

BEFORE THE

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IDAHO PUBLIC UTILITIES COMMISSION

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UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF )  
PACIFICORP DBA ROCKY MOUNTAIN )  
POWER FOR APPROVAL OF CHANGES )  
TO ITS ELECTRIC SERVICE SCHEDULES )  
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CASE NO. PAC-E-10-07

DIRECT TESTIMONY OF GARY GRAYSON

IDAHO PUBLIC UTILITIES COMMISSION

OCTOBER 14, 2010

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

3 A. My name is Gary Grayson and my business address  
4 is 472 West Washington Street, Boise, Idaho.

5 Q. By whom are you employed?

6 A. I am employed by the Idaho Public Utilities  
7 Commission as a Utilities Analyst.

8 Q. What is your educational and professional  
9 background?

10 A. I received a Bachelor of Arts Degree in Business  
11 Management from Fresno Pacific College in 1986 and have  
12 completed advanced training from Michigan State and New  
13 Mexico State Universities regarding utility regulation,  
14 forecasting, planning, operations, and energy efficiency  
15 program evaluation. I was employed by Southern California  
16 Edison as an Energy Efficiency Program Manager and Major  
17 Accounts Executive from July of 1982 to March of 1997. I  
18 also worked for a consulting firm responsible for the  
19 design and delivery of energy efficiency programs from  
20 April of 1997 to September 2005. Most recently, I was  
21 employed by the Idaho Office of Energy Resources as an  
22 Energy Specialist from September of 2008 until I began my  
23 employment with the Idaho Public Utilities Commission in  
24 April of 2010. My duties at the Commission currently  
25 include the review of prudence and the evaluation of

1 electric utility demand-side-management (DSM) programs and  
2 analysis of utility incentive programs. I currently  
3 represent Staff at the Northwest Energy Efficiency  
4 Alliance's Cost-Effectiveness Committee, Avista Utilities'  
5 External Energy Efficiency Board, Idaho Power's Energy  
6 Efficiency Advisory Group, the Northwest Power and  
7 Conservation Council's Regional Technical Forum, and the  
8 Avista Evaluation, Measurement and Verification  
9 collaborative.

10 Q. What is the purpose of your testimony in this  
11 case?

12 A. The purpose of my testimony is to assess Rocky  
13 Mountain Power's contention that its demand-side-management  
14 (DSM) expenses and efforts for 2008 and 2009 were prudently  
15 incurred. I will also provide observations regarding the  
16 enhancement of Rocky Mountains' programs in the future.

17 Q. Please describe the Company's portfolio of  
18 programs, expenditures for each program, and how these  
19 expenditures are recovered by the Company.

20 A. Currently, Rocky Mountain Power offers seven DSM  
21 programs in Idaho as the least cost alternative to the  
22 acquisition of new supply-side resources. These programs  
23 encompass all major customer classifications including  
24 residential and low-income, commercial, industrial, and  
25 irrigation. Additionally, the Company contributes to the

1 Northwest Energy Efficiency Alliance's efforts to transform  
 2 energy markets in the region. All of the costs associated  
 3 with programs are eligible for recovery through the  
 4 Customer Efficiency Service Rate Adjustment (Schedule 191)  
 5 with the exception of the Load Control Service Credits  
 6 which are recovered through base rates. Annual  
 7 expenditures for each program were derived from the  
 8 Company's 2008 and 2009 annual Demand-Side-Management  
 9 reports and are shown below (rounded to nearest dollar):

<u>Program</u>	<u>2008 Expenditures</u>	<u>2009 Expenditures</u>
Irrigation Load Control (includes participation credits)	\$ 8,908,216	\$11,140,894
Low Income Weatherization	\$ 164,578	\$ 197,819
Refrigerator Recycling	\$ 113,296	\$ 108,126
Home Energy Savings	\$ 490,101	\$ 593,564
Energy FinAnswer	\$ 121,192	\$ 358,426
FinAnswer Express	\$ 1,302,858	\$ 263,904
Agricultural Energy Services	\$ 268,068	\$ 807,238
Northwest Energy Efficiency Alliance	\$ 317,339	\$ 287,190
Totals	<u>\$11,685,648</u>	<u>\$13,757,163</u>

1 Q. Why are formal evaluations of energy efficiency  
2 programs important?

3 A. Credible and transparent program evaluations are  
4 crucial for the optimization of program performance and for  
5 assurance to all stakeholders that actual program results  
6 are as claimed. Unlike energy consumption, energy  
7 efficiency program results cannot generally be metered.  
8 Instead, their impacts can only be estimated through a  
9 combination of engineering measurements, deemed values,  
10 verification of installations, assumptions made, and  
11 overall program evaluation. Programs that are not properly  
12 evaluated will suffer from unreliable cost-effectiveness  
13 estimates and will not likely be administered and improved  
14 to their optimum performance levels.

