaho and in particular Idaho

11 consumers?

12 A I looked at the impact that it would have

13 on consumers. Lynn Anderson looked at that impact, we

14 discussed it. As far as specific considerations in

15 Idaho, I don't believe that there was one item that would

16 say that this is a must. It is just that it was a

17 reasonable explanation of why you should change.

18 Q Would you say that Idaho Power would be

19 financially healthier with a five-year amortization

20 schedule than a 24-year?

21 A Yes.

22 MS. O'LEARY: Thank you. I have nothing

23 further.

24 COMMISSIONER SMITH: Mr. Richey.

25 MR. RICHEY: Yes, I've got a few

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CSB REPORTING CARLOCK (X)

Wilder, Idaho 83676 Staff

1 questions.

2

3 CROSS-EXAMINATION

4

5 BY MR. RICHEY:

6 Q Were you present yesterday when Mr. Said

7 was giving his testimony?

8 A I was.

9 Q Do you recall a statement being made

10 somewhat to the effect of there would be no benefit for

11 these DSM expenditures after five years?

12 A Yes, I believe that I recall that

13 testimony.

14 Q Do you agree with that?

15 A I believe that I would fall back to what

16 Mr. Anderson was talking about and agree with that, that

17 the Staff does believe that there is some benefit going

18 forward. It's a measure of how much benefit and it might

19 be less than it was before because of the changing

20 markets, but that there is still some benefit.

21 Q From your experience of working on the

22 Staff, how does one go about determining an amortization

23 period of DSM expenditures?

24 A Well, one of the things that we always do

25 is look at what the trend may be for other jurisdictions

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CSB REPORTING CARLOCK (X)

Wilder, Idaho 83676 Staff

1 to see if there's a compelling reason why you would want

2 to change, look at the evidence in the case to see if

3 there's a compelling reason and then look at what's going

4 on as far as circumstances surrounding you to come up

5 with a reasonable expectation of what the amortization

6 period should be. You would also consider the impact on

7 the customers with the dollar magnitude of what you are

8 amortizing.

9 Q And that's what you've done in this

10 instance?

11 A That's primarily what I did, yes.

12 Q And when the 24-year amortization period

13 was determined, do you recall how that was arrived at?

14 A That was arrived at looking at the useful

15 expected life of those programs, the time period when the

16 savings would be achieved.

17 Q Was there any other extrinsic evidence like

18 that you used that you recall?

19 A In the case when the 24 years was

20 determined?

21 Q Yes.

22 A You mean such as an analysis of other

23 jurisdictions?

24 Q That or such as testimony from economists,

25 testimony from depreciation specialists, testimony from

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Wilder, Idaho 83676 Staff

1 accountants, finance specialists, was any of that taken

2 into consideration?

3 A At that time there was a review of what was

4 going on with other jurisdictions. Staff witness Wayne

5 Hart was the one that was the actual witness in the case

6 and I know that he did consult with economists,

7 accountants and those accountants have had some

8 depreciation experience, but I'm not sure into what depth

9 he relied on those discussions for his recommendations.

10 He himself had experience in the conservation area.

11 Q But from your understanding, there was some

12 consultation with individuals in those various

13 disciplines or those fields?

14 A Those fields were part of the group that

15 was a team on that case and there were team discussions

16 that we talked about the conservation issues.

17 Q Is there any reason why you believe it was

18 used in that case, why they looked at the useful life in

19 determining that 24-year period?

20 A This would be my estimate and I would say

21 that they were looking at it based on the standard

22 evaluation of conservation at that time and that was

23 before many -- actually, not before many of the states

24 had changed their policies, but it was during the time

25 period when I believe many of the states were changing

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Wilder, Idaho 83676 Staff

1 their own policies for whatever reason.

2 Q In this instance that we're talking about

3 now of re-looking at the amortization period, is useful

4 life not of any relevance at this point?

5 A I wouldn't say that it's not of relevance.

6 I would say that it is less important than looking at

7 what might be reasonable going forward and also looking

8 at the total impact on customers now and in the future.

9 Q You mentioned what would be reasonable

10 going forward. From your standing when you say

11 reasonable going forward, what's that based on?

12 A That's based on all of the things I had

13 mentioned before, that type of a review, and considering

14 the types of situations and decisions that we would have

15 to make if the industry does change.

16 Q Is it your understanding that the industry

17 is changing because of competition, at least the

18 possibility of competition?

19 A In a roundabout way it's changing because

20 of competition. I'm not saying that that is the reason

21 why all of the other states have changed their DSM

22 amortization periods, but that is one of the reasons that

23 I would anticipate that they looked at.

24 Q Does the fact that the Idaho legislature is

25 having discussions on competition, has that in any way

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Wilder, Idaho 83676 Staff

1 affected your decision of recommending a five- to

2 seven-year period?

3 A I'm aware of those discussions and I think

4 that it's more the trend that I'm seeing in the industry

5 than the actual discussions. I have not been part of

6 those discussions, so my view is possibly different than

7 theirs.

8 MR. RICHEY: That's all I have right now.

9 Thank you.

10 COMMISSIONER SMITH: Mr. Jauregui.

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

12 COMMISSIONER SMITH: Could you check your

13 mike, please?

14 MR. JAUREGUI: Yes, thank you.

15

16 CROSS-EXAMINATION

17

18 BY MR. JAUREGUI:

19 Q On page 6 of your testimony, in particular

20 on line, starting on line, 10, you talk about the

21 evaluation of shorter and longer amortization periods.

22 A That's correct.

23 Q What longer ones did you evaluate and what

24 type of evaluation did you go through?

25 A I looked at the five-year period and a

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1 seven-year period utilizing the methodology that the

2 Company has used. I also looked at a three-year period

3 under that methodology. I ran payment analysis for 10,

4 12 years just to see what the change was under my

5 assumptions in the case.

6 Q Can you tell me for what reasons you

7 excluded the 12-year and 10-year?

8 A Basically, it was just more of a judgment

9 call as to what the reasonableness would be and looking

10 at the trends in other jurisdictions and I felt that it

11 was reasonable to consider those trends.

12 Q Thank you. Going to the chart on page 6,

13 you discussed with one of the prior people the PacifiCorp

14 decision of 12/3/93 and you indicated that future DSM was

15 going to be expensed, I believe?

16 A That's correct.

17 Q But I understood that the past DSM was

18 being amortized to a different time frame. Did you

19 happen to indicate or did I not hear what that was?

20 A The cite that I have with me here for that

21 case, I would have to pull it up during the break to get

22 more information.

23 Q Excuse me, it's the past DSM amortization

24 period.

25 A Right.

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1 Q Do you know what that was?

2 A And what I am looking at for that is simply

3 the final decision and this section does not talk about

4 in detail Pacific's -- the piece that I have, I should

5 say, does not talk about the deferral part, the

6 amortization. All it talks about that I have with me and

7 I can get more information during the break is that all

8 amortization-related expenses will be amortized in 1994,

9 half in 1995 and none in 1996 and after that no DSM

10 expenses will be deferred. That does not talk to the

11 amortization period for prior items.

12 Q Thank you. You indicated on page 6,

13 line 23, "Many other states are shortening amortization

14 periods of deferred amounts and often beginning to

15 expense costs as incurred." Was this solely looking at

16 DSM or was this looking at other items, also?

17 A This was looking at DSM.

18 Q Do you know what states those were?

19 A I don't have a list of them. Those are

20 primarily from my discussions with NARUC members and I

21 know that Wisconsin is one of those states, Florida was

22 another one, I believe Rhode Island, but I did not have

23 specific cites for orders for those. That was more

24 discussion with members of those commissions.

25 Q So that's two or three other states?

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1 A That I can name for sure. I know that

2 Colorado has looked at it and so has California, but I

3 don't have specific cases, so that's why I did not cite

4 those cases.

5 Q Thank you. On page 7 in line 2, you talk

6 about the large deferred balances causing you concerns

7 when reducing the amortization period?

8 A That's correct.

9 Q If there was a large balance, wasn't it up

10 to the applicant as to when they were going to be coming

11 in and filing for amortization of those amounts?

12 A Yes, I believe it was.

13 Q Turning to page 8 in line 21 where you

14 speak about the overall rate of return to reflect a

15 24-year and the possible risk of not recovering the full

16 amount, was that a risk that was considered in that case?

17 A At that time the overall rate of return was

18 based on the risks of the Company and the DSM was part of

19 that decision and DSM was amortized over the 24-year

20 period; therefore, in considering any changes, I thought

21 that it was important to look at that overall rate of

22 return as the appropriate carrying charge.

23 Q Since that case and your recommendation in

24 line 23, the nine point -- I mean 9.199 percent rate was

25 appropriate unless the Commission approves a faster rate

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1 of amortization, isn't it true that the carrying costs of

2 the Company have reduced?

3 A I'm not talking about the overall rate of

4 return, changing that in this case. I'm only talking

5 about the piece that applies to the DSM.

6 Q But isn't it true since the 1995 case that

7 the Company has gone through and done extensive

8 refinancing and their costs are lower today?

9 A Their costs for preferred and debt are

10 lower based on refinancings, but that's not what I'm

11 changing as far as the overall rate of return, but I have

12 used the refinancing to support the 7 percent carrying

13 charge rate that I have recommended for DSM.

14 Q But in the development of the rate of

15 return, the costs of the Company were looked at, were

16 they not, in that order?

17 A They were looked at as a whole, that's

18 correct.

19 Q And haven't the costs of both the long-term

20 debt reduced from over 8 percent to less than 8 percent,

21 7.84 percent currently?

22 A The cost of debt has been reduced by the

23 refinancings, but, as I said before, I'm not proposing a

24 change in the overall rate of return for the Company on

25 normal assets and rate base items. I'm only proposing a

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1 change for the carrying charge for DSM.

2 Q But the carrying costs on DSM were tied

3 into that carrying cost of the Company, were they not,

4 over the past four years?

5 A At the time of the last rate case the DSM

6 recovery amortization period over the 24 years was

7 allowed to earn a return at the overall rate of return.

8 With that long time period, that was appropriate. What

9 I'm saying now is that if you're going to a shorter time

10 period, the risk is not as great and it should more

11 reflect a bond rate than the overall rate of return no

12 matter what that overall rate of return is.

13 Q I accept that, but in the past four years

14 the Company has had lower costs and the amount of dollars

15 that we start with in looking at amortization is in

16 essence larger than their actual costs in carrying that

17 DSM cost during the past four years; isn't that correct?

18 A That may be true, but in between rate cases

19 you do not change the amount that they can book before

20 another case.

21 Q Isn't it true that we have pulled the DSM

22 expense out and we are now looking at it and determining

23 how we are going to deal with this for its recovery,

24 isn't that the purpose of this case?

25 A That is true.

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CSB REPORTING CARLOCK (X)

Wilder, Idaho 83676 Staff

1 Q Wouldn't it be appropriate to true-up that

2 amount to reflect the actual cost of the Company of the

3 DSM program and allow for a recovery of that over the

4 amortization period that is appropriate?

5 A I don't believe it is, no. When you set up

6 a deferred account, you are authorizing the Company to

7 defer amounts at a certain rate of return. You can look

8 at the ongoing carrying charge, but to go back and change

9 the carrying charge that they booked I do not believe

10 would be appropriate.

11 Q On page 9, you recommended a 7 percent rate

12 be utilized for carrying during the amortization period?

13 A That's correct.

14 Q In view of the Company's recent upgrade and

15 its recent issuance of bonds, I believe, in --

16 A They issued bonds in 1996.

17 Q Yes -- at a price less than 7 percent,

18 wouldn't that be more appropriate, a lower rate?

19 A I used the 7 percent as what I felt was the

20 most appropriate rate looking at what they had actually

21 issued debt at in 1996, considering the upgrade in their

22 bond rating and what like bond rating issuances were

23 currently and currently they have been slightly higher

24 than what was issued in 1996. They've kind of bounced

25 around a little bit.

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1 Q Just a couple more. Do you know whether or

2 not Idaho Power Company will be restructured?

3 A I do know that they have formed a holding

4 company and that will likely lead to additional

5 restructuring. I also know that moving the subsidiaries

6 under that holding company will require Commission

7 authority, so I anticipate that the Commission will be

8 aware of those changes as they happen.

9 Q Do you know when this will occur?

10 A I'm not sure. I do know that Staff

11 expressed some concerns to the Company about how that

12 would happen and what type of costs would be reflected

13 for each of those subsidiaries and those are issues that

14 the Staff has to audit further and have discussions with

15 the Company on to determine what the dollar amounts for

16 each of the subsidiaries would be transferred when they

17 are transferred. At this point I have not seen anything

18 that shows a schedule of when the Company might

19 anticipate moving those subsidiaries under the holding

20 company.

