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IDAHO PUBLIC
UTILITIES COMMISSION

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF IDAHO POWER)
COMPANY'S REQUEST TO MODIFY) CASE NO. IPC-E-10-27
RECOVERY OF INCENTIVES PAID TO)
SECURE DEMAND-SIDE RESOURCES.)

IDAHO POWER COMPANY

DIRECT TESTIMONY

OF

JOHN R. GALE

1 Q. Please state your name and business address.

2 A. My name is John R. Gale and my business
3 address is 1221 West Idaho Street, Boise, Idaho.

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

6 A. I am employed by Idaho Power Company ("Idaho
7 Power" or "Company") as the Senior Vice President of
8 Corporate Responsibility.

9 Q. Please describe your educational background
10 and business affiliations.

11 A. I received a BBA in 1975 and an MBA in 1981
12 from Boise State University. I maintain a close
13 affiliation with the University and serve as Vice Chair of
14 the College of Business and Economics' Advisory Council. I
15 have also attended the Public Utilities Executive Course at
16 the University of Idaho and am on the faculty of that
17 program leading the section on "Regulation and Ratemaking."

18 I am the immediate past chair of the Edison Electric
19 Institute's ("EEI") Rates and Regulatory Affairs Committee,
20 which is the committee that is concerned primarily with
21 regulatory issues and ratemaking methods. I am also a
22 member of EEI's Retail Energy Services Executive Advisory
23 Committee, which engages in emerging electric energy issues
24 and advises the membership's Chief Executive Officers.

1 Q. Please describe your work experience.

2 A. From 1976 to 1983, I was employed by the
3 State of Idaho primarily as an analyst in the Department of
4 Employment. In October 1983, I accepted a position at
5 Idaho Power as a Rate Analyst in the Rate Department. In
6 March 1990, I was assigned to the Company's Meridian
7 District Office where I held the position of Meridian
8 Manager, which was a one-year cross-training position
9 established to provide corporate employees with an
10 extensive field experience.

11 I returned to the Rate Department in March 1991 and
12 in June, I was promoted to Manager of Rates. In July 1997,
13 I was named General Manager of Pricing and Regulatory
14 Services. In March 2001, I was promoted to Vice President
15 of Regulatory Affairs, where I oversaw and directed the
16 activities of the Pricing and Regulatory Services
17 Department and had the primary responsibility for policy
18 matters related to the economic regulation of Idaho Power.
19 I have testified frequently before the Idaho Public
20 Utilities Commission ("Commission") on a variety of rate
21 and regulatory matters. I have also testified before or
22 submitted direct testimony to the regulatory commissions in
23 Nevada and Oregon, the Federal Energy Regulatory Commission
24 ("FERC"), the Bonneville Power Administration, and the

1 United States Senate Committee on Energy and Natural
2 Resources. In total, I led Idaho Power's regulatory
3 activities for nineteen years.

4 In May 2010, I was promoted to Senior Vice President
5 of Corporate Responsibility. My duties in this capacity
6 include developing a corporate sustainability program and
7 reporting activity, managing various state and regional
8 issues (including the Bonneville Power Residential Exchange
9 Program), forging large load/economic development policy,
10 and implementing the business model of demand-side
11 resources.

12 Q. What is the purpose of your testimony in
13 this matter?

14 A. My purpose is to provide a comprehensive
15 policy discussion on the subject of demand-side resources
16 ("DSR"). Often, the complete picture of a DSR business
17 model gets lost in piecemeal program, prudency, and rate
18 filings. My testimony will cover all regulatory aspects in
19 one telling. My testimony will describe the importance of
20 DSR to the resource portfolio, why utilities are good
21 delivery vehicles for DSR programs, the regulatory
22 conundrum of approving DSR expenditures, the necessary
23 regulatory/business model for DSR, where the points of

1 contention are among the Company and the various parties,
2 and Idaho Power's plan to address these issues.

