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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF IDAHO POWER COMPANY FOR AUTHORITY TO INCREASE ITS RATES AND CHARGES FOR ELECTRIC SERVICE TO ITS CUSTOMERS IN THE STATE OF IDAHO.	)	**CASE NO. IPC-E-11-08**

REBUTTAL TESTIMONY

NANCY HIRSH

November 16, 2011

Q. Please state your name and reason for this testimony.

A. My name is Nancy Hirsh and I am the Policy Director for the NW Energy Coalition. I filed direct testimony in this case on behalf of the NW Energy Coalition, the Idaho Conservation League, and the Snake River Alliance – collectively the Conservation Parties – On October 7, 2011. I offer this rebuttal testimony to respond to the prefiled direct testimony of Mr. Higgins of the Kroger Company, and Dr. Reading of the Industrial Customers of Idaho Power, and Mr. Lobb and Mr. English of the Idaho Commission Staff.

Q. Please respond to Mr. Higgins' direct testimony.

A. Mr. Higgins recommends the Commission reduce funding for energy efficiency from the current rider level of 4.75% to 3.4%. Mr. Higgins explains that because the stipulation moves $11.2 million of demand response payments into base rates, the rider must be reduced by an equivalent amount to avoid "an unreasonable cost burden on customers."[1] He supports this recommendation with two reasons. First, he calculates that applying a 3.4% rider to the rate increase proposed in the stipulation results in a $1.2 million increase "relative to pro forma levels."[2] Second, Mr. Higgins compares a 3.4% rider to a selection of other western utilities. Neither of these reasons is persuasive.

In regards to the level of funding, Mr. Higgins does not provide any analysis of whether his proposed level is sufficient to meet expected increases in program activity levels to acquire cost effective energy efficiency on behalf of customers. Idaho Power's 2011 IRP plans to increase energy efficiency savings by 15 – 17 aMW through 2021.[3] Also, Mr. Higgins does not address the

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[1] Higgins Direct at p. 5 ln. 5-7.
[2] Higgins Direct at p. 3 ln. 11 - 18.
[3] *Idaho Power 2011 IRP*, Table DSM-15 in Appendix C at page 77(showing the annual forecasted operational targets from all existing and new energy efficiency programs).

$7,592,938 back balance of prudent DSM spending Idaho Power may recover for prior programs.[4] Nor does he acknowledge the expected increases in Evaluation, Measurement and Verification efforts pursuant to the 2009 Memorandum of Understanding. Instead of recognizing these planned increases in funding needs, Mr. Higgin's proposes to leave DSM funding at 2010 levels.

Mr. Higgin's comparison to other western utilities is not valid as the sole basis to establish funding levels for Idaho Power energy efficiency programs. Instead, a valid process to establish funding levels must consider the potential for cost effective energy efficiency in the service territory. Comparing rider levels to other utilities without considering the potential for cost effective energy efficiency does not provide any useful insight to appropriate DSM funding levels.

Q. Please respond to Dr. Reading's direct testimony.

A. Dr. Reading states that reducing the rider level from the current 4.75% to 3.8% "may be an equitable and justifiable path," but then joins the Staff recommendation to reduce the rider to 4.0%.[5] He provides two reasons for his recommendation, neither of which is persuasive. Mr. Reading notes the Commission made a similar reduction in the Rocky Mountain Power 2010 rate case. Also, Dr. Reading explains that because $11.3 million in demand response costs maybe moved into base rates the Commission should make a dollar for dollar reduction in the rider level to avoid an overall increase in DSM funding.[6] Neither reason is persuasive.

Dr. Reading is correct that in Rocky Mountain Power's 2010 rate case the Commission, in its final order, reduced the rider level in concert with moving demand response incentives into power costs. But the facts in this Idaho Power case are distinct from that Rocky Mountain case.