21 Q Do you know what the restructure will look

22 like and how the various issues will be handled including

23 the DSM expenditures?

24 A I'm sorry, I'm not sure I understood that

25 question.

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Wilder, Idaho 83676 Staff

1 Q Do you know what the structure will look

2 like and how the various issues will be handled in that

3 restructuring including the handling of the DSM

4 expenditures?

5 A As far as debt issuances, Idaho Power

6 Company will issue the debt issuances. The common and

7 the preferred will be at the holding company level. Now,

8 as far as specific issuances for DSM, I do not believe

9 the Company anticipates doing that. They could issue

10 debt that would essentially cover that DSM cost if they

11 wanted to, but I don't believe that securitization is

12 something that they are looking at right now.

13 Q Would it be fair to say that you don't know

14 at this time?

15 A No, I don't believe that's a complete

16 answer there.

17 Q Do you know how the stranded cost issues

18 will be handled, if at all, by this Commission in the

19 future?

20 A No, I do not.

21 Q Would you agree that it is speculative to

22 deal with possible stranded cost issues now when other

23 stranded cost issues exist?

24 A That's one consideration that the

25 Commission will have to look at, but I believe that DSM

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Wilder, Idaho 83676 Staff

1 can be pulled out from the other discussions that will

2 occur when you talk about stranded costs or stranded

3 benefits, either one.

4 MR. JAUREGUI: Thank you. I have no

5 further questions.

6 COMMISSIONER SMITH: Mr. Ward.

7 MR. WARD: Just a couple of areas,

8 Ms. Carlock.

9

10 CROSS-EXAMINATION

11

12 BY MR. WARD:

13 Q If you'd turn to page 4 of your testimony,

14 you have there at the top of the page a list of DSM

15 programs and when they were approved. I take it that you

16 reviewed at least the orders approving each of these

17 programs?

18 A Briefly.

19 Q Were you a participant in some or all of

20 those proceedings?

21 A I don't recall being a direct participant

22 as far as Staff member making comments or presenting

23 testimony in those cases.

24 Q Let me ask you, then, to test your general

25 knowledge and, obviously, if you don't know, you'll tell

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Wilder, Idaho 83676 Staff

1 me so, is it your understanding that in reviewing those

2 proposed programs that the Commission Staff and the

3 parties and ultimately the Commission made a

4 determination regarding the program's cost effectiveness?

5 A Yes.

6 Q And did that determination in part rest on

7 the estimate of the useful life of the expenditure, of

8 the underlying program implementation?

9 A That would be one of the things that would

10 have been considered, yes.

11 Q And would it be fair to say that in

12 aggregate, presumably, the estimate of useful lives for

13 these programs in aggregate were at least similar to the

14 24-year estimated useful life that we've discussed

15 repeatedly in this proceeding?

16 A I believe the average was the 24-year.

17 Q Okay. Now, to the best of my knowledge, I

18 don't recall FMC opposing any of these programs. Do you

19 recall anything inconsistent with that?

20 A I can't tell you.

21 Q Do you know if other intervenors opposed

22 any of these programs?

23 A I can't tell you that either.

24 Q Would the Staff's analysis and the

25 intervenors' analysis of the cost effectiveness or

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CSB REPORTING CARLOCK (X)

Wilder, Idaho 83676 Staff

1 attractiveness of these programs have varied if they had,

2 if the postulate had been a recovery over a five-year

3 time frame?

4 MR. PURDY: If you know.

5 THE WITNESS: I would guess that the

6 intervenor presentations and possibly the Staff

7 presentations would look at the recovery, but it's not

8 going to be the piece of it that would determine the cost

9 effectiveness. Cost effectiveness is determined on the

10 energy savings over time and the recovery is separate

11 from that energy savings.

12 Q BY MR. WARD: Certainly, I understand that

13 and that leads me to my follow-up area, do you have any

14 information that suggests that the useful life of these

15 measures has changed?

16 A No.

17 Q Do we have any reason as we sit here today

18 to think that Idaho Power will not recover over the

19 24-year time frame previously authorized for a portion of

20 these expenses, that Idaho Power will not recover the

21 full cost of those expenses?

22 A I would say that the type of recovery would

23 be the question. As Greg Said indicated yesterday, his

24 legal counsel tells them it will be recovered. I see the

25 issue of how it will be recovered as being something that

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CSB REPORTING CARLOCK (X)

Wilder, Idaho 83676 Staff

1 the Commission will have to deal with whether it's now or

2 later.

3 Q Certainly, I understand that, but let me

4 ask a more fundamental question. Isn't it generally true

5 that we try to match the burden of a rate to the benefit

6 of the expenditure that it's recompensing?

7 A That is one of the items that is looked

8 at. We also look at for regulatory assets normal

9 recovery periods and it's not uncommon for a regulatory

10 asset to have a five-year or ten-year recovery period.

11 Q But when that's the case, isn't it the

12 ordinary case that that proposition is debated up front

13 before the regulatory asset program is approved?

14 A Not necessarily.

15 Q Let me ask you this: Do you see any

16 distinction between the pre-1994 amounts and the

17 post-'93 amounts?

18 A As far as recovery?

19 Q Yes.

20 A Yes, I do. I see that that is one of the

21 options that the Commission could look at is a different

22 recovery for both of those sets of deferred items. I

23 believe a five-year recovery period is reasonable for

24 both of those, but that's not the only reasonable option

25 that the Commission could choose.

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1 Q Isn't one distinction that with regard to

2 the pre-1994 accumulations that we have in place a valid,

3 outstanding order determining the amortization period?

4 A We do have an order that sets the 24 years

5 as the recovery period for that. That does not mean that

6 it could not be changed, but that is a distinction

7 between those two sets of deferred amounts.

8 Q Now, it's possible, is it not, to take a

9 completely different tack with regard to DSM expenses and

10 simply expense them to ratepayers?

11 A On a going forward basis, that's true.

12 Q And in fact, is that what the Commission

13 has done with Washington Water Power's DSM expenses?

14 A That's true.

15 Q Now, if the -- and if you'll permit me,

16 will you agree with me that that's the other end of the

17 spectrum in terms of acceleration of recovery, you get it

18 annually?

19 A For future expenditures, that's correct.

20 Q All right. Now, let me ask you if you have

21 a copy of Mr. Said's testimony and exhibits.

22 A I do. His rebuttal or his direct?

23 Q The direct. If you would go to Exhibit 6,

24 page 1 of 4.

25 A You will have to give me a little bit more

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Wilder, Idaho 83676 Staff

1 explanation of that exhibit. Mine are labeled as

2 attachments and page numbers.

3 Q I'm sorry, Ms. Carlock, I can't hear you.

4 A Can you describe that exhibit? Mine are

5 labeled differently, the copy I have.

6 MR. WARD: May I approach the witness,

7 Madam Chairman? I think that's the easiest.

8 COMMISSIONER SMITH: Certainly.

9 (Mr. Ward approached the witness.)

10 MR. WARD: This is all I want to ask you

11 about.

12 THE WITNESS: I have that.

13 Q BY MR. WARD: Now, as we just agreed, the

14 Commission could have ordered the expensing of these

15 program costs, could it not?

16 A Originally are you talking about?

17 Q Yes.

18 A It could have if that was its desire at

19 that time.

20 Q Now, if you look at Mr. Said's Exhibit 6,

21 page 1, I'm looking at what's labeled my line 12. I

22 don't know what it may be for you, but --

23 A The total program expenditures?

24 Q Correct.

25 A All right.

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1 Q Is it your understanding that that's the

2 direct out-of-pocket expenses that Idaho Power has

3 incurred for these DSM programs post-1993?

4 A The deferred expenditures. There were

5 pieces that were expensed.

6 Q Thank you for that correction. Now, do you

7 see line 14, carrying charges and income taxes?

8 A Yes.

9 Q And that's $12,700,000 and change?

10 A Yes.

11 Q Now, my question is, isn't it true that had

12 we expensed these items that we could have done so for

13 roughly $4 million a year?

14 A If you're assuming the expenditures were

15 made on an equal basis over the years.

16 Q Over those four years and over five years

17 we could have expensed them for roughly 3 million

18 something.

19 A If you had the expense and the recovery so

20 that you did not have a tax impact, that would be

21 correct.

22 Q But as matters now stand after having

23 deferred the amounts and looking at a five-year recovery,

24 and I recognize there's a dispute over carrying charges

25 and I don't want to get into that, now we're looking at

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CSB REPORTING CARLOCK (X)

Wilder, Idaho 83676 Staff

1 not 16 million but $29 million to be recovered over five

2 years; isn't that the fact?

3 A Yes, you've added the carrying charges and

4 the income taxes to the actual amount deferred.

5 Q Isn't that something of the worst of all

6 possible worlds for the ratepayers? We've nearly doubled

7 the amount to be paid and now we're going to pay more

8 annually than if we'd expensed them?

9 MR. PURDY: Madam Chair, I guess --

10 COMMISSIONER SMITH: Mr. Purdy, could you

11 turn your mike on, please?

12 MR. PURDY: I'd like to interpose an

13 objection based on the relevance of this line of

14 questioning. The Commission's decision to allow the

15 deferral of these expenditures was made years ago and I'm

16 questioning whether this line of testimony or questioning

17 is relevant to the Company's application in this case.

18 COMMISSIONER SMITH: Mr. Ward.

19 MR. WARD: Well, Madam Chair, I think FMC

20 has stated through its witness and through its counsel

21 that it would take a very different view of this matter

22 if we were looking at simply a prospective change, but it

23 seems to me it's quite different when we're looking at

24 deferred amounts that have been deferred over a number of

25 years and now talking about accelerated amortization of

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CSB REPORTING CARLOCK (X)

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1 those amounts with the carrying charges that otherwise

2 would not have been incurred if they'd been expensed.

3 Whatever the Commission makes of that argument, it can

4 make of it, but it seems to me it's relevant.

5 MR. RIPLEY: I have to interpose also an

6 objection simply because I think counsel is

7 mischaracterizing the total cost to the ratepayer if you

8 would have expensed the DSM programs as they occurred.

9 You would still have an income tax gross-up factor, so

10 we're getting into the oral argument here, but I think

11 he's mischaracterizing what the total impact would be.

12 COMMISSIONER SMITH: Mr. Ward.

13 MR. WARD: And I have to say I don't want

14 to start a debate about that, but I don't believe that to

15 be accurate. I don't believe there would have been a tax

16 gross-up.

17 COMMISSIONER SMITH: It sounds like a

18 matter to be briefed. I guess I find that Mr. Ward's

19 questioning is within the allowable parameters of what's

20 pertinent here. If he is mischaracterizing or

21 misrepresenting the figures, then I think that's a matter

22 that could be called to our attention either in your

23 rebuttal or by brief, Mr. Ripley, so I'm going to allow

24 Mr. Ward to continue and I guess it's sometimes

25 uncomfortable for the Commission maybe to have it called

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1 to its attention that it made an error in the past, but I

2 guess we'll live through it.

3 MR. WARD: It was my last question in this

4 area.

5 Q BY MR. WARD: Do you recall it,

6 Ms. Carlock?

7 A You'll have to repeat it, I'm sorry.

8 Q Isn't the deferral of an item that could

9 have been expensed and then the short-term amortization

10 of it after you've accumulated carrying charges that

11 increase the amount to be deferred, isn't that something

12 of the worst of all possible worlds for the ratepayers?

13 A I could see that some of the ratepayers

14 would think that it's unfair, but we have had items that

15 have been deferred and amortized over a short period of

16 time and I don't believe that that would be any

17 different. We've also had items where either the

18 depreciation or the amortization periods have changed and

19 have been shortened and that's not something that's

20 uncommon. You do have to pay for it faster and you're

21 going to have those carrying charges no matter how long

22 you defer it.

23 Q Just one little follow-up on your answer.

24 Isn't it generally true that in depreciation, that with

25 respect to depreciation issues, when we alter

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1 depreciation lives, there's generally some showing or

2 evidence that the actual useful life of the underlying

3 investment --

4 A For depreciation, that's true.

5 Q -- has changed?

6 A Yes. Amortization is usually dealt with

7 more on a judgment call basis.

8 Q I think you've been asked about everything

9 you could be asked about your list of cases. I just want

10 to ask you one additional question. To the best of your

11 knowledge, do those cases that you cite reverse existing

12 orders regarding amortization period?

