Q.Please state your name and business address for the record.

A.My name is Lynn Anderson and my business address is 472 West Washington Street, Boise, Idaho.

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

A.I am employed by the Idaho Public Utilities Commission as a Staff economist.

Q.What are your duties with the Commission?

A.My duties include evaluating electricity, natural gas, water and telephone utilities' rates, services, plans and customer petitions, as well as conducting generic economic and regulatory investigations.  These evaluations and investigations are generally used in making Staff recommendations to the Commission for the approval, denial or modification of utility applications or customer petitions.

Q.Would you please outline your academic and professional background?

A.I have a Bachelor of Science degree in government and a Bachelor of Arts degree in sociology, both from Idaho State University where I also studied economics and architecture.  I studied engineering at Northwestern University and Brigham Young University and public administration and quantitative analysis at Boise State University.  In addition, I have attended many training seminars and conferences regarding utility regulation, operations, forecasting, and marketing.

From 1975 to 1980 I was employed by the Idaho Transportation Department where I performed benefit/cost analyses of highway safety improvements and other statistical analyses.

I began my employment with the Commission in 1980 as a utility rate analyst.  In 1983 I was appointed as the telecommunications section supervisor and in 1992 I was appointed to my present position as an economist.  I have presented testimony in approximately 50 formal cases before the Commission.

Q.What is the purpose of your testimony in this proceeding?

A.I will address three issues.  First, I will show why the Commission should continue to disallow Idaho Power Company’s (Idaho Power; Company) recovery of its Idaho jurisdictional costs incurred for its Commercial Lighting Program (CLP) after 1995, amounting to $670,700.  Second, I will recommend that the Commission allow the recovery of the remainder of Idaho Power’s requested $2,125,800, amounting to $1,455,100 for the Idaho share of costs incurred for completing the Manufactured Housing Acquisition Program (MAP, $159,000), the Partners in Industrial Efficiency Program (PIE, $440,100), and for the Agricultural Choices Programs ($856,000 est.) after those costs are paid and booked by the Company.  Third, I will explain why roughly only one-half of the $1,455,100 should be recovered through the Company’s 1998 revenue sharing mechanism by recognizing that the other half will be collected through a rate increase that is already scheduled to begin in May of 1999.

Q.Are you sponsoring any exhibits?

A.Yes, two.  Exhibit No. 101 shows the dollar amounts of Idaho Power’s DSM programs at stake in this case, as well as a line-by-line accounting of the recommendations in my testimony.  Exhibit No. 102, for a historical perspective, shows year-by-year the amounts the Company spent for DSM programs beginning in 1985.

Commercial Lighting Program

Q.  Have you previously testified against ratepayer recovery of Idaho Power’s Commercial Lighting Program?

A.  Yes.  In Case No. IPC-E-97-12, I recommended that the Commission disallow ratepayer recovery of CLP costs incurred after 1995 by Idaho Power, which, at that time amounted to approximately $274,000 spent during 1996 and 1997.

Q.What was the Commission’s decision on this issue in that case?

A.In Order No. 27660 the Commission accepted the Staff’s recommendation to disallow CLP costs because the Company did not offer proof that the CLP expenditures were reasonable and because it had failed to conduct the impact evaluation that it had said it was going to do.  However, the Commission also allowed the Company the opportunity at a later date to demonstrate the prudence of its CLP expenditures.  (p. 8)

Q.Please briefly explain the processes that should be demonstrated in utility demand side management (DSM or conservation) programs in order for the Commission Staff to determine that such programs are reasonable and prudent, thereby enabling it to recommend to the Commission that utility customers pay for them.

A.In general, DSM programs should be pre-evaluated for probable cost effectiveness and should have implementation and evaluation plans completed before full-scale implementation begins.  Programs should be continually monitored while they are operational.  Process evaluations and preliminary program evaluations should be conducted periodically and the results of both should be used to modify the program as necessary to obtain optimal results.  Both preliminary and final program evaluations should reasonably estimate baseline customer activity that would have occurred absent the program.  Estimating customer activity that would have occurred had the DSM program not been in place is difficult, but it is essential for reliable evaluations.

Q.Did Idaho Power generally follow these guidelines in implementing its various DSM programs, in particular the four for which it is seeking cost recovery in this case?

A.As explained in detail in my testimony in Idaho Power’s prior DSM cost recovery application,

Case No. IPC-E-97-12 (tr.431-442), the Company normally followed these procedures, but not for the Commercial Lighting Program.