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[4] *See* Exhibit 802, *Idaho Power's Response to the First Production Requests of the Idaho Conservation League, N.W. Energy Coalition, and Snake River Alliance* at Request No 4a.
[5] Reading Direct at p. 31 ln. 20 – p. 32 ln. 3.
[6] Reading Direct at p. 31 ln. 11 - 17. Dr Reading refers to Idaho Power's application for the $11.3 million amount. The Stipulation filed in this case moves $11,252.265 in demand response incentive payments into base rates.

The record in the Rocky Mountain case did not include any information about the level of DSM funding necessary to support existing and planed new programs. In contrast, my direct and rebuttal testimony in this case provides factual support to increase the overall size of the Idaho Power's DSM funding pie by shifting some costs into rates while maintaining current rider level.

Just like Mr. Higgins, Dr. Reading does not provide evidence that his recommendation provides sufficient funding to meet planned DSM program activities. A dollar for dollar reduction results in overall DSM funding remaining at 2010 levels despite plans to increase program activities identified in the 2011 IRP, increase EM&V, and recover the back balance owed to Idaho Power. In fact, Dr. Reading calculates that maintaining the rider at 4.75% will generate an additional $7.5 million for energy efficiency programs. This is roughly equal to the remaining back balance owed to Idaho Power--a balance customers pay a 1% interest rate on.[7]

Dr. Reading's recommendation to reduce the rider level is not supported by persuasive analysis nor is it in the public interest. In fact, Dr Reading's testimony provides another reason for maintaining the current rider level–it allows Idaho Power to collect the back balance so that ratepayers do not incur a 1% interest charge.

Q. Please respond to Mr. Lobb's direct testimony.

A. Mr. Lobb recommends the Commission reduce the current rider level from 4.75% to 4.0% for two reasons. He explains that DSM funding through both base rates and the tariff rider at 4.0% "will be significantly greater than needed to support existing Company DSM programs."[8] Mr. Lobb then defers to staff witness Donn English for this analysis. I will review Mr. English's testimony later. Mr. Lobb also explains repeatedly that reducing the tariff rider "helps mitigate the

[7] *See* Exhibit 802, at Request 4b.
[8] Lobb Direct at p. 19 ln. 25 – p. 20 ln. 3.

increase in base rates[.]"[9] While mitigating base rate increases is a laudable goal, reducing energy efficiency funding is not an appropriate means to achieve this end. As the Commission has stated before energy efficiency funding provides "powerful tools customers can use to mitigate the impact of rate increases."[10] Instead of reducing funding for these tools, the Company's current application to return $30 million to ratepayers under the accumulated deferred investment tax credits mechanism is an appropriate, and far larger, tool to mitigate base rate increases.[11]

Q. Please respond to Mr. English's direct testimony.

A. Mr. English does provide some analysis to support the staff's recommendation to reduce the rider level, but this analysis is not persuasive. The main flaw in Mr. English's analysis is that he compares 2010 DSM funding levels, not expense levels. Mr. English explains "Staff understands the need to provide the Company with a consistent revenue stream to better match the expenses charged to the Energy Efficiency Rider account."[12] Moving demand response and custom efficiency payments into base rates is a solid first step because it provides a means to track revenues and expenses going forward for these programs. But maintaining the rider at 4.75% is another critical step to better match revenues with actual and expected expenses for cost effective energy efficiency and related activities.

Mr. English states in his testimony "Idaho Power has routinely spent more on DSM programs than it has collected through the DSM Rider."[13] Despite this recognition, he then calculates that, after removing expenses for demand response and custom efficiency incentives,

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[9] Lobb Direct at p. 2 ln. 15-17, p. 19 ln. 17-18, p. 20 ln. 11-14 and ln. 19-23; English Direct at p. 6 ln. 20 – 22.
[10] Order No. 30560 at 6, IPC-E-08-03 (citing Order No. 29026 at 20)
[11] *See* Order No. 32394, IPC-E-11-22 *Notice of Idaho Power's Application for an Extended and Modified Accounting Order to Amortize Additional Accumulated Deferred Income Tax Credits.*
[12] English Direct at p. 6 ln. 9 – 12.
[13] English Direct at p. 5 ln 13-14.

the rider, in 2010, provided funding of $18,159,357. But Idaho Power spent over $26,000,000.[14] Mr. English also notes several additional expenses that will be charged to the energy efficiency rider account, including $8 million in the unrecovered back balance.[15] This brings the revenue stream needed to match expenses to $34 million just to maintain 2010 program levels.