13 A Some of them do, some of them are just for

14 going forward amounts.

15 Q Okay, last area. If you would turn over to

16 page 10, in the question and answer that takes the bulk

17 of that page, you're discussing the Commission's prior

18 rate Order that allowed on a jurisdictional basis

19 $1,060,909 for DSM administrative costs; is that correct?

20 A That is correct.

21 Q And you note that the actual Idaho

22 jurisdictional expenses booked for low income

23 weatherization and administrative costs were 228,168,000

24 [sic] in 1996 and 196,900 in 1997. Do you see that

25 statement?

543

CSB REPORTING CARLOCK (X)

Wilder, Idaho 83676 Staff

1 A It's 228,168 --

2 Q Excuse me.

3 A -- in 1996.

4 Q Thank you. Now, as I understand it, you're

5 proposing on a going forward basis to adjust Idaho

6 Power's rates by the difference between the 1,060,000 and

7 some and the average of those two-year expenses of

8 roughly $212,000?

9 A That's correct.

10 Q Given the fact that the prior years' DSM

11 expenses, that is, those since, those post-1993 amounts,

12 are in a deferred account, wouldn't it be proper to

13 true-up also the 1996 and 1997 accruals by the difference

14 between --

15 MR. RIPLEY: Madam Chairman, I have to

16 object because he's misstating the record. The

17 administrative costs are not included in the deferred

18 accounts.

19 MR. WARD: If I implied that, I certainly

20 did not mean to do so.

21 Q BY MR. WARD: The DSM expenditures are in

22 the deferred accounts since -- let me start all over.

23 Isn't it a fact that the post-1993 DSM direct

24 expenditures are in a deferred account?

25 A Yes.

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CSB REPORTING CARLOCK (X)

Wilder, Idaho 83676 Staff

1 Q My question for you is, would it not be

2 proper to adjust that deferred account by the difference

3 between the 1,060,000, the $1,060,000, and the $212,000

4 at least for the years 1996 and 1997?

5 A That is one possibility, but I think you

6 run into some problems there with retroactive ratemaking

7 that would make it impossible to do. You know, the

8 rationale might be there, but I don't know that you can

9 actually do it.

10 Q I don't want to provoke a legal argument

11 about retroactive ratemaking --

12 A Good.

13 Q -- but isn't it generally your

14 understanding that deferred accounts are used for exactly

15 that purpose; that is, to avoid the problem that would

16 otherwise exist with retroactive ratemaking?

17 A But the expenses are not being deferred.

18 The amounts that are for direct out-of-pocket expenses

19 for actual programs were being deferred. The

20 administrative costs were being expensed. That never

21 went into the deferred program during this time period.

22 Q Let me ask you this and then I'll quit:

23 Given what you've discovered in your analysis, isn't it

24 clear that Idaho Power has overrecovered in 1996 and 1997

25 for its administrative costs for DSM in the amount of

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Wilder, Idaho 83676 Staff

1 roughly $800,000 a year?

2 A I believe they have, but I don't think we

3 can adjust for that.

4 Q Notwithstanding the fact that we're going

5 to adjust retroactively for recovery of the DSM

6 expenditures?

7 A We're adjusting on a going forward basis

8 the recovery. We're not going back and changing the 24

9 years during that four-year period. That's different.

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

11 COMMISSIONER SMITH: Mr. Gollomp.

12 MR. GOLLOMP: No questions.

13 COMMISSIONER SMITH: Mr. Fothergill.

14 MR. FOTHERGILL: Yeah, I have just a few

15 questions.

16

17 CROSS-EXAMINATION

18

19 BY MR. FOTHERGILL:

20 Q On pages 5 and 6, Ms. Carlock, the bottom

21 of 5 and the top of 6, you quote the Commission Order

22 No. 27045 in which the Company is encouraged to initiate

23 a proceeding that would permit a comprehensive review of

24 its existing DSM investment and recovery, and the reason

25 given for this was the result of recent movement towards

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Wilder, Idaho 83676 Staff

1 competition in the electric industry and is there any

2 today, to your knowledge, any competition with Idaho

3 Power for delivery of electricity in Idaho?

4 A Not for the actual delivery. The

5 competition is more in the generation side and I

6 anticipate that that will change going forward, too, as

7 far as how much competition there is and when that

8 competition occurs.

9 Q You do know, do you not, that that's not

10 imminent, that competition is not imminent?

11 A For the actually delivery?

12 Q Delivery of electricity, yes.

13 A I don't anticipate competition in the

14 delivery side in the near future, no.

15 Q Further down -- well, in the same line

16 here, do you know of any statement by the Commission

17 other than this Order that would indicate its support for

18 a five-year period of amortization or any other than the

19 previously ordered 24 years, do you know of any statement

20 that the Commission has made that would say that we need

21 a less than 24-year amortization period?

22 A I'm not sure, but there may have been

23 statements in other orders in the -- I'm not sure what

24 case number it was, but it was the public purposes

25 surcharge case and I would have to look at each of those

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CSB REPORTING CARLOCK (X)

Wilder, Idaho 83676 Staff

1 orders again to see if there was a similar statement. I

2 do believe it was discussed in general, but this was a

3 direct area where it was explicit.

4 Q Do you think the Commission favors an

5 amortization period less than 24 years?

6 A I don't know.

7 Q In fact, the Commission has not said that

8 it believes a shorter period would be desirable, has it?

9 A No. That's why we're here today.

10 Q That's right, and all we've really got is

11 an invitation for a comprehensive review of the recovery

12 of DSM investment?

13 A Right. They did mention the discussion to

14 see if a shorter time period would be appropriate. The

15 way I read the various orders was it looked like they

16 were willing to consider shorter time periods instead of

17 a public purposes charge at that time. They did not say

18 they wanted a shorter period, though.

19 MR. FOTHERGILL: Thank you. That's all I

20 have.

21 COMMISSIONER SMITH: Mr. Ripley.

22 MR. RIPLEY: Yes.

23

24

25

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Wilder, Idaho 83676 Staff

1 CROSS-EXAMINATION

2

3 BY MR. RIPLEY:

4 Q Starting where counsel for FMC left off,

5 let's assume for the purposes of my questions that Idaho

6 Power Company had overrecovered its expenses that it

7 claimed for DSM administration in 1996 and 1997. Can you

8 assume that for me?

9 A I can assume that.

10 Q Now, if they overrecovered, that would

11 increase revenues, would it not, net profit earnings?

12 A Yes, that would have been reflected in the

13 revenue sharing.

14 Q You anticipated my question and that is

15 revenue sharing in effect gives FMC and the other

16 customers the benefit of that overrecovery to the extent

17 that you have overstated the expenses that you're

18 assuming for purposes of your DSM, thus, you've increased

19 your net revenue?

20 A Yes, under the revenue sharing, the

21 customers benefit by 50 percent over the benchmark.

22 Q So FMC would say thank you very much for

23 the revenue sharing and also we want to take the same

24 amount and deduct it from the DSM balance?

25 A That would be similar to some of the

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Wilder, Idaho 83676 Staff

1 adjustments that have been made in prior revenue sharing

2 cases where it may actually change the amount of the

3 revenue sharing.

4 Q Is that part of your retroactive ratemaking

5 difficulty that when you cast back into prior years you

6 have to make certain that you are not double counting?

7 A That would be one concern, yes.

8 Q All right. Now, in addition, Mr. Ward

9 demonstrated that it costs the customer when an

10 expenditure is deferred for a later period by the amount

11 of the carrying costs of that deferral as well as the

12 taxes that would be necessary to recover the carrying

13 costs on the deferral. Do you recall that?

14 A Yes.

15 Q The Commission in all of the orders that it

16 issued for the DSM program specifically authorized

17 deferral; isn't that correct?

18 A That's correct.

19 Q Now, at that time did any of the customers

20 that participated in that proceeding object to deferral?

21 A I didn't read all the record, but I do not

22 believe they did.

23 Q Now, if you were a customer that was a

24 customer of Idaho Power Company in 1996, the Company made

25 expenditures that it deferred and then you were not a

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1 customer in 1997, you would have enjoyed the benefit of

2 the fact that the expenditures were deferred and you

3 didn't have to pay for them?

4 A Yes.

5 Q That's certainly a benefit to those

6 customers that are on the system at the time the

7 expenditure is made but not on the system when the

8 amortization of the deferral is placed into rates?

9 A There's a little bit of a concern with the

10 actual timing of your example. If they're on the system

11 when it's deferred, they may not have received a benefit

12 yet until there's another rate case or until a plant is

13 actually deferred. There's a timing consideration in

14 there, but in general, they would receive some benefit

15 without paying for it in full.

16 Q Now, if I could direct your attention to

17 your direct testimony, I have a few questions. If we

18 could turn to your page 8 of your prepared testimony,

19 commencing on about line 10 -- well, that entire answer

20 deals in part, at least, with witness Yankel's

21 recommendation that the Company should reduce its DSM

22 balance by the amount of the 1994 deferrals that under

23 Mr. Yankel's theory would have commenced on January 1 of

24 1998?

25 A I'm not sure that Mr. Yankel knew when they

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Wilder, Idaho 83676 Staff

1 would commence, but that is the date that Idaho Power had

2 anticipated beginning the amortization.

3 Q And what you did on line 10 is you

4 calculated what the cost would be per month if you

5 commenced the amortization of the 1994 deferrals on

6 January 1, 1998?

7 A That's correct.

8 Q And that amount is 86,121.69 as you have

9 computed it?

10 A That's correct.

11 Q And then you would multiply that times six

12 assuming that rates in this proceeding would go into

13 effect on July 1?

14 A That was the assumption I used, that's

15 correct.

16 Q And that would amount to about 516,000,

17 approximately?

18 A That's correct, that's the number I used.

19 Q Now, you note that the reason that the

20 deferral didn't actually commence is because the

21 Commission suspended the rate increase.

22 A It is my understanding the Company's

23 position is that because they filed this case that that

24 suspended the beginning of the amortization period.

25 Q Do you disagree with that position?

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Wilder, Idaho 83676 Staff

1 A I do in some ways. I don't believe that

2 this necessarily suspended the deferral. I can see the

3 Company's argument, though.

4 Q All right, the Company requested that the

5 rates that it desired in this proceeding become effective

6 on January 1, 1998.

7 A That's correct.

8 Q And that's the date that the Commission

9 suspended the rates that Idaho Power Company proposed

10 that would in part collect the 1994 amortization?

11 A That's correct, but I don't believe that

12 that necessarily stops the other amortization.

13 Q And that is the issue then you're saying

14 the Commission must address?

15 A That's correct, that my recollection is

16 that that Order does not discuss the amortization period

17 that would begin January 1st.

18 Q Now, the only guidance we have is found in

19 Order No. 25880, issued in Case No. IPC-E-94-5 issued on

20 January 31, 1995, at page 18. Do you have a copy of that

21 Order?

22 A I do. Would you like me to read that

23 section?

24 Q No, I just want to ask you a couple of

25 questions.

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Wilder, Idaho 83676 Staff

1 A Okay, I have it.

2 Q At the top of page 18, the Commission

3 commented that they were concerned with the period of

4 time that the Company had permitted the DSM expense to

5 accumulate prior to filing.

6 A That's correct.

7 Q And then went on to say that we decline to

8 order immediate amortization of any future DSM costs.

9 A That's true.

10 Q And then they went on to say that we find

11 it reasonable to require the commencement of amortization

12 begin after no more than three years.

13 A That's true. They also say in the future

14 Idaho Power Company must begin amortization of

15 accumulated DSM costs after a three-year period.

16 Q Yes.

17 A My interpretation of that would be that

18 after it has been deferred three years from that monthly

19 deferral that the amortization would start. The

20 Company's interpretation, the way I understand it, is

21 that they take the year as a group and then begin

22 amortizing it three years after the end of that year,

23 which I could accept that philosophy, but I'm not sure

24 that this section would preclude them from beginning that

25 amortization at that time.

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1 Q But nonetheless, in this proceeding the

2 Company filed for a rate increase prior to January 1 of

3 1998 and in that rate increase, it requested the funding

4 of the 1994 DSM balance, among other things.

5 A It did, but it did not request that it be

6 allowed to defer that amortization until the case was

7 decided.

8 Q That's because it asked that the rates go

9 into effect on January 1, 1998.

10 A That's correct.

11 Q So there was no need for the Company to ask

12 for an additional deferral because the Commission then

13 suspended the rates.

14 A That's true.

15 Q Thus, we find ourselves, as you have

16 pointed out, with the issue that the Commission must

17 resolve and that is did their suspension toll the

18 necessity for the Company to begin the amortization of

19 the 1994 balance.