3 Q. What is your experience related to energy
4 efficiency activities at Idaho Power?

5 A. During my career at Idaho Power, I have been
6 responsible for numerous regulatory filings related to
7 energy efficiency programs and their recovery mechanisms.
8 This experience covers two full cycles of the development
9 and implementation of a complete suite of energy efficiency
10 programs. One cycle began in the late 1980s and culminated
11 with a 1997 case (IPC-E-97-12), which dealt with the cost
12 recovery of these energy efficiency expenditures by Idaho
13 Power. The results of IPC-E-97-12 combined with the
14 emerging electric industry restructuring phenomenon led to
15 eventual dismantling of the Company's energy efficiency
16 effort. Under the restructuring paradigm, the market would
17 be the provider of all needed resources, both demand and
18 supply side. The dramatic impacts of the 2000/2001 Western
19 Energy Crisis ultimately exposed the flaws in "the market
20 will provide it" concept and set the Company on course to
21 reinvigorate its Integrated Resource Plan ("IRP") and
22 rebuild its energy efficiency capability.

23 Following the Western Energy Crisis, both the Idaho
24 Commission and the Company have moved to restore and

1 enhance the energy efficiency effort at Idaho Power,
2 ushering in the second energy efficiency cycle. From a
3 complete cold start, Idaho Power's DSR activities have
4 progressed to the point where the Company now has a full
5 and robust suite of energy efficiency and demand response
6 programs and is spending nearly 5 percent of its revenues
7 on these activities. Among the successes are the
8 institution of the Energy Efficiency Advisory Group, the
9 Energy Efficiency Rider funding mechanism, the Fixed Cost
10 Adjustment decoupling mechanism, the prudence Memorandum of
11 Understanding, the energy efficiency incentive workshops,
12 the build-out of a complete suite of programs for all
13 customer classes, along with the growth in annual energy
14 efficiency savings from 19,000 MWh in 2004 to 148,000 MWh
15 in 2009 and the installation of demand response capacity of
16 approximately 290 MW in 2010.

17 Q. Please elaborate on the first build-out of
18 energy efficiency programs at Idaho Power.

19 A. Prior to the 1990s, conservation programs
20 played a relatively small role in Idaho Power's overall
21 resource acquisition strategy. The Company began to
22 actively pursue conservation activities in the late 1970s;
23 however, these efforts tapered off in the mid-1980s with
24 the economic slowdown and continuing surplus of energy in

1 the Pacific Northwest. It was during the early 1990s that
2 Idaho Power first adopted a focused, substantial and
3 increasingly active approach to the development of DSR with
4 its customers. Demand-side programs became an integral
5 part of the Company's IRP, smaller pilot-type programs
6 transitioned to more comprehensive system-wide efforts, and
7 significant commitments of Company personnel and financial
8 resources were required.

9 In January 1994, Idaho Power prepared a policy paper
10 titled "The Pursuit of Demand-Side Management" and adopted
11 a philosophy to pursue all demand-side activities that are
12 cost-effective on a total resource cost basis, while
13 limiting any detrimental impact on the Company's
14 competitive position, its customers, and its shareholders.
15 This concerted effort produced significant results. During
16 the ten years from 1990 to 2000, Idaho Power operated
17 approximately twelve programs in all customer sectors (plus
18 several pilots) and initiated participation in the
19 Northwest Energy Efficiency Association ("NEEA") in 1997.
20 The Company spent just over \$41 million during those ten
21 years and saved a cumulative 26 average megawatts. The
22 Company at that time was in an energy deficit position;
23 therefore, the program focus was on purchasing energy

1 efficiency resources; demand response programs were not
2 implemented at that time.

3 Q. How were these programs funded?

4 A. This generation of energy efficiency
5 programs was built upon the concept that a DSR ought to be
6 treated in the same manner as a supply-side resource,
7 including the manner in which expenditures were recovered
8 in rates. Thus, operating and maintenance ("O&M") expenses
9 were included in base rate expenses and investments in
10 demand-side measures were capitalized, amortized over time,
11 and earned a rate of return on the unamortized asset.

12 Because the investments were as a practical matter not
13 under the direct ownership and control of the Company, they
14 were established as regulatory assets and received their
15 value based upon the Commission order authorizing them.