Mr. English goes on to explain that a 4.0% would generate $34.8 million in 2011.[16] This leaves roughly $800,000 in headroom for expected growth in cost effective DSM programs and related activities. One area of growing costs is increasing levels of evaluation measurement and verification. In response to discovery requests, the Staff states they "lack sufficient information from which to quantify the cost of retaining a third party evaluator."[17] Idaho Power intends to increase spending on third party evaluators by $145,000 in 2011.[18] Mr. English properly notes another source for growing costs--increasing participation in existing and new programs identified in the 2011 IRP.[19] In a discovery response, the Staff explains that Idaho Power has increased program expenses by $740,951 in only the first three quarter of 2011.[20] Further, Idaho Power's 2011 IRP plans to increase energy efficiency gains by roughly 15 aMW per year.[21]

Since the current rider revenue does not match current expenses that provided 21 aMW in 2010[22], maintaining the rider at 4.75% in a critical step to providing a consistent revenue stream to better match expenses charged to the energy efficiency rider account. Any "headroom" created by the staff proposal is already swallowed by maintaining 2010 program levels, returning the back

[14] English Direct at p. 5 ln 14-17.
[15] English Direct at p. 5 ln. 5-7.
[16] English Direct at p. 5 ln. 17-18.
[17] See Exhibit 803 *Staff Response to the First Production Requests of ICL, NWEC, and SNA* at Request No. 3c.
[18] See Exhibit 803 at Request No 2.
[19] English Direct at p.5 ln. 24 – p. 6 ln. 6.
[20] See Exhibit 803, at Request No 1.
[21] *Idaho Power 2011 IRP*, Table DSM-15 Appendix C at p. 77 (showing the annual forecasted operational targets from all existing and new energy efficiency programs)
[22] *Idaho Power 2010 DSM Annual Report* at p. 8 (system number).

balance, increasing EM&V spending, and supporting already incurred and further expected program growth in 2011 and 2012.

Q. Do you have any concluding remarks?

A. The testimony of Mr. Higgins and Dr. Reading do not provide analytical or factual support for their recommendations. The Staff witnesses do provide some analysis, but their recommendation does not "provide ample revenue for expansion of DSM programs as claimed by Mr. English, nor is it "significantly greater than needed to support existing Company DSM programs" as claimed by Mr. Lobb. Accordingly, the Commission should maintain the rider level at 4.75% as this level, along with moving certain costs into base rates, does provide a consistent revenue stream to better match forecasted DSM expenses.

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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF IDAHO POWER COMPANY FOR AUTHORITY TO INCREASE ITS RATES AND CHARGES FOR ELECTRIC SERVICE TO ITS CUSTOMERS IN THE STATE OF IDAHO.	)))))))	CASE NO. IPC-E-11-08

REBUTTAL TESTIMONY

OF

NANCY HIRSH

EXHIBIT 802

Idaho Power's Response to the First Production Requests of the Idaho Conservation League,

NW Energy Coalition, and Snake River Alliance

November 16, 2011

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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF IDAHO POWER COMPANY FOR AUTHORITY TO INCREASE ITS RATES AND CHARGES FOR ELECTRIC SERVICE IN IDAHO.	)	CASE NO. IPC-E-11-08 IDAHO POWER COMPANY'S RESPONSE TO THE FIRST PRODUCTION REQUEST OF THE IDAHO CONSERVATION LEAGUE, N.W. ENERGY COALITION, AND SNAKE RIVER ALLIANCE TO IDAHO POWER

COMES NOW, Idaho Power Company ("Idaho Power" or "Company"), and in response to the First Production Request of the Idaho Conservation League, N.W. Energy Coalition, and Snake River Alliance to Idaho Power dated October 25, 2011, herewith submits the following information:

<u>REQUEST NO. 1</u>: Please provide the dollar amount Idaho Power has spent each year on evaluation, measurement and verification of all Demand Side Management programs for 2008, 2009, and 2010. Please include the total costs for both internal and external reviews as well as labor, overhead, materials, and any other expenses.