Q.Did Idaho Power’s application to initiate the CLP indicate that it would deviate from the normal processes that Staff expected of reasonable and prudent programs?

A.No, in fact, in its January 17, 1993 application to the Commission to begin the CLP, Idaho Power specifically stated that a process evaluation would be completed approximately one year after implementation and that the cost effectiveness of the program and the measures would also be evaluated, including measuring power quality disturbances and determining the effects on heating and cooling using specialized end-use meters and light monitors.  Although the application detailed the importance of various evaluations, the most important evaluations were never completed.

Q.Did Idaho Power’s subsequent Conservation Plans filed with the Commission indicate that the Company had decided not to do the normal and expected evaluations for CLP?

A.No, in fact, the 1995 Conservation Plan specifically stated that an evaluation of CLP was scheduled for completion in 1996.

Q.Has Company witness Bruce Cleveland’s pre-filed testimony in this case changed your opinion expressed in Case No. IPC-E-97-12 that the costs of CLP incurred after 1995 should not be allowed ratepayer recovery?

A.No.  While Mr. Cleveland’s written testimony demonstrates enthusiasm for the program and provides a detailed explanation of how engineering estimates of energy savings were made, it provides no evidence that the Company completed the process and impact evaluations that are normally expected and that it said it would do for this program.  Engineering estimates of savings are useful tools in designing programs, but without proper program evaluations, engineering estimates, by themselves, provide no evidence of program prudence or cost effectiveness.

Q.Aside from the fact that proper evaluations are normally expected of DSM programs, are there any specific problem areas within the CLP indicating that this program may not have been cost effective, in addition to not being managed prudently?

A.Yes.  Regardless of measurable energy efficiency that results when more efficient lighting is installed, it is quite feasible that enough CLP participants would have installed this type of lighting even without the program to make the program’s costs outweigh its benefits.  Mr. Cleveland’s testimony alludes to this likelihood on page 3, lines 2-5, where he says that “over 80% of the savings came from T8 lamps and electronic ballast combinations which were becoming the new standard in the lighting industry.”  (emphasis added)  The Company’s own survey data, although certainly not sufficient for a conclusive study, indicated that perhaps as many as two-thirds of the CLP participants would have installed essentially the same lighting retrofits even without the program.

Another problem is a potential lack of persistence of program measures when buildings change ownership, occupants, or operations.  In 1997 the Company began what could have been a useful persistence survey, but my review of the raw data revealed that much of the information that the survey forms were designed to collect was not actually collected.  For example, there was a question on the forms asking whether participants would have changed their lighting without the program, but this question was not answered most of the time.  Although the forms asked for the installation date of the lighting changes, usually a date was not given.  In general, the “completed” forms contained very little of the data they were designed to collect.  This lack of data is probably the reason the Company did not use the survey results to produce a formal evaluation.  It is worth noting however, that the sporadic data that was collected indicated that while some participants were pleased with their lighting retrofits, probably just as many others were unhappy due to early ballast failures and other problems and a few had actually changed their lighting again, after their CLP lighting changes.

 The Company touched upon another problem on page 7 of its application in 1993 when it stated: “Process and operation diversity can mask impacts at the building meter.  The [billing] analysis will correct results in cases where significant operations or load characteristics have undergone change.”  Unfortunately, the Company never completed the billing analysis that it said would be done in the spring of 1995.

Q.What is your recommendation regarding Idaho Power’s recovery of CLP costs incurred since 1995?

A.I recommend continued disallowance of the $274,000 that was disallowed by Order No. 27660 for Commercial Lighting costs incurred after 1995 through August 1997 as well as disallowance of $396,700 of additional costs incurred since August 1997, for a total disallowance of $670,700 of this $1.6 million program.

Other DSM Program Costs

Q.Removing $670,700 of CLP costs from the Company’s $2,125,800 request leaves $1,455,100 for three other DSM programs.  What is your recommendation regarding the prudence of those expenditures?

A.The Manufactured Housing Acquisition Program, the Partners in Industrial Efficiency Program and the Agricultural Choices Program were each found to be prudent programs in the IPC-E-97-12 case by the Staff.  The Commission agreed and Order No. 27660 allowed Company recovery of the costs associated with those programs through August of 1997.  The additional costs associated with those programs since that date have been audited by the Staff and we believe those costs that are known and measurable should be recovered from ratepayers.  The known and measurable costs include $159,000 for MAP (100%), $440,100 for PIE (100%) and $432,000 for Agricultural Choices (50.5%).  Not all of the Agricultural Choices programs have been completed and Staff cannot recommend ratepayer recovery until after the payments become auditable.  Thus, the total I recommend for ratepayer recovery at this time is $1,031,100.  However, in recognition that there is an additional $424,000 for Agricultural Choices that will likely be incurred, I recommend that this amount be set aside from the 1998 revenue sharing for payment of the amount that will be incurred.