20 A That is true. My interpretation of that

21 would be that when the Company filed its case, it should

22 have known that it would take more than four to five

23 weeks to decide that based on the interest in the NEEA

24 case and anticipate how long they should have filed it

25 before the January 1st time frame, so I think that that's

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Wilder, Idaho 83676 Staff

1 something that the Commission could take into

2 consideration also in determining whether the

3 amortization should have started on January 1st.

4 Q Now, on page 10 of your testimony, you note

5 that all the DSM programs except LIWA have been

6 discontinued and replaced by Idaho Power's

7 participation --

8 A A more accurate statement would be that

9 they have been discontinued or they have had a request

10 for discontinuance.

11 Q And Staff is resisting the request to

12 discontinue the agricultural choices program?

13 A Immediately, that's true.

14 Q Not only immediately, it's resisting it for

15 an indefinite period of time.

16 MR. PURDY: Madam Chair, I would like to

17 object. I think that's not necessarily accurately

18 characterizing Staff's testimony. It's another case and

19 we don't have the benefit of the record in this case and

20 in fact, the Commission has not even issued a decision in

21 that proceeding yet.

22 COMMISSIONER SMITH: Mr. Purdy, I'm going

23 to overrule the objection. I think Ms. Carlock to the

24 extent she knows can clarify the Staff's position, but I

25 think the position with regard to the agricultural

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1 choices program is relevant.

2 THE WITNESS: We'd have to look at the

3 comments again, but my recollection of those comments was

4 that there was concern about stopping that program and if

5 it was stopped that it should not be effective before the

6 order went out; therefore, the applications would have to

7 be accepted through this year in order to be completed

8 probably a year later is my recollection of the general

9 comments.

10 Q BY MR. RIPLEY: All right. Now, just as in

11 1996, the Company was required to continue the DSM

12 programs until it applied to discontinue those programs

13 to the Idaho Commission. That's a rather clear

14 requirement, is it not?

15 A I think I missed part of that.

16 Q Okay, isn't the Company required to

17 continue its DSM programs until they receive an order

18 from the Commission authorizing the discontinuance?

19 A Generally, yes.

20 Q All right. Now, again in 1996 and 1997,

21 the Company had a PIE program that was in existence and

22 continued throughout all of '97.

23 A The PIE program was in existence, yes.

24 Q So it would have administrative costs

25 related to the PIE program in 1996 and 1997?

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1 A That's correct.

2 Q It would have administrative costs for any

3 of the programs that were in existence in 1996 and 1997

4 even though they may have been discontinued in 1998?

5 A That's true.

6 Q Now, when we get to the agricultural

7 choices program, what the Company may be confronted with

8 is the continuation of that program through all of 1998.

9 A The Commission will have to decide that.

10 Q Yes, and if it does decide that and

11 requires the continuation of that program either through

12 1998 or into the indefinite future, the Company would

13 incur administrative costs to administer that program in

14 addition to any deferrals?

15 A They would.

16 Q Now, in reference to the revenues that are

17 at issue in this proceeding and that you have testified

18 to, those are the deferred DSM balances that the Company

19 had as of the end of August, 1997; isn't that correct?

20 A Are you talking about the specific

21 discussion where I do the amortization?

22 Q Yes.

23 A That's correct.

24 Q All right. Now, the Commission in its

25 deliberations is going to have to recognize that the

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Wilder, Idaho 83676 Staff

1 Company continue to defer some DSM costs after August of

2 1997 until all of these DSM programs have been finally

3 completed.

4 A That's true.

5 Q So the point is that there are additional

6 DSM costs that the Company is incurring and deferring

7 which are not part of this proceeding.

8 A Beyond the December 31st, '97 date?

9 Q Isn't it August of '97?

10 A For this piece I took the '94 deferral

11 balance at the end of '97 and that's what you said you

12 were talking about.

13 Q I've switched on you and I apologize.

14 A Okay.

15 Q What I'm now talking about is the total DSM

16 balance that the Commission has under deliberations

17 testified to by the Company and by yourself is a DSM

18 balance as of the end of August 1997.

19 A The schedules show amounts incurred through

20 August 31st, 1997, in the exhibits and workpapers of Greg

21 Said and it also shows the DSM incurred 1/1/94 to 9/1/97,

22 so that is consistent with what you were saying and those

23 are the same numbers that I've used.

24 Q Yes, and I don't mean to say that there's

25 any problem with the numbers you're using in this

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Wilder, Idaho 83676 Staff

1 instance. I'm simply pointing out that when this case is

2 over, the Commission will still have to take into account

3 the DSM expenditures that it made, that the Company made,

4 from September 1, 1997, through whenever the DSM programs

5 were finally, totally completed.

6 A There will be some deferred balances past

7 August of '97 that will have to be considered at some

8 future date.

9 Q Okay. Now, Mr. Anderson in his testimony

10 recommends the disallowance of the 1996 and 1997 balances

11 for the DSM program for commercial lighting.

12 A He recommends a disallowance, yes.

13 Q Do you know if Mr. Anderson included only

14 the amounts through August of 1997 for that disallowance?

15 A He took the disallowances from Greg Said's

16 exhibits and workpapers, I believe, so I think they would

17 be consistent.

18 Q Okay. Now, the Company also incurred

19 commercial lighting costs after August of 1997 after it

20 applied for discontinuance for the normal participation

21 level after the discontinuance had been filed and the

22 Commission had authorized it.

23 A That's correct.

24 Q Those expenditures are not in this record?

25 A We're talking about the deferred

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Wilder, Idaho 83676 Staff

1 expenditures?

2 Q Yes.

3 A I did not go over Mr. Anderson's

4 calculation, so I can't tell you exactly, but I'm going

5 under the theory that he used Greg Said's numbers, so it

6 would be through August of '97.

7 Q Okay. Now, when the Company in 1997

8 incurred -- and these are the questions, I might add,

9 that I believe Mr. Anderson deferred to you and that is

10 simply that when the Company incurs an expense, say, in

11 1997 and instead of expensing that amount it defers it,

12 the result is you reduce the expenses in 1997 by the

13 amount that you've placed into the deferred expense

14 account.

15 A If you defer an item, the expenses are

16 reduced, yes.

17 Q And if you defer expenses, that increases

18 the utility's income?

19 A That is correct, because you have less

20 expense in that year.

21 Q And if the utility has a revenue sharing

22 order, as Idaho Power Company has, then when you defer

23 the expense, you increase the revenues?

24 A That's correct. I see this as being

25 slightly different than the other situation we talked

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Wilder, Idaho 83676 Staff

1 about as far as impacting the revenue sharing because it

2 is a deferred item. The deferred item you would be

3 addressing at the time of the deferral and not at the

4 time of the year in which the earnings would have been

5 shown.

6 Q But nonetheless, the utility is confronted

7 with the dilemma that had it expensed the item that

8 Mr. Anderson now disallows in the deferred amount, it

9 would have reduced its revenues in the year that it would

10 have expensed it had it not deferred it.

11 A It would have, but I don't believe that

12 that was a choice the Company could have made.

13 Q You would say that the expenditure was

14 imprudent at the time that the utility made it,

15 therefore, it's not permitted to use it as an expense

16 deduction for revenue sharing?

17 A If it was determined at that time, it would

18 have been. Now it would be reflected as a write-off in

19 the year that the determination was made.

20 Q That's my next question.

21 A So it will reduce the earnings in the year

22 that you would have to take that write-off.

23 Q If the Company expenses that disallowance

24 in 1998 --

25 A That would be for tax purposes, not for

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CSB REPORTING CARLOCK (X)

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1 ratemaking purposes.

2 Q What should it do for ratemaking purposes

3 since it still will have a revenue sharing portion?

4 A I believe that for the revenue sharing

5 piece of that that it would be a disallowance, also and

6 that was based on the prudence of the expenditure. If

7 going through the revenue sharing cases there is an

8 imprudent item that should be either amortized or

9 disallowed totally, then that could be proposed as an

10 adjustment to the revenue sharing case and the Commission

11 would then decide that issue.

12 Q On page 11, I have a couple of procedural

13 questions, if you will, Ms. Carlock. You have proposed

14 that a Schedule 19 or a special contract customer could

15 prepay their DSM obligation if it desired and thus avoid

16 the carrying costs.

17 A That's correct.

18 Q Now, I can understand how this could be

19 done for a special contract customer because you could

20 allocate to that special contract customer its total

21 obligation for the entire period that you're going to

22 amortize the DSM expenses, but how do you do it for a

23 Schedule 19 customer that's a member of a larger group?

24 A I would think that you would have to look

25 at it on a percentage basis and calculate the present

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1 value at that time. I would have to get with

2 Mr. Anderson to see what his recommendations were for

3 that class and we could figure out an actual mechanism

4 and I believe the Company would probably have some ideas,

5 too, if we got to that point.

6 Q But the issue would become that you would

7 have to normalize that specific Schedule 19 customer's

8 usage?

9 A You would have to determine usage at a

10 point in time, whether it would be a year or whatever. I

11 wouldn't anticipate that you would try to normalize usage

12 over the five-year period if that's what the amortization

13 period is decided, but you would have to come up with a

14 dollar amount for that customer to pay and, you know, it

15 definitely would be harder for the Schedule 19 customers,

16 but I still think it would be possible, but the last part

17 of my answer is that I don't actually believe that many

18 customers would take advantage of that because of the low

19 7 percent rate that I've recommended if that's adopted.

20 Q But if your 7 percent recommendation is not

21 adopted, the Commission could still adopt your proposal

22 to permit a Schedule 19 customer to buy out early?

23 A They could.

24 Q And if you use 9.97 or some other higher

25 number, the propensity of that customer to desire to do

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CSB REPORTING CARLOCK (X)

Wilder, Idaho 83676 Staff

1 that would be increased?

2 A That's true.

3 Q So I'm back again to my dilemma that you

4 would have to assume a usage level in order to compute

5 the buy-out of the particular Schedule 19 customer.

6 A I believe that's true, yes.

7 Q And that assumption could lead to that

8 customer either buying out at a cheaper amount than his

9 total allocated share would be if he remained for the

10 five years or it could be more?

11 A That's a possibility, yes, because your

12 normalized usage probably would not be the same as what

13 the actual usage would turn out to be.

14 Q Certainly, and again just so that this

15 matter is brought out into the open, if I were a

16 Schedule 19 customer that planned on increasing my

17 consumption dramatically, I was adding another line on or

18 expanding my plant and I knew that and I was in the early

19 periods of the DSM amortization, I might buy out simply

20 because I knew my costs would be more in the future.

21 A Yes, and that's one of the reasons why this

22 isn't one of my strongest recommendations, because there

23 are some concerns with the assumptions you would have to

24 make.

25 MR. RIPLEY: All right. Can I have just

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CSB REPORTING CARLOCK (X)

Wilder, Idaho 83676 Staff

1 one moment?

2 (Pause in proceedings.)

3 Q BY MR. RIPLEY: You are on a NARUC

4 committee, I believe you referred to, that you discussed

5 with the members of that committee as to the amortization

6 periods of DSM expenditures in various states?

7 A Yes, I am.

8 Q To your knowledge, is there any state in

9 the Union that has a 24-year amortization period?

10 A I can't answer that. I don't know.

11 Q You don't know of any?

12 A I don't know of any. I don't know whether

13 there is or there is not.

14 COMMISSIONER SMITH: How about Idaho?

15 THE WITNESS: Besides Idaho.

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

17 have.

18 COMMISSIONER SMITH: Thank you, Mr. Ripley.

19 Let's take a ten-minute break.

20 (Recess.)

21 COMMISSIONER SMITH: All right, we'll be

22 back on the record.

23 Do we have questions for Ms. Carlock from

24 the Commissioners?

25 MR. WARD: Madam Chair.

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1 COMMISSIONER SMITH: Mr. Ward.

2 MR. WARD: I would like to just briefly

3 pursue a matter with Ms. Carlock that came up in

4 Mr. Ripley's examination, if I may.

5 COMMISSIONER SMITH: All right, I guess

6 we'll allow former Commissioners to ask questions.

7

8 CROSS-EXAMINATION

9

10 BY MR. WARD:

11 Q Ms. Carlock, notwithstanding your view that

12 an adjustment to '96 and '97 DSM expenses would be

13 retroactive ratemaking, is it your understanding that --

14 well, first of all, let me ask you, as I understand it

15 from Mr. Ripley, the amounts you were dealing with,

16 notwithstanding your testimony discusses the end of the

17 year '97, are amounts that were on the books as of August

18 1997?