<u>RESPONSE TO REQUEST NO. 1</u>: In 2008, Idaho Power spent $86,856 on third-party evaluations for its demand-side management ("DSM") programs. In 2009, the Company spent $206,483 on third-party evaluations for its DSM programs, plus an additional $139,034 on an energy efficiency potential study. In 2010, as stated on page 11 of the *Demand-Side Management 2010 Annual Report*, the Company spent $293,000 on third-party evaluations of its DSM programs. Only evaluation expenses for studies conducted by third parties are directly tracked and accounted for in program expenses.

The response to this Request was prepared by Pete Pengilly, Customer Research & Analysis Leader, Idaho Power Company, in consultation with Jason B. Williams, Corporate Counsel, Idaho Power Company.

<u>REQUEST NO. 2</u>: Please provide Idaho Power's most recently available forecast of spending for evaluation, measurement and verification of all Demand Side Management programs for 2011 and 2012.

<u>RESPONSE TO REQUEST NO. 2</u>: In 2011, Idaho Power forecasts that it will spend approximately $438,000 on third-party program evaluations. In 2012, the Company forecasts that it will spend approximately $380,000 on third-party program evaluations.

The response to this Request was prepared by Pete Pengilly, Customer Research & Analysis Leader, Idaho Power Company, in consultation with Jason B. Williams, Corporate Counsel, Idaho Power Company.

REQUEST NO. 3: Please answer the following regarding Company's evaluation plan for 2010-2012 found on pages 4-6 of Supplement 2 of Idaho Power's 2010 Demand Side Management Annual Report.

a. Does Idaho Power still intend to follow the plan as described?

b. Would a reduction in the Energy Efficiency Rider level change this evaluation plan? If the answer is yes, please describe how so. If the answer is no, please describe how the Company intends to adjust program budgets to maintain the evaluation plan while still acquiring all cost effective energy efficiency.

RESPONSE TO REQUEST NO. 3:

a. Throughout 2010, Idaho Power made minor revisions to its evaluation plan. In 2011, Idaho Power has made very few revisions to its plan and those revisions served to broaden the scope of the evaluations. The Company does not plan any major changes to the 2012 plan, but if any are anticipated, they will be included in the Company's *Demand-Side Management 2011 Annual Report.*

Program evaluation is an important facet of Idaho Power's DSM operational activities. Idaho Power has increased the frequency and the breadth of evaluations since the signing of the Memorandum of Understanding for Prudency Determination of DSM Expenditures ("MOU"), which specifies the Idaho Public Utilities Commission ("Commission") Staff's expectations of utilities' evaluations. Idaho Power relies on evaluations by third-party contractors, internal analyses, and regional studies to ensure the ongoing cost-effectiveness and overall effectiveness of programs through validation of program processes, energy savings, and demand reduction. The results of Idaho Power's evaluation efforts are used to enhance or initiate program changes. Annually, Idaho Power publishes its evaluation plan for three years in the *Demand-Side Management Annual Report, Supplement 2.* As stated in Idaho Power's *Demand-Side Management 2010 Annual Report,* on page 13 under "Program Evaluation": "Although the evaluation plan is expected to be used for scheduling evaluations, the timing of specific program evaluations will be based on considerations of program evaluation needs, and other relevant regional studies."

b. No. The level of Idaho Energy Efficiency Rider ("Rider") funding does not and has not determined Idaho Power's level of spending and/or evaluation of its DSM efforts.

The response to this Request was prepared by Pete Pengilly, Customer Research & Analysis Leader, Idaho Power Company, in consultation with Jason B. Williams, Corporate Counsel, Idaho Power Company.

