IDAHO POWER®
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**JASON B. WILLIAMS**
**Corporate Counsel**
**jwilliams@idahopower.com**

March 18, 2011

**VIA HAND DELIVERY**

Jean D. Jewell, Secretary
Idaho Public Utilities Commission
472 West Washington Street
P.O. Box 83720
Boise, Idaho 83720-0074

Re: Case No. IPC-E-10-27
*IN THE MATTER OF AN INVESTIGATION OF APPROPRIATE COST RECOVERY MECHANISMS FOR IDAHO POWER'S ENERGY EFFICIENCY PROGRAMS*

Dear Ms. Jewell:

Enclosed for filing in the above matter are nine (9) copies of the Reply Testimony of John R. Gale in Support of Stipulation. One copy of Mr. Gale's Reply Testimony has been designated as the "Reporter's Copy." In addition, a disk containing a Word version of Mr. Gale's Reply Testimony is enclosed for the Reporter.

Very truly yours,

Jason B. Williams

JBW:csb
Enclosures

1221 W. Idaho St. (83702)
P.O. Box 70
Boise, ID 83707

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UTILITIES COMMISSION

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

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| IN THE MATTER OF AN INVESTIGATION OF APPROPRIATE COST RECOVERY MECHANISMS FOR IDAHO POWER'S ENERGY EFFICIENCY PROGRAMS. | ) | CASE NO. IPC-E-10-27 |

IDAHO POWER COMPANY

REPLY TESTIMONY

OF

JOHN R. GALE

IN SUPPORT OF STIPULATION

Q. Please state your name and business address.

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

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

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

Q. Are you the same Mr. Gale that previously submitted direct testimony in this case, Case No. IPC-E-10-27 ("Case 10-27"), as well as direct testimony in support of the settlement stipulation to this case that has been previously submitted with supporting testimony ("Stipulation")?

A. Yes, I am.

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

A. My purpose is to reply to and rebut the testimony of the Industrial Customers of Idaho Power's ("ICIP") expert, Dr. Don Reading.

Q. To frame your rebuttal, please restate Idaho Power's objectives in filing Case 10-27.

A. There were two broad objectives: (1) advance the business and regulatory model for Company investments in demand-side resources ("DSR") and (2) address the growing negative balance in the Company's Energy Efficiency Rider ("Rider") account.

Q. Also, please restate the Company's original request.

A. The Company made several proposals to advance both the DSR regulatory model for Idaho Power and to address the growing negative balance in the Rider. These actions included: (1) moving demand response incentive payments for the A/C Cool Credit program, the Irrigation Peak Rewards program, and the FlexPeak Management program into the Power Cost Adjustment ("PCA") on a prospective basis beginning on June 1, 2011, and (2) establishing a regulatory asset for the Custom Efficiency program incentives through Idaho Public Utilities Commission ("Commission") order.

In the event the Commission failed to authorize the PCA and regulatory asset requests previously discussed, Idaho Power also requested that the Commission authorize the carrying charge on the remaining balance to move to the Company's authorized rate of return (currently 8.18 overall rate of return with a 10.5 return on equity component) instead of the interest rate on customer deposits (currently 1.0 percent).

Q. As a final foundational question, please describe the key provisions of the Stipulation.

A. The Stipulation agrees to the transfer of the demand response incentive payments to the PCA beginning on June 1, 2011, as requested by the Company. Additionally, the Stipulation allows the impact of this change to be revenue neutral for the customer classes for the interim period until the next Idaho Power general rate case.

The Stipulation provides for the establishment of a regulatory asset for incentive payments made for the Custom Efficiency program beginning January 1, 2011. The asset balance will earn the authorized rate of return until placed in rates at the next Idaho Power general rate case and will be amortized over a seven-year period as opposed to the four-year amortization originally proposed by Idaho Power.

Finally, the parties agree to leave the carrying charge on the Rider balance at the customer deposit rate, instead of the change proposed by the Company, because of the diminished concern regarding Idaho Power carrying a material negative Rider balance into the future.