19 A Other than the amortization discussion that

20 I had for the '94 deferred amounts, the rest of them were

21 for the August 31st, 1997 period.

22 Q And are we continuing to incur or is the

23 Company continuing to make direct expenditures on DSM

24 programs since August of '97?

25 A For the programs that were continuing past

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CSB REPORTING CARLOCK (X)

Wilder, Idaho 83676 Staff

1 August 1997 and the wrap-up of the programs that were

2 ending, those expenditures that were direct would have

3 been deferred.

4 Q Do you know if the Company has closed its

5 books for the calendar year 1997?

6 A Yes.

7 Q Is it your understanding that the

8 Commission could order expensing of an item if it's

9 otherwise found to be just and reasonable for a period

10 for which books are not closed?

11 A For a going forward basis and a period when

12 the books were not closed, they could. There would be a

13 question of recovery that the Company might argue, but

14 the closing-of-the-books issue would not be the issue of

15 main concern at that point.

16 Q And the books for 1998 are still open to

17 the best of your knowledge?

18 A That's correct.

19 MR. WARD: Madam Chair, I think either now

20 or at the conclusion of the proceedings I'm going to make

21 a motion that if the Commission finds that the base rate

22 administration allowance for DSM exceeds actual expenses

23 by a significant amount that it order the expensing of

24 the DSM expenditures in 1998 against that difference

25 between actual and allowed amounts and I guess maybe I've

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1 just made my motion for that matter --

2 COMMISSIONER SMITH: Okay.

3 MR. WARD: -- so I would move that the

4 Commission do that.

5 COMMISSIONER SMITH: All right. Is this

6 something you need to file a brief on?

7 MR. WARD: Not desperately.

8 COMMISSIONER SMITH: We'll see how others

9 feel about it when we're at the end of the proceeding.

10 All right. Now, do we have questions from

11 current Commissioners?

12 COMMISSIONER NELSON: Thank you.

13

14 EXAMINATION

15

16 BY COMMISSIONER NELSON:

17 Q I do have one area I'd like to ask you

18 about and that is your recommendation for a lower

19 carrying charge going forward. Are you saying that we

20 should ignore the Company's capital investment in their

21 DSM or are you saying that we should just give them a

22 lower return on the equity portion of their investment?

23 A No, I'm saying that the Company has the

24 authority if they desire to issue debt to cover this that

25 they could, but that the risk levels of a shorter

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Wilder, Idaho 83676 Staff

1 amortization period warrants a debt-type treatment and,

2 therefore, I came up with the 7 percent amount. You

3 could look at it as a lower return on equity if you

4 wanted to, but that's really not the way I looked at it.

5 It's more like a receivable at this point due to the

6 short nature and a receivable would earn a debt return.

7 Q A receivable would earn a debt return? How

8 did you establish that?

9 A If you have a contract, your contracts are

10 usually based on debt returns if you have a short-term

11 receivable and looking at what they could have issued for

12 debt is why I used that return.

13 Q Are you saying that if they had a

14 receivable that the interest that that receivable would

15 carry would be negotiated based on the creditworthiness

16 of the debtor and that in this case as you analyzed the

17 creditworthiness of the debtor was very low?

18 A Basically, yes.

19 Q Or, excuse me, very high, very good credit?

20 A Yes, their debt return would be

21 approximately the 7 percent is what I analyzed.

22 Q Well, when we're in the ratemaking process

23 and we look at return on debt and return on equity, does

24 the time period make a difference on that equity portion?

25 A No, it does not, but what I'm saying here

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1 is that this is, could be treated as a debt instrument

2 because of the shorter time period for this type of a

3 regulatory asset and, therefore, should be given a

4 carrying charge that reflects the debt cost.

5 Q Didn't the Company invest part of their

6 capital into this program?

7 A They invested capital in general. It could

8 have been debt, it could have been equity or preferred.

9 Q But don't we have to assume that they

10 invested some capital in it?

11 A They did invest capital, yes. Where that

12 source of capital came from, we, you know, generally just

13 assume it's from the overall point of all capital

14 sources, but the Company does have authority that if it

15 wants debt to cover this it could issue debt at this time

16 to reflect the going forward debt costs that the

17 Commission would allow. They have the general authority

18 to do that.

19 COMMISSIONER NELSON: Okay, thank you.

20 That was all I had.

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1 EXAMINATION

2

3 BY COMMISSIONER SMITH:

4 Q Ms. Carlock, I guess maybe it's a similar

5 line, Dr. Peseau had a recommendation on page 12 of his

6 testimony that we assume for rate setting purposes that

7 current unamortized DSM balances be financed with

8 five-year bonds and that rate adjustments be calculated

9 assuming the interest rate on the bonds is set at current

10 rates. I was just curious about your reaction to his

11 proposal.

12 A I think it's similar, that you would be

13 making an assumption under my recommendation, also, and I

14 think that the current rate of bonds is closer to the

15 7 percent.

16 Q I guess one of my other questions, in the

17 questions that Mr. Ward asked you, it kind of went at the

18 root of one of my fundamental tenets I have held on to

19 since the law school class in which it was revealed to me

20 that the benefit of deferral cannot be overemphasized, so

21 my question is have we uncovered here an exception to

22 this rule?

23 A There are benefits to deferral, but you

24 also have to take into account that you are incurring

25 additional costs for that deferral and for certain items

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1 I believe that the benefit of the deferral may be

2 outweighed by the additional costs that you are incurring

3 and if you are going to address additional issues that

4 you think may impact a decision, say, in this case, then

5 that may also outweigh the benefits of deferral or at

6 least amortization over a long period of time for that

7 deferral.

8 Q I guess looking at the dates of the

9 programs that we're paying for now, I mean, I definitely

10 was here, I guess I don't recall that in that process

11 when deferral was proposed that the weighing that you

12 just described was done. Was that just part of the

13 recommendation? I don't recall the weighing.

14 A I don't believe that it was a real explicit

15 weighting of those concerns. I think that looking at DSM

16 at that time that the different positions indicated that

17 deferral would be a preference just because not all of

18 the programs might have been as enthusiastically

19 developed if there was not that deferral program.

20 Q You mean enthusiasm on the part of the

21 Company?

22 A The Company would not try to do any of the

23 programs if there was not deferral. That could have been

24 one possibility.

25 Q If we had just expensed it?

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1 A That would depend on the timing of when it

2 was set up. If they had to do the programs before they

3 were allowed to expense it, you know, they may have been

4 hesitant in that area and I think at that time that the

5 benefits were not seen immediately for the start-up of

6 the programs, so you may have had concerns in that area

7 that would again indicate that deferral would be

8 preferred.

9 Q Finally, and recalling back to the rate

10 case where the 24-year period was accepted by the

11 Commission, I'm curious about your recollection of how

12 big of an issue was this in that case in terms of was

13 there extensive testimony? Was there extensive

14 rebuttal? Was there extensive cross? Was there

15 briefing?

16 A The issue of deferral or amortization?

17 Q The issue of the amortization period, the

18 24 years.

19 A My recollection is that the Company filed

20 for a seven-year amortization period, the Staff and I

21 believe at least one other party, I'm not sure how many,

22 filed for 24 and that was most of the discussion. There

23 may have been a couple cross questions, but it was not

24 discussed at great length during the hearing as far as I

25 can recall. The issue of prudence was the big issue.

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1 COMMISSIONER SMITH: Those are all my

2 questions.

3 Do you have redirect, Mr. Purdy?

4 MR. PURDY: I do, thank you.

5

6 REDIRECT EXAMINATION

7

8 BY MR. PURDY:

9 Q Mr. Jauregui suggested that the Commission

10 might make some type of adjustment to the Company's DSM

11 balances because Idaho Power's weighted cost of capital

12 has decreased in recent years. Is that your

13 understanding?

14 A That's my understanding of his question,

15 yes.

16 Q In order to do that, the Commission would,

17 of course, have to go back and essentially change its

18 prior orders in which it authorized the deferral at the

19 rate of 9.199 percent; is that correct?

20 A That could be one of the outcomes. I

21 believe they would have to look at changing it going back

22 and, again, you're looking at an overall rate of return

23 that has various circumstances that are looked at to come

24 up with that overall rate of return and to go back and

25 change it is not something that you would be looking at

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Wilder, Idaho 83676 Staff

1 particularly in a case like this.

2 Q Not something you would consider feasible?

3 A Pardon?

4 Q Not something you would consider feasible?

5 A I don't consider that feasible, no.

6 Q Now, in the most recent Idaho Power general

7 rate case, did the Commission attempt to fashion some

8 safeguard to prevent the Company's accumulated DSM

9 balance from getting too big?

10 A Yes, they did. They required amortization

11 of the costs after three years.

12 Q After three years?

13 A After three years, yes.

14 Q All right. Now, as a follow-up or as a

15 segue into my next question, then, when did Idaho Power

16 file its application in this case?

17 A November 26th, 1997.

18 Q All right. Now, you have recommended that

19 the Commission disallow approximately, well, exactly six

20 months of the DSM amortization for the 1994 DSM expenses?

21 A I have calculated the six months' worth of

22 amortization as if the Company had done that amortization

23 and that is $516,000 and something.

24 Q All right. In your opinion, who was

25 responsible for when Idaho Power filed its application in

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CSB REPORTING CARLOCK (Di)

Wilder, Idaho 83676 Staff

1 this case?

2 A I believe the Company is.

3 Q All right. Do you know of any reason why

4 the Company could not or should not have filed its

5 application sooner than the end of the year?

6 A None that I can think of.

7 Q So it filed on November 26th seeking a

8 January 1st effective date?

9 A That's correct.

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

11 COMMISSIONER SMITH: Thank you, Mr. Purdy,

12 and thank you, Ms. Carlock.

13 COMMISSIONER NELSON: I wonder if I could

14 ask another one.

15 COMMISSIONER SMITH: I'm sorry,

16 Commissioner Nelson had one more question.

17

18 EXAMINATION

19

20 BY COMMISSIONER NELSON:

21 Q When we look at the numbers in this case,

22 you and the Company have agreed that these numbers are

23 all net of the carrying charges that were netted against

24 revenue sharing?

25 A Yes.

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Wilder, Idaho 83676 Staff

1 Q So these are accurate, up-to-the-date

2 numbers?

3 A They are.

4 COMMISSIONER NELSON: Thank you.

5 COMMISSIONER SMITH: Thank you very much.

6 (The witness left the stand.)

7 COMMISSIONER SMITH: Okay, Mr. Ripley, I

8 believe you have some rebuttal.

9 MR. RIPLEY: Yes, I do. If I could just

10 have one moment with Mr. Said.

11 COMMISSIONER SMITH: We'll be at ease for a

12 moment.

13 MR. RIPLEY: Thank you.

14 (Pause in proceedings.)

15 COMMISSIONER SMITH: We'll go back on the

16 record.

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1 GREGORY W. SAID,

2 produced as a rebuttal witness at the instance of the

3 Idaho Power Company, having been previously duly sworn,

4 resumed the stand and was further examined and testified

5 as follows:

6

7 DIRECT EXAMINATION

8

9 BY MR. RIPLEY:

10 Q Mr. Said, you've previously been sworn.

11 Let me ask you, are you the same Mr. Said that has

12 previously testified in this proceeding?

13 A Yes, I am.

14 Q And did you have cause to be prepared for

15 this proceeding certain direct rebuttal that consists of

16 18 pages of prefiled testimony?

17 A Yes.

18 Q And you have no exhibits in that prefiled

19 testimony?

20 A That's correct.

21 Q If I asked you the questions set forth in

22 your prefiled testimony, would your answers be the same

23 today?

24 A Yes.

25 MR. RIPLEY: We would request that

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CSB REPORTING SAID (Di-Reb)

Wilder, Idaho 83676 Idaho Power Company

1 Mr. Said's rebuttal testimony be spread on the record as

2 if read.

3 COMMISSIONER SMITH: Without objection, it

4 is so ordered.

5 (The following prefiled rebuttal

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

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CSB REPORTING SAID (Di-Reb)

Wilder, Idaho 83676 Idaho Power Company

1 Q. Please state your name and business

2 address.

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

4 business address is 1221 West Idaho Street, Boise,

5 Idaho.

6 Q. Are you the same Gregory W. Said that

7 provided direct testimony in this case.

8 A. Yes.

9 Q. What is the purpose of your rebuttal

10 testimony?