16 Q. How did this model work when it was time to
17 request rate recovery?

18 A. Unfortunately, the model did not work well
19 for Idaho Power. The concept had substantial merit;
20 however, the applied result was financially painful to
21 Idaho Power. Notwithstanding, I firmly believe that
22 demand-side resources should be treated the same as supply-
23 side resources, which is a recurring theme throughout my
24 testimony.

1 There were some tough lessons in this first energy
2 efficiency build-out and its resulting regulatory
3 treatment. Prudency issues surfaced with disallowances in
4 both the ongoing O&M and in the regulatory assets
5 themselves, which caused the Company to take write downs on
6 its energy efficiency business activities. Some of the
7 prudency issues surfaced from misunderstandings between the
8 Company and the Commission. One example of this tension
9 pertained to the area of commercial lighting where Company
10 and Staff debated the requisite program evaluations
11 necessary to be sufficient to establish cost recovery.
12 Ultimately, it took several dockets to resolve this issue.

13 Other problems (from Idaho Power's standpoint) with
14 the first effort included lowering the rate of return from
15 the overall rate (including equity) to a debt rate, thus
16 relegating the demand-side an inferior investment to
17 supply-side resources for the Company. In my opinion, both
18 the reduced return and the energetic pursuit of
19 disallowances were a symptom of a bigger problem with the
20 original concept, which, in my view, was that the
21 regulatory assets simply stayed on the books too long. The
22 amortization period used created long-lived assets, thus
23 creating large carrying charge obligations. While the
24 original intent was to marry the regulatory assets to the

1 useful lives of the demand-side measures, the practical
2 effect was to inflate the regulatory asset balance with
3 accumulated carrying charge costs. I believe this impact
4 alarmed both the Staff and the Commission at the time of
5 the IPC-E-97-12 proceeding.

6 Q. How does Idaho Power view DSR today?

7 A. Cost-effective DSR (energy efficiency and
8 demand response programs) is the Company's resource of
9 choice - both from a cost standpoint and from an
10 environmental perspective. The cleanest, most efficient
11 resource in the Company's portfolio is the one it does not
12 have to build. The Company believes that cost-effective
13 DSR should be pursued aggressively and that funding should
14 not unduly impede its acquisition. Otherwise, Idaho
15 Power's customers are ultimately left with the higher cost
16 "pay me later" position when the Company must subsequently
17 acquire higher cost resources to match customer loads.

18 Q. Is this view shared by other Idaho energy
19 stakeholders?

20 A. Yes. It is as close to a universally held
21 opinion as I believe there is among our stakeholders.
22 Company, customer groups, regulators, the environmental
23 community, and public policy advocates endorse the
24 acquisition of cost-effective DSR for both its economic

1 advantage and its mitigation of many of the environmental
2 and cost risks facing the industry today. As energy
3 efficiency and demand response programs have matured, their
4 value as a resource has become more apparent, tangible, and
5 readily accepted.

6 Q. You mentioned customer groups have supported
7 the acquisition of cost-effective DSR. How have individual
8 customers responded to the Company's energy efficiency
9 efforts?

10 A. Customers have a generally favorable view of
11 energy efficiency programs as expressed through direct
12 customer interaction and customer satisfaction surveys.
13 However, when the Company has a filing before this
14 Commission regarding energy efficiency, often the input is
15 negative. I attribute this much more to some customers'
16 general frustration with rate matters than to actual
17 dissatisfaction with energy efficiency programs.

18 Q. What are the benefits of the Company
19 directly providing DSR as opposed to a third-party
20 administrator?

21 A. A chief benefit is the integration of the
22 DSR with supply-side resource options for short-term
23 resource operations, intermediate-term risk management, and
24 long-term resource planning through the IRP. This

1 integration helps ensure that this resource is acquired in
2 an economic, reliable, and environmentally responsible
3 manner. For Idaho Power this means that the optimum
4 demand-side measure is implemented in terms of resource
5 characteristics (peak or energy reduction). A second prime
6 benefit is the positive contact and interaction with Idaho
7 Power customers. It creates the opportunity for customers
8 to "save twice" - once directly through reduced consumption
9 and twice through the acquisition of lower-cost resources.
10 Engaged customers are key to the effectiveness of DSR.