Q. Does ICIP support the Company's initial demand-side resource proposals or the subsequent Stipulation filed with the Commission?

A. Surprisingly, no.

Q. Why do you say surprisingly?

A. The acquisition of cost-effective energy efficiency provides substantial benefits for the industrial customer class in the form of a less expensive and less risky resource portfolio and also in the form of direct incentives from the demand response and energy efficiency programs. As shown on page 12 of Idaho Power's recently filed *Demand-Side Management 2010 Annual Report* (Case No. IPC-E-11-05), commercial/industrial customers received over 40 percent of the incentives paid for energy efficiency and demand response in 2010. It is my testimony that the regulatory model described by Idaho Power in the Application and in the filing in support of the Stipulation optimizes the acquisition of cost-effective energy efficiency and, accordingly, subsequent benefits to ICIP members.

Q. What reasons are given for opposing the Stipulation?

A. On page 5 of Dr. Reading's testimony, lines 14 through 19, he states there is no compelling reason to do anything, the filing is equivalent to a Rider change to 6.6 percent, and the requests represent a dramatic policy shift. Additionally, Dr. Reading suggests that the demand-side effort could be scaled back and implies that the negative deferral balance represents an overspending of an authorized amount with the insinuation that the Company has mismanaged the Rider account by acquiring more cost-effective demand-side management ("DSM") than can be timely funded by the Rider. He also suggests that the new proposals do not put the demand-side resources on an equal footing with the supply-side resources and therefore should be rejected. I see these transparent arguments for the status quo to be detrimental to the general public's interest and to the interest of the very customers that ICIP represents.

Q. Where do you specifically disagree with Dr. Reading's testimony?

A. I disagree with his contention that there is no compelling reason to act. The compelling reason is to advance the cause of DSR from its second-class citizen status to that of an equal partner with the supply-side alternatives. The state of Idaho and this Commission have exhibited leadership in knocking down barriers and exploring incentives to the acquisition of cost-effective DSR. Through the proposed Stipulation, Idaho Power and the other signatories desire to make another significant step in this process. A second compelling reason is that a growing multimillion dollar balance in what is a "de facto" regulatory asset earning a one percent rate on the balance is not the type of business model that encourages optimum efficiency.

The statement that the Company's filing is equivalent to increasing the Rider to 6.6 percent is mathematically accurate only from an interim rate impact perspective. Through its direct testimony, Idaho Power has brought forth a purposeful rationale on why the DSR costs should be recovered differently and more appropriately than the current rate methods. Additionally, the Company has noted that the Rider percentage rate can be reassessed and lowered once the balance has been actually worked down.

The proposals contained in the Stipulation are purposeful and a moderate step, not a dramatic policy change. Putting power supply-related costs in the PCA is not a new concept to this Commission or other commissions and neither is the idea of capitalizing and amortizing demand-side investments. In fact, the capitalization proposal, which only includes the incentives for one energy efficiency program, is quite modest compared to the regulatory asset models of the past.

Q. Please comment on Dr. Reading's suggestion on page 10 of his testimony that Idaho Power's demand-side efforts could be scaled back and therefore potentially eliminate the need for the changes agreed to in the proposed Stipulation.

A. There is no evidence to support any scale back of Idaho Power's DSR programs (and certainly not one of any significance) without jeopardizing cost-effective savings. Idaho Power's Commission-endorsed policy of acquiring cost-effective DSR has been publicly articulated for a number of years. The efficacy of these programs is properly vetted in other forums, such as the Company's Energy Efficiency Advisory Group and in the Company's annual prudency determinations. As explained in significant detail in the *Demand-Side Management 2010 Annual Report* previously referenced, Idaho Power's cost-effectiveness findings for 2010 indicate that all DSR programs - both demand response and energy efficiency - had benefit/cost ratios of greater than 1.0 from both a total resource cost and a utility cost perspective. Programs should be monitored and either modified or eliminated prospectively based upon a factual basis, not speculation. The ICIP's position only underscores the regulatory conundrum discussed in my direct testimony in this docket.