15 Q. How are energy efficiency programs evaluated?

16 A. Energy efficiency programs are evaluated using a  
17 cost and benefit analysis viewpoint and cost-effectiveness  
18 calculations from four major perspectives. These  
19 perspectives include the Participant, Ratepayer, Utility,  
20 and the Total Resource Cost. The results of each  
21 perspective are expressed in several ways including a  
22 cost/benefit ratio and net present value of program impacts  
23 over the lifecycle of the energy efficiency measures.  
24 These tests are not intended to be used in isolation but  
25 should be compared to one another in an effort to gain a

1 comprehensive, multi-perspective of each measure/program  
2 and the portfolio as a whole. Evaluation results should be  
3 used to both refine pre-program estimates of cost-  
4 effectiveness from all perspectives and to find ways to  
5 further improve programs as they mature.

6 Q. Has the Company provided sufficient evidence of  
7 evaluations of its programs for 2008 through 2009?

8 A. Over the past several years, there developed an  
9 apparent disconnect between what Staff viewed as sufficient  
10 evaluations and what Rocky Mountain Power and other  
11 utilities viewed as sufficient. On October 5, 2009, Staff  
12 convened a workshop to fully vet the issues of evaluations  
13 and cost-effectiveness expectations. With utility input,  
14 Staff hired a nationally-respected energy efficiency  
15 program evaluation expert to facilitate the workshop.  
16 Several representatives from the Staff and representatives  
17 from Idaho Power, Avista Utilities, and Rocky Mountain  
18 Power, participated in the workshop. The result was a  
19 Memorandum of Understanding (MOU) signed by each of the  
20 utilities agreeing to formally evaluate all of their  
21 programs on regular, multi-year cycles and to report the  
22 results of those evaluations in their annual DSM reports  
23 that are filed with the Commission. In exchange for the  
24 utility commitments, Staff agreed that if the evaluation  
25 and reporting commitments are fulfilled and if there is no

1 evidence of imprudence, then, when requested by the  
2 utilities, Staff would recommend that DSM expenditures be  
3 found prudent by the Commission. Although the Company has  
4 not yet achieved all of the established goals as outlined  
5 in the MOU, Staff believes the Company has made significant  
6 progress and is on a reasonable pathway to achieve these  
7 goals moving forward.

8 Q. Have you reviewed the cost-effectiveness and  
9 prudence of expenditures regarding Rocky Mountain Power's  
10 demand-side-management programs for 2008 and 2009?

11 A. Yes, I have.

12 Q. What were your findings?

13 A. As indicated in the Company's 2008 and 2009  
14 annual DSM reports and the testimony of Brian Hedman from  
15 the Cadmus Group, all programs appear to have met three of  
16 the four cost-effectiveness tests with the exception of the  
17 2009 Agricultural Energy Services program which passed only  
18 two of the four tests. The Irrigation Load Control program  
19 however, passed all four tests including the very difficult  
20 Ratepayer Impact Measure (RIM) test, meaning that it  
21 results in lower electricity rates as well as providing a  
22 net system benefit. In total, the Company's DSM programs  
23 in 2009 have produced an estimated \$17.1 million in net  
24 benefits over the life of the savings compared to gross  
25 costs of \$13.7 million.

1 Q. Based on your overall assessment, does it appear  
2 that the Company's DSM program expenses for 2008 and 2009  
3 were prudently incurred?

4 A. Yes. After review and verification of all  
5 available program results, and considering progress made  
6 toward meeting the guidelines set forth in the MOU, Staff  
7 believes that Rocky Mountain Power's demand-side-management  
8 programs and efforts in 2008 and 2009 were generally  
9 prudent and cost-effective.