11 Another benefit is the additional discipline
12 exercised in a regulatory environment where the Company's
13 actions and expenditures are transparent and overseen by
14 this Commission to better assure the cost-effective
15 acquisition of demand-side resources.

16 Q. With all this support for the acquisition of
17 demand-side resources, how does it compare to the Company's
18 other activities in the area of regulatory treatment?

19 A. That is the conundrum. Cost-effective
20 energy efficiency is identified as the resource of choice
21 by virtually all stakeholders, yet demand-side resources
22 are faced with the most challenging regulatory scrutiny for
23 cost recovery. The challenges are more formidable than the
24 supply-side counterpart and include elevated prudence

1 evaluation standards, protracted proceedings, overcoming
2 the fixed cost recovery disincentive, asymmetric risk and
3 reward propositions, and no earnings opportunity thus far.

4 Q. What are the necessary regulatory components
5 of a successful DSR business activity?

6 A. There are five primary components. First,
7 there must be clear and achievable guidelines for prudence.
8 Second, there must be a timely recovery of out-of-pocket
9 expenditures that appropriately recognizes the time value
10 of money and does not negatively impact cash flow in a
11 significant way. Third, the economic disincentives to
12 reduce load must be removed via better pricing, decoupling,
13 or some other mechanism that does not strand fixed cost
14 recovery. Fourth, the Company must have the ability to
15 earn on the energy efficiency investments just like any
16 other business activity in which the Company is engaged.
17 And finally, there must be a forum established for
18 customers and other stakeholders to have direct involvement
19 in the selection and development of programs. At Idaho
20 Power, the Energy Efficiency Advisory Group performs this
21 role.

22 Much like Maslow's hierarchy of human needs, these
23 components have a hierarchy or progression of importance.
24 Accordingly, that is why stranded fixed costs and a

1 potential earnings opportunity have emerged as issues
2 subsequent to making regulatory progress on determination
3 of prudence and timely out-of-pocket cost recovery.

4 Q. Please identify the current issues that need
5 to be addressed regarding the regulatory treatment of DSR
6 expenditures.

7 A. There are a number of important issues that
8 I believe would be helpful to resolve in order to further
9 the pursuit of cost-effective DSR. These include: (1) a
10 more straightforward approach to prudence determination;
11 (2) solidifying the Fixed Cost Adjustment mechanism; (3)
12 optimizing Idaho Power's participation in third-party
13 initiatives, such as the Northwest Energy Efficiency
14 Alliance, the Northwest Regional Technical Forum, the
15 Integrated Design Lab in Idaho, and other state and
16 regional efforts to advance energy efficiency research and
17 market transformation; (4) addressing the growing Energy
18 Efficiency Rider negative balance (and its subset of
19 issues); and (5) implementing a realistic earnings
20 opportunity for Idaho Power's investments in DSR.

21 Q. How does the Company's plan address these
22 concerns?

23 A. In summary, Idaho Power will continue to
24 advocate for its view of the proper regulatory/business

1 model in existing forums and in new filings. My testimony
2 lays out the foundation for comprehensive action. The
3 Company seeks Commission affirmation that DSR is a valuable
4 resource properly managed and delivered by Idaho Power. In
5 addition, Idaho Power will continue to be engaged in
6 activities that ensure that a DSR prudency determination is
7 a more prescriptive, prospective, and objective process. I
8 am hopeful that the Memorandum of Understanding worked out
9 with the Commission Staff will ultimately provide the
10 guidance that can be relied upon by the regulator and the
11 regulated. It is not the Company's intention to escape the
12 consequences of poor management or imprudent action, but it
13 is Idaho Power's intention to put the prudency test on par
14 with other Company business activities.

15 Q. Please discuss the challenge of implementing
16 an effective mechanism to remove the disincentive to reduce
17 load.