11 A. I will respond to the positions of the

12 various parties with regard to the following issues

13 presented in this case:

14 1. The acceleration of the deferred demand

15 side management (DSM) balance amortization

16 period.

17 2. Allocation of the revenue requirement.

18 3. Rate Design.

19 4. The proposal by Staff to disallow

20 $274,000 of the deferred balance for the

21 Commercial Lighting Program.

22 Q. Please discuss the positions of the parties

23 with respect to the appropriate amortization period to be

24 used in this case.

25 A. With the exception of the Staff, the

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SAID, Di-Reb 1

Idaho Power Company

1 intervenors essentially argue that on behalf of the

2 Company I failed to prove that an adjustment in the

3 amortization period would be appropriate.

4 Q. Please respond to the criticism that you

5 have failed to prove that the existing twenty-four year

6 period for the amortization of the deferred DSM

7 balances should be accelerated to five years.

8 A. As recognized by all of the parties, the

9 determination of the length of the amortization period

10 is essentially a judgment call by the Commission. As I

11 stated in my direct testimony, a five-year period is

12 reasonable due to the changes in the electric industry

13 and that the expenditures should be recovered from the

14 customers for whom the expenditures were made.

15 This Commission has recently recognized

16 that the regional resource planning period has been

17 reduced to five years. In recognizing that reduction,

18 the Commission acknowledged that the electric utilities

19 it regulates are moving toward a regional approach to

20 resource acquisition rather than the prior norm of

21 using twenty year utility-specific system resource

22 plans.

23 It is the existing customers of Idaho

24 Power for whom the conservation expenditures were

25 incurred. This is true not only from a system

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SAID, Di-Reb 2

Idaho Power Company

1 acquisition standpoint, but also because existing

2 customers within the classes have received the direct

3 benefit from the expenditures made for improvements to

4 their facilities. For example, the Company has

5 supplied funding to its customers for better lighting

6 fixtures, improved motors, better insulated

7 manufactured homes, etc. from which they receive direct

8 benefits. Due to the dynamic changes and shortened

9 time frames used to evaluate resource planning

10 decisions, it is the existing, not future customer

11 classes that should pay for the demand side management

12 expenditures that the Company has deferred.

13 Q. What is the position of the Commission

14 Staff?

15 A. The Commission Staff supports the

16 Company's recommendation citing a number of examples

17 where Public Utility Commissions in other states have

18 adopted amortization periods for DSM measures ranging

19 from 3 to 10 years.

20 Q. Has the Company changed from its

21 position in the last general rate proceeding as to the

22 appropriate period for the amortization of the deferred

23 demand side management accruals?

24 A. No. The Company has never agreed that a

25 long amortization period for DSM expenditures is

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SAID, Di-Reb 3

Idaho Power Company

1 appropriate.

2 Q. The Rate Fairness Group quotes Order

3 25880 and states that the reasons used in determining

4 the amortization period length in that case remain the

5 same today. The Industrial Customers of Idaho Power

6 discuss the "expected useful life" of DSM programs

7 stating that no change in useful life has occurred.

8 The Idaho Citizen's Coalition calculates a weighted

9 life expectancy for DSM programs at 22.6 years and

10 states that this is close to status quo. FMC discusses

11 DSM useful life and revisits the rationale for

12 amortizing DSM program expenditures over program useful

13 lives. FMC notes that DSM was historically viewed as a

14 means to "forestall the need for new generating plant

15 additions." Micron also supports the status quo

16 approach stating that "the amortization schedules

17 should reflect the used and useful life of the utility

18 asset." What is your response to these arguments?

19 A. One major weakness of the status quo

20 position is that there is no recognition of changes in

21 the electric utility industry. FMC, when evaluating

22 the appropriate amortization period, noted that

23 historically DSM was viewed as a means to forestall the

24 need for generating plant additions, but failed to note

25 that utilities in general and Idaho Power in specific

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SAID, Di-Reb 4

Idaho Power Company

1 have changed resource planning approaches. Idaho Power

2 has stated that it does not envision constructing any new

3 generation facilities in the future. As a result,

4 avoided cost determinations are no longer tied to

5 twenty year resource planning horizons, but rather are

6 tied to market conditions for a much shorter five year

7 period of time.

8 Another weakness of the status quo

9 position is that there is no recognition of the

10 difference between a "utility asset" and a "regulatory

11 asset." If a Company owned generating facility were no

12 longer used by Idaho Power Company to supply power to

13 customers, the "utility asset" would still have value,

14 i.e. it could be sold on the market. However, if a DSM

15 measure was no longer used by the customer for whom the

16 measure was installed, Idaho Power Company has nothing

17 of value to sell to any market. All that the Company has

18 is a right granted by the Idaho Public Utilities

19 Commission to recover expenditures made by the Company

20 on behalf of others.

21 Q. In her testimony, Ms. Carlock states

22 that she has quantified the difference between a five

23 year amortization and a seven year amortization. Do

24 you agree with this statement?

25 A. No. The quantification of the

585

SAID, Di-Reb 5

Idaho Power Company

1 difference between a five year and a seven year

2 amortization suggests that the only change in

3 assumptions made by Ms. Carlock is the length of the

4 amortization period. Ms. Carlock, however, made

5 additional changes. She included adjustments to

6 account balances and the rate of return values.

7 Specifically, an adjustment was made to the pre-1994

8 deferred DSM balance presumably to remove the

9 authorized 9.199 percent return on the unamortized

10 balance. A second adjustment was made to reflect the

11 Commission Staff recommendation of a seven percent

12 return. Similar adjustments were made to the post-1993

13 deferred DSM balances.

14 Q. Please describe the positions of the

15 parties with respect to the appropriate allocation to

16 customer classes to be used in this case.

17 A. The Rate Fairness Group and the Idaho

18 Citizen's Coalition both argue that allocations should

19 be made on the same basis as they have been made in the

20 past, i.e. an allocation based upon class energy and

21 demand. Adopting this approach would result in a

22 reduction from the amount of revenue requirement that I

23 have proposed be allocated to the residential class.

24 The Irrigators also recommend the use of existing

25 allocations for all deferred DSM expenditures, pointing

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SAID, Di-Reb 6

Idaho Power Company

1 out that few DSM programs were available to the

2 Irrigators in the pre-1994 time frame when allocations

3 were made without ability to participate consideration.

4 The allocations based upon ability to participate for

5 the post-1993 time frame shift additional cost

6 responsibility to the Irrigators. The Commission Staff

7 recommends a slight deviation from the status quo by

8 suggesting that the approved revenue requirement be

9 allocated such that all customer classes receive the

10 same percentage increase.

11 The representatives of those customer

12 classes that benefit as a result of moving from a

13 demand and energy allocation method to an ability to

14 participate methodology tend to agree with the concept

15 of the Company's proposal to have a hybrid approach

16 treating pre-1994 deferred DSM expenditures under a

17 demand and energy allocation method and post-1993

18 deferred DSM expenditures under an ability to

19 participate allocation method. However, these parties

20 believe that a greater shift in cost responsibilities is

21 warranted. The Industrial Customers of Idaho Power

22 Company recommend that all deferred DSM expenditures be

23 allocated based upon ability to participate criteria.

24 Q. Please comment on the position taken by

25 Micron Technology, Inc. in regard to the revenue

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SAID, Di-Reb 7

Idaho Power Company

1 allocation.

2 A. Micron supports the concept of ability

3 to participate allocations, but argues that Micron had

4 no ability to participate in the PIE program and

5 therefore should not be allocated any of the costs

6 associated with that program. This argument is

7 interesting in light of Dr. Reading's testimony on

8 behalf of Micron in Case No. IPC-E-94-5, in which he

9 stated "First, Micron no longer qualifies for the PIE

10 program as a Schedule 19 customer, because it is now a

11 special contract customer." As a follow-up to that

12 statement, Dr. Reading urged that Idaho Power needed to

13 restructure the program so that Micron and other

14 Special Contract customers could participate. A direct

15 result of Dr. Reading's testimony was that Micron and

16 other Special Contract customers were granted the

17 ability to participate in the PIE program. Micron

18 investigated some PIE opportunities and chose not to

19 participate.

20 Q. What was the position taken by FMC

21 Corporation in regard to revenue allocation?

22 A. FMC echoes Micron by stating that FMC

23 had "no practical ability to participate" in DSM

24 programs. FMC goes on to suggest that FMC should have

25 a lesser allocation because any system benefits that

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SAID, Di-Reb 8

Idaho Power Company

1 FMC might receive should only be allocated to its first

2 block of power rather than the historical method of

3 allocating DSM expenditures to both the primary and

4 secondary blocks. FMC states that "In effect, DSM

5 programs have become a social program rather than a

6 resource acquisition strategy." Although FMC does not

7 recognize this as a reason to shorten the amortization

8 term, FMC does believe that "Under these

9 circumstance[s], all costs should be allocated only to

10 the participating classes."

11 Q. Do the new FMC contract rates include

12 the recovery of ongoing DSM costs at the present time?

13 A. Yes. DSM costs are included in the

14 contract demand charge for both the first and second

15 blocks.

16 Q. Does the new contract between Idaho Power

17 and FMC address future changes to DSM recovery?

18 A. Yes. The new contract leaves changes to

19 the recovery of DSM expenditures from FMC to the

20 discretion of the Commission.

21 Q. Based upon your analysis of the parties'

22 testimony on the allocation issue, is it your opinion

23 that the Idaho Power Company recommendation is a middle

24 ground solution?

25 A. Yes. While some customers classes argue

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SAID, Di-Reb 9

Idaho Power Company

1 that their ability to participate in programs has been

2 limited and therefore they should have less or no cost

3 responsibility, other customer classes argue that the

4 old resource planning rationale for allocating deferred

5 DSM expenditures is as reasonable as ever. Idaho Power

6 Company has recommended a middle of the road approach the

7 allocates pre-1994 deferred DSM expenditures under the

8 old allocation method and post-1993 deferred DSM

9 expenditures under a new allocation method.

10 Q. Given what you know of how electricity is

11 used by Micron Technology and by FMC, were there

12 conservation measures that could have been applied to

13 those entities under the PIE Program?

14 A. Yes, many of the participants in the PIE

15 program installed efficiency measures that were

16 applicable to a broad range of customers. Examples of

17 these measures are lighting, heating, ventilation and

18 air conditioning measures, direct digital controls, and

19 motors. These measures typically stay in a building for

20 much longer than five years and are not affected by

21 assembly process changes. In fact, Idaho Power

22 personnel participated in presentations made to both

23 Micron Technology and FMC proposing some of these

24 applicable efficiency technologies.

25 Q. Mention has been made of the "twenty-

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SAID, Di-Reb 10

Idaho Power Company

1 seven year clause" included in recent Idaho Power PIE

2 contracts. Why did the Company include this provision

3 in recent PIE contracts?

4 A. The Commission stated in Order 26753,

5 "We find that it would be reasonable for Idaho Power to

6 include in any PIE contracts the requirement that in

7 the event the customer leaves Idaho Power's system

8 before the PIE expenditures is amortized, the customer

9 is required to refund to the Company all of the

10 unamortized portion of the funding provided by Idaho

11 Power to that customer under the PIE program."

12 Q. Why was the twenty-seven year time period

13 selected?

14 A. At the time of contracting Idaho Power

15 was required to amortize DSM expenditures for twenty-

16 four years. In addition, Idaho Power was directed to

17 begin the amortization period three years after the

18 payments were made. These two time periods result in

19 twenty-seven years. This clause was inserted in the

20 PIE contracts to protect Idaho Power's remaining

21 customers who have or will pay for the funding of PIE

22 contributions. If the DSM balance was recovered by

23 Idaho Power prior to the end of the twenty-seven year

24 time period, then any refund would be returned to Idaho

25 Power's Idaho retail customers, conversely, if the DSM

591

SAID, Di-Reb 11

Idaho Power Company

1 balance had not been recovered, the refund would be used

2 to reduce this balance.

3 Q. What was the only rate design issue raised

4 in this proceeding?

5 A. The only stated objection to the

6 Company's proposed rate design came from the Commission

7 Staff. Their objection was to treating the Special

8 Contract customers in a different manner from other

9 customer classes. Quite frankly, Special Contract

10 customers are different from the other customer classes

11 in that the customer in question is the only customer

12 in the class. My recommendation to collect a fixed

13 monthly amount from the Special Contract customers was

14 a means to insure that the collection from those

15 customers would occur in exactly five years. No

16 tracking of revenues would be required.