Cost Recovery Mechanism

Q.What is your recommendation as to how $1,031,100 of DSM costs be recovered from Idaho Power’s customers?

A.I recommend that the Commission correct its estimate of revenue that will be recovered from the various customer class rate increases scheduled to begin on May 16, 1999, that resulted from the Company’s prior DSM request in Case No. IPC-E-97-12.  This correction, which results from updating base year sales that were used to calculate the percentage rate increases necessary to collect $38.2 million in prior DSM costs and carrying charges, will recover at least $709,100 of the $1,031,100 additional amount due in this case.  I recommend that the remaining $322,000 or less, plus future Agricultural Choices program costs ($424,000 est.), totaling a maximum of $746,000, be recovered by the Company from the 1998 revenue sharing amount that otherwise could be returned to customers.

Q.Please explain why the Commission should correct its prior revenue estimate by updating the base year revenue.

A.In 1997, at the time Idaho Power filed its application in Case No. IPC-E-97-12 to accelerate the amortization of DSM costs from 24 years to 5 years, the most recent weather-normalized annual revenue was for 1996.  Because the Company’s application contained a provision for trueing-up revenues actually collected compared to authorized revenue collections, there was no reason to suggest, even as the case was concluding in 1998, that the base year revenues used to calculate the percentage rate increases should be updated to reflect the growth that had occurred.  However, given that the Commission’s ultimate decision was for a 12-year amortization period without a revenue true-up provision, it became very important to recognize the most up-to-date, weather-normalized, base year revenues at least at the onset of the rate increase that is scheduled for

May 16, 1999.  By mid-March, or within about 2 weeks of when this testimony is filed, the Company’s 1998 weather-normalized revenues should be available.  Preliminary indications are that revenues have grown by at least 3.4%, and probably more, since 1996.  This means that the May 16 scheduled rate increase will begin collecting at least $8,676 more per month ($266,606 vs. $257,930) than anticipated by Order No. 27660.  The net effect of this base year correction is that the Company’s DSM accounts would recognize that $709,100 of its current $2,125,800 request is being collected through the May 16, 1999 rate increase and would not need to be funded through revenue sharing or an additional rate increase.

Q.In the course of rate cases, is it normal to update “test year” revenues for growth?

A.In rate cases, test year pro forma adjustments are often made to accommodate out-of-the-ordinary, known and measurable changes.  But neither the present case nor the prior DSM case is a rate case and therefore they do not have “test years,” instead these cases are about recovery of specific costs that will not change regardless of growth or other changes.  This is why the Company originally proposed, and the Commission often uses, a true-up mechanism to ensure that actual revenues collected match the revenues authorized to be collected.  While updating the base year revenue to calculate revenues that will be collected from the May 16 rate increase is not a full true-up (i.e. the Company will almost certainly still over collect its DSM revenue requirement because of future growth), it at least makes the start-up year of a 12-year recovery more closely resemble the revenues that will actually be collected.

Q.What are the benefits to ratepayers of having Idaho Power recover some of its DSM costs from revenue sharing?

A.By collecting as much as $746,000 ($322,000 plus $424,000 future Ag. Choices) from revenue sharing, customers will avoid paying nearly $500,000 associated with Idaho Power’s carrying costs and taxes.  Customers also avoid being subjected to additional tariff rate changes.

Summary

Q.Please summarize your testimony.

A.I have recommended permanent disallowance of ratepayer recovery of Idaho Power’s costs incurred after 1995 for its Commercial Lighting Program, amounting to $670,700.  I recommend that the Commission allow ratepayer recovery of the remaining $1,455,100 of Idaho Power’s $2,125,800 request, but with the precaution that $424,000 of that amount that has not yet been incurred by the Company not be recovered until after it is paid and booked.  Finally, I have recommended that the Commission recognize that the rate increases (averaging 0.67%) scheduled to begin on May 16, 1999, will collect more than was anticipated in Order No. 27660; that the exact amount of over collection be quantified using 1998 weather-normalized revenue when it becomes available; and that the over collection be used to reduce the amount of DSM cost recovery that might otherwise be funded from 1998 revenue sharing.

Q.Does this conclude your direct testimony in this proceeding?

A.Yes, it does.