18 A. The concept is target rich for mischief and
19 misinformation with several national entities willing to
20 oblige. The slogan, "Save more, pay more" has been well
21 used, if not well supported. Additionally, there continues
22 to be confusion surrounding the removal of a disincentive
23 versus the role of an incentive, where some advocate that

1 the removal of the disincentive itself should carry with it
2 the demonstration of additional demand-side performance.

3 For Idaho Power, the benchmark for successfully
4 removing the disincentive is to obtain a result similar to
5 what it might achieve if rate design reflected the fixed
6 costs of service. The Company understands that a
7 fundamental pricing change is problematic from a policy
8 standpoint at this time. Nevertheless, it is the fixed
9 cost exposure that creates the disincentive. Idaho Power
10 continues to advocate for the removal of disincentives
11 through its Fixed Cost Adjustment (decoupling) mechanism.

12 Q. Are there other efforts Idaho Power can
13 pursue to optimally acquire demand-side resources?

14 A. A comprehensive approach to demand-side
15 resource acquisition necessitates a broad scope of efforts.
16 In Idaho Power's case, this approach starts with its solid
17 support of codes and standards and continues with its
18 strong offerings of mature energy efficiency and demand
19 response programs, as well as its participation in regional
20 market transformation efforts. This direct involvement in
21 acquiring DSR can be leveraged by building capability into
22 the service territory infrastructure through education,
23 knowledge building, and research. Currently, Idaho Power
24 is building an effective education initiative to increase

1 awareness among its customers; however, more can be done in
2 other education sectors. Idaho Power is in a unique
3 position to encourage innovation and knowledge building in
4 this area.

5 While the bulk of the monetary resources to fund a
6 comprehensive approach must be focused on cost-effective
7 program deployment, these acquisition efforts can be
8 enhanced by allowing a portion of the budget to be
9 allocated to other capability building efforts. These
10 efforts include education, innovation development and even
11 local research.

12 In order to achieve an optimal reduction in overall
13 load from Idaho Power's customers, an infrastructure must
14 be developed to build knowledge about energy efficiency, to
15 train the local workforce, and to encourage the use of
16 local innovation to solve Idaho specific issues.

17 Q. Please describe Idaho Power's concerns
18 regarding the funding of third-party research and regional
19 transformation activities.

20 A. Idaho Power's primary concern is optimizing
21 the return for investing in these activities on behalf of
22 its customers. As evidenced in the Company's NEEA filing
23 before the Commission earlier this year, there is increased
24 demand for funding, which Idaho Power is diligently trying

1 to manage. Idaho Power expects additional pressure to
2 assist in the funding of worthwhile energy efficiency
3 research and workforce development opportunities. Idaho
4 Power's objective going forward will increasingly be to see
5 those dollars spent in its service territory and
6 benefitting its customers.

7 Q. What are the proposed changes to the
8 Company's Energy Efficiency Rider?

9 A. New actions include proposals to address the
10 growing negative balance in the Energy Efficiency Rider
11 ("Rider"), including the proposals requested in this
12 filing. The problem with a Rider with an extended negative
13 balance is the symmetry is broken and the mechanism becomes
14 a drag to the Company's cash flow. The current Rider
15 balance is negative over \$16 million at this writing and
16 has been negative since April 2008. The large negative
17 balance reflects both a success story and a challenge. It
18 is a success because the growing balance is indicative of
19 increasing programs, expenditures, and savings in DSR.
20 However, continuing to increase the amount is problematic.
21 The Company believes there is a more appropriate path that
22 would allocate some of the expenses to more suitable
23 alternatives for recovery. These actions are: (1) moving
24 demand response incentive payments into the Power Cost

1 Adjustment ("PCA") on a prospective basis beginning on June
2 1, 2011, and (2) establishing a regulatory asset for the
3 Custom Efficiency program through Commission order.