17 Customer classes other than Special

18 Contracts are comprised of many individual customers.

19 While the cost responsibility of the class is fixed,

20 the cost responsibility of individual customers within

21 the class will be influenced by their consumption. My

22 recommendation is to track class revenues and

23 discontinue collection upon full receipt. This

24 recommendation allows customers within the class to

25 somewhat control their cost responsibility by shifting

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SAID, Di-Reb 12

Idaho Power Company

1 costs to those customers with higher consumption within

2 the class. Special Contracts customers have no ability

3 to shift costs to others within their class and

4 therefore there is no reason to establish a rate design

5 other than a fixed monthly payment.

6 Q. Mr. Anderson of the Commission Staff has

7 recommended that the Commission disallow $274,000 of

8 the deferred balance for the Commercial Lighting

9 Program. Due you believe that this recommendation is

10 reasonable?

11 A. No, I do not.

12 Q. Why?

13 A. Mr. Anderson argues that the Company

14 should not have continued the Commercial Lighting

15 Program after 1995 and the amounts he proposes to

16 disallow he maintains were incurred in 1996 and 1997.

17 There are several reasons why I believe his

18 recommendation is inappropriate:

19 (1) The Company's discontinuance of the

20 Commercial Lighting Program was delayed pending the

21 Commission's authorization to discontinue the Partners

22 In Industrial Efficiency Program, which was not finally

23 obtained until July of 1997;

24 (2) Commission approval of the discontinuance

25 of the PIE program was required before the Commercial

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SAID, Di-Reb 13

Idaho Power Company

1 Lighting Program could be discontinued and no party,

2 including the Staff, ever suggested that the Commercial

3 Lighting program should be discontinued;

4 (3) The Commercial Lighting Program was cost-

5 effective and was not discontinued for that reason;

6 (4) The Company did perform a persistence

7 evaluation in 1997.

8 Q. Why was the application to discontinue

9 the Commercial Lighting Program delayed pending the

10 discontinuance of the Partners In Industrial Efficiency

11 Program?

12 A. The Company's application to discontinue

13 the Partners In Industrial Efficiency program was the

14 first application for discontinuance based upon the

15 changing dynamics of the electric utility industry.

16 That proceeding was contested by the Industrial

17 Customers of Idaho Power on a number of grounds. As a

18 result, the Company was reluctant to apply for

19 discontinuance of the other DSM programs until the

20 Commission had ruled on the application for

21 discontinuance of the Partners In Industrial Efficiency

22 program. Even after the issuance of the original order

23 authorizing discontinuance of PIE, the Industrial

24 Customers of Idaho Power petitioned for reconsideration

25 of the Commission's order. It was not until May 30,

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SAID, Di-Reb 14

Idaho Power Company

1 1997 that the Commission issued Order No. 26957 (Case

2 No. IPC-E-96-22) denying the Industrial Customers of

3 Idaho Power's petition for reconsideration.

4 Q. Has the Commission required that the

5 Company continue DSM programs until a Commission order

6 authorizing discontinuance has been issued?

7 A. Yes. Recently the Company was

8 instructed to continue the Company's Agricultural

9 Choices Program until after the Commission has

10 processed the Company's application requesting

11 discontinuance of that program and determined that it

12 should be discontinued. Until the discontinuance is

13 authorized, the Commission has made it clear that the

14 Company is required to continue the programs and to

15 continue funding the programs.

16 At no time did the Staff or any other

17 party ever suggest that the Commercial Lighting Program

18 should be discontinued. In fact, it was noted that

19 with the discontinuance of the Partners In Industrial

20 Efficiency program, the Industrial Customers of Idaho

21 Power were entitled to participate in the Commercial

22 Lighting Program.

23 Q. Please comment on the cost effectiveness of

24 the Commercial Lighting Program.

25 A. The Commercial Lighting Program had the

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Idaho Power Company

1 lowest real levelized cost of any program in the 1998

2 conservation report/plan. By this measure, the

3 Commercial Lighting Program was the Company's most cost

4 effective program. The Company, at the time it applied

5 for discontinuance, never contended that the program

6 was not cost effective. Accurately estimating savings

7 is easier for the Commercial Lighting Program than for

8 any other DSM program. The wattage decrease caused by

9 replacing the original lighting with the new lighting

10 is multiplied by the hours of lighting to determine the

11 probable kilowatt-hour savings. The wattage decrease

12 is known with certainty, and the lighting hours can be

13 reasonably approximated. The savings estimates involve

14 fewer assumptions and are simpler and more

15 straightforward than the estimates for any other

16 program. The real levelized utility cost for the

17 Commercial Lighting Program has been reported as the

18 lowest cost program.

19 Q. Please amplify why it was easy for the

20 Company to determine energy savings for the Commercial

21 Lighting Program.

22 A. Idaho Power used lighting equipment

23 energy specifications provided and updated by the

24 Seattle Lighting Design Lab. Savings were determined

25 by comparing installed kW of the lighting system before

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Idaho Power Company

1 and after efficient equipment was installed. The

2 wattage decrease was known and the lighting hours can

3 be reasonably approximated.

4 Q. What evaluations of the Commercial Lighting

5 Program did the Company perform in 1997?

6 A. In addition to the fact that it was

7 relatively easy to determine that the Commercial

8 Lighting Program was cost effective without conducting

9 an in-depth evaluation, the Company did perform field

10 evaluations to determine if the electricity savings in

11 the Commercial Lighting Program had persisted over

12 time.

13 The Company performed over 100 site

14 verifications, most of which were done in the fourth

15 quarter of 1997, to make certain that the installed

16 measures were still operating and to verify the

17 persistence of the savings. This review of

18 approximately 15% of all Commercial Lighting Program

19 installations confirmed that the new lighting equipment

20 was still in place and was still saving energy. The

21 files containing these site verifications are available

22 for review at Idaho Power Corporate Headquarters.

23 Q. Were you able to determine how Mr.

24 Anderson computed his recommendation for the $274,000

25 disallowance?

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Idaho Power Company

1 A. No, but because I believe there is no

2 justification for the Commission to disallow any of the

3 Commercial Lighting Program DSM deferrals, an analysis

4 of his computation was not necessary.

5 Q. Does this complete your rebuttal

6 testimony?

7 A. Yes.

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Idaho Power Company

1 (The following proceedings were had in

2 open hearing.)

3 MR. RIPLEY: We have one additional

4 question that has been brought up by counsel for FMC.

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6 DIRECT EXAMINATION

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8 BY MR. RIPLEY: (Continued)

9 Q If you could direct your attention to

10 Exhibit 6, page 1, that counsel for FMC asked a series of

11 questions to Ms. Carlock, there counsel pointed out that

12 the carrying charges and income taxes on line 14 were

13 $12.7 million.

14 A Yes.

15 Q What period of time is utilized in assuming

16 the $12.7 million?

17 A Those are the carrying charges and income

18 taxes that would have accumulated as of August 30th,

19 1997.

20 Q If you extend the deferral period for a

21 24-year period, would that number become larger?

22 A Yes.

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

24 have.

25 COMMISSIONER SMITH: All right, let's see

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1 if there any questions. Mr. Budge.

2 MR. BUDGE: Thank you.

3

4 CROSS-EXAMINATION

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6 BY MR. BUDGE:

7 Q Mr. Said, beginning on page 3 of your

8 rebuttal testimony, you address some of the criticisms

9 levied by some of the intervenors and I believe Staff

10 regarding your proposed basis for allocating the

11 post-1993 DSM costs to the customer classes based upon I

12 think what you call their ability to participate; is that

13 basically correct? Do you recall that testimony?

14 A Yes, but you referred to page 3?

15 Q Yeah, I think part of your response begins

16 on the top of page 3 and there you basically state, and

17 this is again just responding to some of the criticism to

18 how, of other witnesses to your proposed allocation of

19 the post-'93 DSM expenses and you make the statement

20 beginning at the top something to the effect that

21 existing customers within the customer classes have

22 received the direct benefit from the expenditures and as

23 a result, those classes should pay for those DSM

24 expenditures.

25 A Yes.

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1 Q Do you recall that testimony? As far as

2 the agricultural choices program, isn't it correct that

3 that was one of the last DSM programs to go on line?

4 A That's correct.

5 Q And I believe it effectively didn't

6 realistically begin until about the 1994 irrigation

7 season even though it was approved in the spring of 1993

8 because, apparently, irrigators wouldn't have an

9 opportunity to do the work with the irrigation season at

10 hand in 1993?

11 A That's true.

12 Q And the Company's numbers would reflect

13 that there was, I think, only two people that

14 participated in 1993 and that most of the participation

15 has been since then?

16 A Most of the participation for the

17 irrigation class has occurred since 1994, yes.

18 Q Are you basically saying here at the top of

19 page 3 that the irrigation class then would be the direct

20 beneficiaries of those expenditures that would be made

21 for those members of the class that participated in the

22 DSM ag choices program?

23 A In the post-1993 period of time, yes.

24 Q And could it also be said that customers as

25 a whole of Idaho Power would receive the same or similar

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CSB REPORTING SAID (X-Reb)

Wilder, Idaho 83676 Idaho Power Company

1 type of benefits from that DSM program that the

2 irrigation class would?

3 A No, I think that's the distinction that

4 we've tried to make in this case is that there are direct

5 benefits that the class receives that they should have

6 some responsibility for. There are some benefits

7 associated with DSM that are for all classes.

8 Q Do you know approximately how many

9 irrigation customers we have on the Idaho Power system in

10 Idaho presently, just roughly?

11 A No, I don't.

12 Q Would it be somewhere in the range of 15 or

13 16,000, would that sound approximately correct?

14 A That's probably right.

15 Q Do you know how many have participated to

16 date in the ag choices program?

17 A No.

18 Q Would you accept, subject to check, and I'm

19 just looking at the numbers that were on the April 1998

20 conservation plan, there was a table attached on page 7

21 that basically shows there were a total of 350 irrigation

22 customers that had participated in that ag choices

23 program through '97?

24 A I would accept that.

25 Q Subject to check, of course.

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CSB REPORTING SAID (X-Reb)

Wilder, Idaho 83676 Idaho Power Company

1 A Sure.

2 Q So if that were roughly somewhere in the

3 range of 2 percent had participated, you're basically

4 saying that the class as a whole benefited from the

5 participation of that relatively small number in the

6 program?

7 A Yes.

8 Q And aren't we effectively saying, then,

9 that some class members are effectively subsidizing the

10 few number that participated in the program if we charge

11 all of the post-'93 DSM costs to the entire class?

12 A That is true. It's true with other

13 allocation methods as well.

14 Q When you use -- you coined the phrase

15 "based on the ability to participate," what do you mean

16 by that? If an irrigation customer had the ability to

17 participate, do you mean if they were eligible to

18 participate in the ag choices program?

19 A Yes. The term "eligible" was raised

20 yesterday in these proceedings and I think that probably

21 is an accurate description of how I define ability to

22 participate.

23 Q And does not the ag choices program define

24 the criteria based upon which a customer would be

25 eligible to participate; in other words, they had

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1 to do some preliminary engineering and demonstrate a

2 different -- I mean a specific quantity of the savings

3 that might be derived from the improvements before they

4 would qualify?

5 A Yes.

6 Q So when we talk about eligibility to

7 participate, it would really limit the class to those

8 that perhaps had the inefficient irrigation systems?

9 A The program would be available to any

10 customer within the class. They would be eligible to

11 participate as being a member of the class, but whether

12 or not the specifics of their system warranted

13 participation would be different.

14 Q So you'd agree, then, when we talk about

15 ability to participate or eligibility to participate,

16 there may be a number of factors that would preclude a

17 lot of customers, perhaps the vast majority of customers,

18 from actually being eligible? One, they may not meet the

19 criteria established by the Company, which I think you've

20 already agreed to and, secondly, I suppose a customer may

21 for practical reasons or economic feasibility reasons be

22 unable to participate?

23 A There are reasons why customers would not

24 participate, yes.

25 Q Turning to page 4 of your testimony, there

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1 you begin to respond to the testimony of several

2 intervenors that had recommended that the status quo be

3 maintained regarding the allocation of DSM costs, and on

4 line 19, you respond and state that, this is in response

5 to those arguments that the status quo should be

6 maintained, you state that one of the major weaknesses of

7 the status quo position is that there is no recognition

8 of changes in the electric industry. When we refer to

9 changes in the electric industry from an Idaho

10 perspective, isn't it a fact that there has been no

11 change and Idaho remains a regulated monopoly?

12 A I would not agree that there's been no

13 change in Idaho. We do indeed continue to have a

14 regulated monopoly-type status, but the purchase and sale

15 of electricity has certainly changed.