REQUEST NO. 4: Page 127 of Idaho Power's 2010 Demand Side Management Annual Report indicates the Idaho Energy Efficiency Rider was underfunded by $17,592,938. In Order No. 32331, the Commission found all 2010 DSM spending was prudent.

a. What is the most recent balance in the Idaho Energy Efficiency Rider account for expenses incurred in 2010 but yet to be recovered by the Company?

b. If ratepayers owe the Company for prudently incurred energy efficiency expenses does the Company collect an interest charge on this amount? If so, how much?

c. If ratepayers owe the Company money for prudently incurred energy efficiency expenses does the Company plan to recover these funds in a single year or over several years?

RESPONSE TO REQUEST NO. 4:

a. As of the end of 2010, the Idaho Energy Efficiency Rider account unfunded balance was $17,592,938. This balance was considered prudently incurred by the Commission in Order No. 32113. Through Case No. IPC-E-10-27, Order No. 32245, Idaho Power was allowed to place $10 million of this $17 million of the Idaho Energy Efficiency Rider account unfunded balance from 2010 into the 2011 Power Cost Adjustment ("PCA") for recovery. The amount included in the PCA is anticipated to be fully recovered by the end of May 2012. The remaining prudently incurred Rider expenses from 2010 of $7,592,938 will be recovered by current year Rider funding.

b. Idaho Power is currently allowed to collect or pay 1 percent annual interest on the balance of the Energy Efficiency account depending on whether it has a positive or negative balance. Under Commission Order No. 32109, Idaho Power is directed to collect and/or pay 1 percent annual interest on all customer deposits in 2011.

c. Although timely cost recovery for DSM expenses is one of Idaho Power's goals, as a practical matter, this is somewhat difficult. The Company's ultimate goal with Rider funding is to match revenue with expenses over time. However, revenues and expenses will not match in a single year.

The response to this Request was prepared by Pete Pengilly, Customer Research & Analysis Leader, Idaho Power Company, in consultation with Jason B. Williams, Corporate Counsel, Idaho Power Company.

<u>REQUEST NO. 5</u>: Idaho Power's 2011 Integrated Resource Plan forecasts increasing energy efficiency acquisitions from both existing and new programs or measures. Please describe the method for quantifying these projections.

<u>RESPONSE TO REQUEST NO. 5</u>: Idaho Power's methods of projecting future energy efficiency acquisitions from both existing and new measures are explained in detail on pages 39-41 of the Company's 2011 Integrated Resource Plan. Copies of pages 39-41 are attached.

The response to this Request was prepared by Pete Pengilly, Customer Research & Analysis Leader, Idaho Power Company, in consultation with Jason B. Williams, Corporate Counsel, Idaho Power Company.

DATED at Boise, Idaho, this 15th day of November 2011.

JASON B. WILLIAMS
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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF IDAHO POWER COMPANY FOR AUTHORITY TO INCREASE ITS RATES AND CHARGES FOR ELECTRIC SERVICE TO ITS CUSTOMERS IN THE STATE OF IDAHO.	)))))))	CASE NO. IPC-E-11-08

REBUTTAL TESTIMONY

OF

NANCY HIRSH

EXHIBIT 803

Staff Response to the First Production Requests of ICL, NWEC, and SNA

November 16, 2011

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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF IDAHO POWER COMPANY FOR AUTHORITY TO INCREASE ITS RATES AND CHARGES FOR ELECTRIC SERVICE IN IDAHO.	**CASE NO. IPC-E-11-8** **COMMISSION STAFF'S RESPONSE TO THE FIRST PRODUCTION REQUEST OF THE IDAHO CONSERVATION LEAGUE, N.W. ENERGY COALITION, AND SNAKE RIVER ALLIANCE**

The Staff of the Idaho Public Utilities Commission, by and through its attorneys of record, Donald L. Howell, II and Karl T. Klein, Deputy Attorneys General, responds as follows to the Idaho Conservation League, N.W. Energy Coalition and Snake River Alliance's First Production Request to Commission Staff.

REQUEST NO. 1: Please refer to the Direct Testimony of Donn English, pages 5 – 6, where Mr. English describes the Idaho Power's plans to increase energy efficiency activities over 2010 levels. Please quantify the cost of these increased energy efficiency activities.