4 Q. Please describe the Company's request
5 related to demand response incentive payments.

6 A. The Company is requesting authority to
7 remove the incentive payments for all the Company's demand
8 response programs and transfer 100 percent of these costs
9 to the PCA on a prospective basis. My colleague, Darlene
10 Nemnich, supports such a proposal in her direct testimony
11 in this case. Currently, the demand response programs
12 include the A/C Cool Credit Program for residential
13 customers, the Irrigation Peak Rewards program for
14 irrigation customers, and the FlexPeak Management program
15 for commercial and industrial customers. The impact of
16 this change will not be seen until next summer, but the
17 magnitude of the funds not collected through the Rider will
18 be significant over the 2011 air-conditioning and
19 irrigation seasons and will act to reduce the negative
20 Rider balance. Table 2 of Idaho Power's Exhibit No. 1
21 indicates estimated demand response incentive payments of
22 nearly \$13.7 million in 2011 and \$14.5 million in 2012.

1 Q. Please describe the Company's request
2 related to capitalizing energy efficiency incentive
3 payments.

4 A. The Company's second request is to seek an
5 order from the Commission authorizing the Company to
6 capitalize the direct incentive payments for one energy
7 efficiency program as a regulatory asset to enable the
8 Company to earn a return on some of its DSR activities.
9 The requested program is Custom Efficiency applicable to
10 commercial and industrial customers.

11 Q. What makes this program suitable to become a
12 regulatory asset?

13 A. The program incentives are material, the
14 investments are for the most part tangible, and the
15 benefits received are among the best of the Company's
16 programs. Materiality is important because of the
17 administration necessary to account for and track the
18 investments and to obtain a return amount sufficient to
19 make the exercise worthwhile. Custom Efficiency incentive
20 payments are estimated to be approximately \$5.2 million in
21 2011 and \$5.6 million in 2012 (Table 2, Exhibit No. 1).
22 The investments made under Custom Efficiency tend to be in
23 tangible assets (i.e., lighting upgrades and motor
24 rewinds), which have a better nexus to a capitalized item

1 even if the assets are not ultimately owned by the utility.
2 Finally, the Custom Efficiency program has a high Utility
3 Benefit/Cost Ratio of 5.37 and Total Resource Benefit/Cost
4 Ratio of 2.05 over the lifetime of the program. It is
5 important to the Company that the first regulatory asset
6 request is a program with a proven record of delivering
7 customer and Company benefits.

8 Q. When does the Company propose to start
9 booking incentive payments to the regulatory asset
10 accounts?

11 A. The Company requests that the regulatory
12 assets be authorized for transactions on and after January
13 1, 2011.

14 Q. What is the Company's recommended
15 amortization period?

16 A. The Company recommends a four-year
17 amortization period for the capitalized balance, which
18 would commence coincident with when rates become effective.
19 The four-year amortization period strikes a balance between
20 the need to recover balances quickly and the recognition of
21 the regulatory asset.

22 Q. What is the Company's recommended rate of
23 return for these assets?

1 A. Idaho Power recommends that the then current
2 Commission authorized rate of return apply. This action
3 will keep the DSR assets on par with the supply-side assets
4 and can adjust over time as the Commission sets the return
5 to reflect changing circumstances.

6 Q. Are you aware of any other programs in the
7 region that capitalize energy efficiency programs?

8 A. Yes. In 2004, the Nevada Legislature passed
9 revisions to the Nevada Administrative Code ("NAC") that
10 allowed utilities to earn the authorized return on equity
11 plus 5 percent for prudent and reasonable conservation and
12 demand-side resource investments. These investments
13 included the costs for labor, overhead, materials,
14 incentives, advertising, marketing, and evaluation, as well
15 as approved costs associated with monitoring and evaluating
16 programs for conservation and energy efficiency through a
17 general rate case. Further revisions to the NAC allowed
18 utilities or the Commission to designate a facility as a
19 "critical facility" for the purpose of protecting
20 reliability, developing renewable energy resources, and
21 promoting price stability. If the Commission designated a
22 facility as a "critical facility," a utility could request
23 that incentives related to the facility be included in
24 rates. Incentives could include earning an enhanced return

1 on equity, inclusion in rates of construction work in
2 progress and the ability to designate the costs incurred to
3 construct the facility as a regulatory asset.