10 Q. Are there any other issues you would like to  
11 address in your testimony?

12 A. Yes. I would like to address issues related to  
13 customer segment equity and the Customer Efficiency  
14 Services Rate (Schedule 191).

15 **Customer Segment Equity** - Although this market  
16 segment has shown to be extremely cost-effective, there is  
17 a huge disparity between the resources provided to the  
18 irrigation segment as compared to the other customer  
19 segments. The data provided by the Company in their 2009  
20 Annual DSM report shows 81% of total DSM expenditures were  
21 allocated to the Irrigation Load Control program while  
22 only 6.5% was provided to the residential market, 4.5% to  
23 commercial/industrial, 5.9% to agricultural and 2.1% to  
24 market transformation. These totals include \$7.3 million  
25 provided in load control credits to irrigators which are

1 recovered through base rates. In the future, the Company  
2 should endeavor to find ways to pursue all cost-effective  
3 DSM while striving toward greater balance with regard to  
4 customer segment equity.

5 **Customer Efficiency Services Rate (Schedule 191)**

6 The Customer Efficiency Services rate or "tariff rider" was  
7 established in 2006 (Order No. 29976) at a time when the  
8 Company was increasing its commitment to pursue DSM  
9 initiatives. The Tariff Rider was designed to provide  
10 Rocky Mountain Power front-end financing for its DSM  
11 programs and to enable them to better manage those programs  
12 rather than having to continually adjust its programs to  
13 match budgets. The rider appears on customer bills as an  
14 unbundled charge based on a percentage of the customers'  
15 monthly bill. The rider was established at 1.5% and raised  
16 to 3.72% in 2008.

17 In February 2010, the Company applied to the  
18 Idaho Public Utilities Commission (Case No. PAC-E-10-03)  
19 for approval to raise the Customer Efficiency Services Rate  
20 (Schedule 191) from 3.72% to 5.85%, an increase of 2.13%.  
21 The increase was requested in an effort to decrease the DSM  
22 balancing account deficit from \$3.5 million to \$2.25  
23 million by April, 2011, and to provide an estimated \$8.25  
24 million per year toward the Company's DSM initiatives. The  
25 Commission approved an increase of 1.0% (Final Order

1 No. 32023), raising the collection rate from 3.72% to 4.72%  
2 for all customers subject to Schedule 191. The approved  
3 rate will provide an estimated \$6.86 million in DSM funding  
4 for program year 2010 at the Staff proposed revenue  
5 requirement. Staff believes that this level of tariff  
6 rider funding is not sufficient to reduce existing DSM  
7 deficit balances and could actually increase the deficit  
8 balance at the expected level of DSM expenditures.

9           When the rider was originally introduced, Staff  
10 believed an unbundled charge on the customer bill would  
11 help notify customers of available energy efficiency  
12 programs and provide an additional layer of transparency  
13 regarding Company DSM initiatives. As a line item on the  
14 customers' bill, the Customer Efficiency Services charge  
15 does draw the attention of customers, particularly those  
16 who do not participate in any of the Company's DSM  
17 programs. Non-participants do not see how DSM programs  
18 personally benefit them, since they perceive a bill  
19 increase rather than a bill reduction. Most customers are  
20 not familiar with the rationale justifying implementation  
21 of energy conservation and efficiency programs, with its  
22 long term focus on keeping energy rates lower than they  
23 would be otherwise if load growth was served with higher  
24 cost supply-side resources. As the amount invested in DSM  
25 has grown, the tariff rider percentage has increased and so

1 has customer opposition. Moreover, not all customers are  
2 subject to the tariff rider. Special contract customers  
3 pay for DSM when the expenses are collected through base  
4 rates but do not when costs are recovered through the  
5 tariff rider. The Commission may need to reconsider  
6 whether the Tariff Rider, in its current form, should be  
7 continued. Staff believes alternative recovery mechanisms  
8 for Company DSM expenditures should be explored, including  
9 the possibility of expensing DSM expenditures in base  
10 rates.

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

13 A. Yes, it does.  
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## CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 14<sup>TH</sup> DAY OF OCTOBER 2010, SERVED THE FOREGOING **DIRECT TESTIMONY OF GARY GRAYSON**, IN CASE NO. PAC-E-10-07, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

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