RESPONSE NO. 1: Staff objects to the extent this request asks Staff to speculate. Staff does not know which specific programs Idaho Power intends to implement, or which existing programs Idaho Power intends to expand. Consequently, Staff cannot quantify the cost of increased energy efficiency activities. Subject to this objection, Staff notes that financial information provided to those present at the October 14, 2011 meeting of the Idaho Power Energy Efficiency Advisory Group indicates that Idaho Power has currently expensed $31,010,999 through September 30, 2011 on DSM compared to $35,370,048 for the same period in 2010. Further, approximately $5.1 million of incentive payments made through the Company's Custom Efficiency program have been capitalized as a regulatory asset. Combining the expenses through September 30, 2011 with the amount capitalized indicates that Idaho Power has spent $36,110,999 on DSM through September 30, 2011, which is $740,951 (2.1%) greater than the same period in 2010.

REQUEST NO. 2: Please refer to Idaho Power's 2009 Demand Side Management Potential Study.

a. Does the Idaho PUC staff expect Idaho Power to acquire the economic potential for energy efficiency identified in this study?

b. If the answer is yes, please describe how setting the Energy Efficiency Rider level at 4% supports this expectation.

c. If the answer is no, please explain how the Idaho PUC Staff determines if the Company is fulfilling the Commission's directive to acquire all cost effective energy efficiency.

RESPONSE NO. 2: Staff objects to the extent this request seeks previously unwritten and unpublished opinion or policy statements. *See* RP 225.01.a. Subject to this objection, Staff answers this request's subparts as follows:

a. Staff has formed no such expectation. Rather, Staff expects the Company to abide by Commission Order No. 32245, which states that "Idaho Power should continue to pursue all cost-effective DSM." *See* Order No. 32245 at 5.
b. Staff believes that setting the Energy Efficiency Rider level at 4% provides the Company with sufficient revenue to abide by Commission Order No. 32245. Furthermore, per that Order, should Idaho Power identify additional cost effective DSM programs, it should "continue to pursue all cost-effective DSM – even in excess of Energy Efficiency Rider revenues." *Id.* Thus, the Company may exceed the 4% Rider fund revenue.

c. The Commission did not direct the Company "to acquire all cost effective energy efficiency." Rather, the Commission has directed that Idaho Power "should continue to pursue all cost-effective DSM." Staff believes the Company is making a good-faith effort at following the Commission's directive.

REQUEST NO. 3: Please refer to Idaho's evaluation plan for 2010 – 2012 found on pages 4 – 6 of Supplement 2 of Idaho Power's 2010 Demand Side Management Annual Report.

a. Does the Idaho PUC Staff believe this evaluation plan is sufficient both in timing and in the depth of each evaluation?

b. Does the Idaho PUC staff believe the Company should increase the use of third party evaluators?

c. Please quantify the Idaho PUC Staff's understanding of the cost of retaining a third party evaluator?

RESPONSE NO. 3: Staff objects to the extent this request seeks previously unwritten and unpublished opinion or policy statements. *See* RP 225.01.a. Subject to this objection, Staff answers this request's subparts as follows:

a. Yes. Staff believes the Company's evaluation plan is sufficient because the plan is generally consistent with the 2009 Memorandum of Understanding ("MOU") signed by representatives from Idaho's three Investor Owned Utilities and Commission Staff.
b. Please see Attachment No. 1 of the MOU referenced in the response to Request No. 3(a) for Staff's position on a utility's use of third-party evaluators. A copy of the MOU is attached to this response.
c. Staff lacks sufficient information from which to quantify the cost of retaining a third-party evaluator.

DATED at Boise, Idaho, this 15th day of November.

Karl T. Klein
Deputy Attorney General

Technical Staff witness: Randy Lobb

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CERTIFICATE OF SERVICE

I hereby certify that on this 16th day of November, 2011 I delivered true and correct copies of the foregoing REBUTTAL TESTIMONY OF NANCY HIRSH to the following via the method of service noted:

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