4 Since the passing of the legislation, Sierra Pacific
5 and Nevada Power, being on mandated three-year rate cycles,
6 have filed multiple general rate cases successfully
7 requesting recovery of DSR-related expenditures under the
8 program described. However, as the Nevada utilities
9 experienced significant growth and success in DSR and
10 energy efficiency activity, it became apparent that the 5
11 percent adder no longer served to compensate for lost
12 revenue. Accordingly, the State passed new regulations in
13 2009, effective August 1, 2010, that allow for the annual
14 collection of conservation expenditures via a PCA-type
15 mechanism which sets a base program rate that includes an
16 authorized return on equity, an allowance for lost revenue,
17 and has a true-up component. The Nevada utilities plan to
18 make their first filing under the recently adopted rules
19 this fall.

20 Q. Is this treatment consistent with the
21 Stipulation entered into by Idaho Power and other parties
22 and approved by this Commission in Case No. IPC-E-09-30 on
23 January 10, 2010, which provided that Idaho Power not file
24 a general rate case to change its revenue requirement and

1 resulting rates to become effective prior to January 1,
2 2012?

3 A. Yes it is. Through this request the Company
4 is not asking for a general rate change, but is only
5 adjusting the PCA and changing the inputs to the Rider,
6 both of which are specified exceptions to the rate
7 moratorium as provided under Section 5.2 of the
8 Stipulation.

9 Q. What are the benefits of the Commission
10 approving regulatory asset treatment for the Custom
11 Efficiency program?

12 A. Approving the creation of a regulatory asset
13 for the Custom Efficiency program, like moving the demand
14 response incentive payments into the PCA, relieves pressure
15 to increase the Rider percentage again and provides a means
16 to implement a key component of the regulatory model – the
17 opportunity to earn on key business investments. This
18 action begins to better align the risk/reward proposition
19 for energy efficiency activities.

20 Q. Is Idaho Power requesting any additional
21 changes related to ratemaking for energy efficiency at this
22 time?

23 A. Yes. Because of the large negative balance
24 existing in the Energy Efficiency Rider and because it will

1 take almost two years to work this balance down given the
2 prospective nature of the Company's previously stated
3 requests, Idaho Power requests that the Commission
4 authorize the carrying charge on the remaining balance to
5 move to the Company's authorized rate of return (currently
6 8.18 overall rate of return with a 10.5 return on equity
7 component) instead of the interest rate on customer
8 deposits (currently 1.0 percent). Changing the current
9 carrying charge will become even more important should the
10 Commission decide against part or all of the Company's
11 requests.

12 Q. What would be the cumulative result of
13 implementing the Company's plan?

14 A. The positive results include the DSR
15 business model would be fully implemented, DSR would be
16 treated as a resource in the same manner as the supply-side
17 resources, and there would be the potential to lower the
18 Rider percentage in the future.

19 Q. And what would be the consequence if these
20 actions are not implemented?

21 A. The Company would be placed in the
22 uncomfortable position of having to request another
23 increase in the Rider to clear that account in the near
24 term. Absent the requested enhancements to the Rider

1 mechanism and/or an increase to the Rider percentage, Idaho
2 Power's collective goal of pursuing all cost-effective DSR
3 will be in jeopardy.

4 Q. Why not just keep raising the Rider
5 percentage to bring down the negative balance?

6 A. As Ms. Nemnich testifies, clearing the
7 negative balance in one year would require a 7.5 percent
8 Energy Efficiency Rider, which would be undesirable in
9 today's economic environment. Even taking through 2012 to
10 clear the balance would require a 6.6 percent Rider.
11 Additionally, a rising percentage creates some perception
12 issues with Idaho Power's customers. One problem is that
13 its separate designation on the bill creates a focus on its
14 relative percentage and amount. While that may be viewed
15 as a good thing from a transparency perspective, it is
16 problematic because not all business activities are so
17 identified and the isolation brings unwarranted scrutiny.
18 Moreover, continued funding solely from the Rider
19 designates the regulatory treatment of DSR as different
20 from the rest of the Company's business functions. In
21 addition, Idaho Power believes the Rider is inappropriate
22 for demand response capacity payments, which would be
23 better reflected in power supply expenses.