16 Q And in what way has that changed from what

17 it was, this year from what it was last year from the

18 perspective of Idaho Power operating within its service

19 area?

20 A Idaho Power has extensive, much more

21 extensive, purchasing and sales opportunities than it has

22 had in the past.

23 Q And you've always had the opportunities to

24 purchase off system to meet your demand, haven't you?

25 A To meet demand, but not all of our

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CSB REPORTING SAID (X-Reb)

Wilder, Idaho 83676 Idaho Power Company

1 purchases and sales are now made specifically for

2 resource balance, load considerations.

3 Q So sales meaning opportunity to sell power

4 generated in Idaho to other customers who may now have

5 open access in states outside of Idaho?

6 A Generally, the volumes of surplus sales and

7 purchased power have changed significantly.

8 Q Insofar as the regulated monopoly that we

9 have in Idaho, wouldn't it be accurate to say that

10 there's been an extreme reluctance by the policy makers

11 in Idaho, the legislature, to make any change to the

12 existing regulated monopoly?

13 A I think that they've taken kind of a go

14 slow approach, yes.

15 Q So wouldn't it also be accurate to say that

16 the status quo in Idaho is the present regulated monopoly

17 we deal with?

18 A We still work in a regulated environment,

19 yes.

20 Q And if under this regulated environment the

21 Commission set previously a specific means for allocating

22 DSM costs among the customer classes, in other words,

23 allocating it based out on the same means that generation

24 has been allocated, to go and accept a new allocation

25 method would in fact be changing the status quo that has

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CSB REPORTING SAID (X-Reb)

Wilder, Idaho 83676 Idaho Power Company

1 existed for some years?

2 A There you're talking about a difference in

3 status quo of the system as opposed to status quo with

4 regard to one of the findings of the Commission and I

5 believe that under the status quo of the system the

6 Company and intervenors have always had the ability to

7 come in and ask for changes as to specific findings.

8 Q Well, another reason that you indicate

9 supported the change in the allocation of these costs is

10 you talk about at the top of page 5 of your testimony and

11 I think you testified previously was the change to a

12 five-year resource plan approach and you state there

13 beginning on line 1 of page 5 that Idaho Power has stated

14 that it does not envision constructing any new generation

15 facilities in the future. Is there anything new about

16 that being a part of your resource plan?

17 A It's certainly new and different from what

18 our resource plan had been in the past, yes.

19 Q You're now dealing under a five-year

20 resource plan, as I understand it?

21 A Yes.

22 Q What was your resource planning before?

23 A Twenty years.

24 Q Did you also have shorter increments that

25 was a part of that resource planning; in other words, you

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1 went out to 20 years, but you also had a five-year plan

2 as well?

3 A Not for resource planning, no.

4 Q Well, when you state that now under your

5 new plan you don't envision constructing any new

6 generation plant, was that a part of your resource plan a

7 year ago or two years ago or three years ago, that there

8 were immediate plans to construct new resources?

9 A I don't know exactly at what point in time

10 it was no longer envisioned that we had a need for

11 additional resources in the future, but not in the too

12 distant past we would have shown the need for resources

13 at a point in time in the future.

14 Q Well, in past cases I recall some

15 discussion over the Valmy plant as to whether or not it

16 was being used or useful and at that time I think the

17 Company had stated they had no immediate plans for any

18 new resources at that time. Was that basically the

19 position of the Company back in the '80s when that Valmy

20 plant was at issue?

21 A At that point in time there was no need for

22 immediate additional resources because we had just added

23 a resource. When you would look at the resource plan,

24 you would see no need in the short-term future, but may

25 have had some need later, at a later point in time within

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1 the 20-year period.

2 Q There isn't anything that has really

3 changed when you went to the five-year resource plan that

4 indicated that you suddenly changed what your plans or

5 expectations or needs were insofar as building new

6 resources, new generation resources?

7 A I don't think that's true. Basically, in

8 determining the Company's avoided costs there was a

9 blending of short-term need for resources that was priced

10 out at market price and then there was also a longer-term

11 resource acquisition component of those avoided costs.

12 What we've seen as a change is that there's no longer

13 that long-term resource piece.

14 Q In the middle of page 5, let's jump to

15 another subject area, you attempt to point out the

16 difference between a utility asset and a regulatory asset

17 and you note that if it were a utility-owned asset owned

18 by the Company and that asset was no longer financially

19 feasible or used and useful that the Company could always

20 sell the asset and presumably generate a source of money

21 from the sale of the asset; whereas, on the other hand, a

22 regulatory asset you don't have anything that can be

23 sold.

24 A Correct.

25 Q That's basically your testimony on that

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1 issue?

2 A Yes.

3 Q If in fact the Company had an asset that

4 was no longer used or useful or wasn't financially

5 feasible, would that indicate to you that the cost of

6 generating electricity from that particular asset was the

7 highest or higher than other assets that the Company had;

8 in other words, your least cost-effective asset would be

9 the one that would be above market?

10 A That would probably be the resource that

11 would be the least useful, yes.

12 Q And if that particular plant was one that

13 the Company determined was no longer a useful asset to

14 continue and you were looking to sell it in the market,

15 would that decision in part be based upon the cost of

16 energy in the region?

17 A In part, yes.

18 Q And if energy prices in the region were

19 substantially under an asset that you might use for

20 generating purposes, you might not use the asset and

21 decide that we're better off to sell it and get the money

22 out of it?

23 A That's possible.

24 Q And would you expect that your ability to

25 market that asset would be substantially diminished or

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1 the price would be pretty low given the fact that it

2 produced power at a rate that was higher than what the

3 regional rate might be at the time?

4 MR. RIPLEY: I'm going to have to interpose

5 an objection simply because I'm concerned about the

6 record. Is counsel asking about the variable operating

7 costs of a unit or the fixed costs plus the variable

8 operating costs? I think these are important criteria

9 that counsel is not mentioning in the questions to the

10 witness and I don't know where we're going as a result of

11 that.

12 COMMISSIONER SMITH: Mr. Budge.

13 MR. BUDGE: Well, Mr. Said in his testimony

14 simply tries to distinguish between a utility asset and a

15 regulatory asset and he makes the statement there that if

16 a Company-owned asset were no longer used by Idaho Power

17 to supply power, it could be sold and he didn't attempt

18 to distinguish in his testimony the basis upon which the

19 Company made that determination, whether it was based on

20 variable costs, and I'm not attempting to either. I'm

21 simply pointing out in general terms that if an asset

22 were found to be not used and useful and was going to be

23 marketed, it would likely be marketed at a price that

24 probably isn't too high because no one would be willing

25 to buy it.

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1 MR. RIPLEY: That's wonderful testimony,

2 but I don't think it has anything to do with Mr. Said's

3 testimony in this proceeding.

4 MR. BUDGE: That's essentially what his

5 testimony was.

6 MR. RIPLEY: I disagree totally.

7 MR. BUDGE: Let me go ahead and rephrase it

8 so we can move on.

9 COMMISSIONER SMITH: Okay, Mr. Budge, I'd

10 appreciate it because I thought you'd probably gone

11 outside what his intent was.

12 Q BY MR. BUDGE: Let me ask you, you

13 indicated in the same area beginning on the same page 5,

14 line 14, that if a DSM measure was no longer used by the

15 customer for whom the measure was installed that Idaho

16 Power has nothing of value to sell to any market. Have

17 you conducted any studies, Mr. Said, or do you have any

18 basis upon which you can conclude that any of the DSM

19 expenditures made by the Company are no longer being

20 used?

21 A That's not what my statement says.

22 Q Well, that's what my question was. Have

23 you done any studies to determine whether or not

24 expenditures made, for example, for the ag choices

25 program, have you done any studies to determine whether

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1 any of those particular irrigators, the 350 who have

2 received the benefit of the program, have discontinued

3 the use of their facilities?

4 A No, I'm not aware that they've discontinued

5 the use of their facilities.

6 Q Have you done any studies with respect to

7 any of the other DSM programs to determine whether or not

8 there is a basis for the Company to believe that they

9 will not continue to be used in the future and provide

10 the anticipated benefits in the way of energy savings?

11 A No, I've conducted no studies.

12 Q Would you agree, Mr. Said, that whether the

13 Company were to sell a Company-owned asset or discontinue

14 what you call a regulatory asset that the same effect

15 would be to the Company from the perspective that the

16 Company would eliminate the costs associated with owning

17 and operating and maintaining that particular resource,

18 whether it be a regulatory asset or a Company-owned

19 asset?

20 A The last part of your question confuses me

21 in that with a regulatory asset, we do not own and

22 operate or maintain, so there's certainly a distinction

23 and I think that's the point of my testimony is that when

24 you look at DSM measures, they are measures that the

25 Company has absolutely no control over. We don't go out

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1 and constantly monitor to see whether or not the

2 facilities that have been put in place for a customer

3 will continue to be in place for 24 years; whereas, with

4 a physical asset that the Company would own, we would

5 know its status at all times.

6 Q One other area, if I could. If you would

7 refer to the bottom of page 6 of your testimony, in that

8 area you identified the various testimony by Staff and

9 intervenors with respect to their respective proposals to

10 allocate the DSM costs.

11 A Yes. I think just for clarification,

12 you've been saying allocation all along and our

13 discussion to date has essentially been over the

14 amortization period and this is where my testimony begins

15 to speak to allocations.

16 Q Let's jump to the allocation issue and you

17 indicate that the -- you go through and basically

18 identify what each position the various intervenors have

19 taken. Beginning on line 24, you acknowledge that the

20 Irrigators also recommend the use of the existing

21 allocations for all deferred DSM expenditures, pointing

22 out that few DSM programs were available to the

23 Irrigators in the pre-1994 time frame when allocations

24 were made without the ability to participate

25 consideration, and in the next sentence you state, "The

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1 allocations based upon ability to participate for the

2 post-1993 time frame shift additional cost responsibility

3 to the Irrigators"; so when you responded to all of the

4 other intervenors in your following testimony, you didn't

5 comment on the position of the Irrigators.

6 Would it be accurate to say that you agree

7 that the Company's proposed allocation based on the

8 ability to participate for the post-1993 time frame does

9 in fact shift significant additional cost responsibility

10 to the irrigation class?

11 A Yes, it does.

12 Q And when you look at the numbers, and I

13 think Staff witness Anderson had some percentages, that

14 the irrigation class would get roughly 2.84 percent of

15 the overall increase; whereas, the average of all other

16 customers would be about 1.82 percent; in other words,

17 the Irrigators would get about 50 percent more. Would

18 you agree that that allocation would appear to be unfair

19 to the irrigation class based on the Company's

20 methodology for the post-'93 costs?

21 A I wouldn't say that it is unfair, but I do

22 think that the Irrigators raise a valid point when they

23 say that they get the worst of both allocation methods.

24 Under the method for the pre-1994 when there were few

25 programs available, they were being allocated costs based

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1 on system demand and energy-type numbers. Under a

2 proposal based on ability to participate just starting at

3 the point in time that the Irrigators start to be able to

4 participate does allocate fairly to them for that period

5 of time in my opinion, but does not take into

6 consideration that at a time that they were not able to

7 participate they were also being allocated costs.

8 Q So that worst of both worlds simply

9 occurred because of the happenstance that the irrigation

10 programs, DSM programs, really didn't exist pre-'94 and

11 they existed quite heavily after '94?

12 A That's correct.

13 Q And it's simply that we happen to fall on

14 the breaking line of this particular methodology and

15 you'd agree that that would appear to be unfair to the

16 Irrigators under either type of allocation?

17 A It's a misfortune of timing.

18 Q You had some testimony yesterday about a

19 desire of the Company to avoid rate shock, would that

20 type of a disparity be something that you would consider

21 to be rate shock to the irrigation class if they received

22 a disproportionate increase, something in the range of 50

23 percent more than any other customer got based on the

24 Company's allocation method?

25 A If you were to look at just the post-'93

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1 period of time, I think the allocation is appropriate.

2 The question in my mind is whether or not any adjustment

3 for the pre-'94 period of time to take into

4 consideration the unique situation that the Irrigators

5 were in is appropriate and it might be a consideration.

6 Q And that might be a decision, I suppose,

7 that ultimately the Commission would have to address?

8 A Yes.

9 Q Is there any other customer class that

10 falls in that unique position that the Irrigators appear

11 to be?

12 A Not that I'm aware of.

13 MR. BUDGE: I have nothing further. Thank

14 you very much.

15 COMMISSIONER SMITH: Thank you. We're

16 going to take our noon break now. We'll be back at

17 1:15.

18 (Noon recess.)

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