Q. In support of Dr. Reading's DSR scale back proposal, he states that more third-party evaluations would identify programs which are not cost-effective. Do you have a response?

A. This comment is also best addressed in other forums; however, I will respond to the assertion. Idaho Power already fully utilizes third-party independent evaluations of DSM programs where appropriate. In 2010 alone, Idaho Power hired third-party independent evaluation contractors for nine different program evaluations. In 2011, ten more third-party evaluations are scheduled.

Idaho Power worked diligently with the Commission Staff in developing the Memorandum of Understanding for Prudency Determination of DSM Expenditures ("MOU") that was part of the stipulation in Order No. 31039, Case No. IPC-E-09-09, which addresses matters such as adequate evaluations and program prudency. The Company takes the MOU seriously and expects to abide by its principles. The Company's diligent stewardship of DSR programs is underscored by the fact that the Commission has found all DSM expense from 2002 to 2009 as prudently incurred.

Q. Dr. Reading implies in several places in his testimony that the Company should be adjusting its DSR spending to the amount of revenue generated by the Rider. Is this implication consistent with Idaho Power's practice?

A. That implication turns Idaho Power's whole approach to pursuing and acquiring DSR on its head. Instead of pursuing all cost-effective efficiency measures, the Rider revenue becomes a ceiling or cap on demand-side investments. The Company has consistently and publicly maintained a policy of pursuing cost-effective DSR measures first and, if circumstances merit, requesting rate adjustments to better align program funding and rate revenue, but it has never been the Company's expectation to perfectly match Rider revenues and expenses within each year. I would represent that it is the expectation of its Energy Efficiency Advisory Group to operate its programs as I have indicated above and not view Rider revenues as a cap on program spending, as doing so increases the likelihood of missed opportunities for savings. In short, the Company's perspective is to spend appropriately and seek rate adjustments as necessary. To do otherwise is to view the demand side as an inferior investment.

Q. On page 13 lines 17-19 of Dr. Reading's testimony, he states, "The ICIP submits that authorizing additional recovery mechanisms through the PCA or rate base to account for this over-spending, and to even incentivize the Company's demand side activities, may be putting the cart before the horse." Please comment.

A. This testimony is useful in that it clearly illustrates the differences between the ICIP and the Company. Idaho Power would not use the pejorative term "over-spending" to refer to additional investments in savings opportunities. Additionally, incentivizing demand-side activities is good public policy and precisely the point that the Company is endeavoring to make. Incentives help the horse pull the cart.

Q. Another reason given by Dr. Reading for opposing the Stipulation is that the Company's proposal does not truly put the demand side on equal footing with the supply side. Please respond to this critique.

A. This is one of his more perplexing arguments. Primarily, because the amortization period is not as long as ICIP would like, the substantial movement toward "equal footing" provided in the Stipulation is dismissed by ICIP as inconsequential. This is analogous to traveling on a long journey and being within reach of the final distant destination and then saying no progress has been made. Under the Company's proposal as modified by the Stipulation, the regulatory treatment for both types of resources would recognize prudent investments in assets and provide rate-of-return ratemaking (annual expense plus the authorized return on the unamortized rate base) to each.

Additionally, annual power supply-related expenses are properly accounted for in the PCA. This is progress toward equal footing. The small remaining differences between the treatment of demand-side and supply-side resources are that the customer, not the Company, owns the asset and the amortization period is purposefully shorter than the expected life of the asset. My direct testimony discusses in detail the different risk attributes of the regulatory asset and why the amortization needs to be shorter. Long-lived regulatory assets have simply been unworkable in the past. The Stipulation contains a negotiated increase to the asset life from the four originally proposed by Idaho Power to seven years. For the Company, this was a major concession, which partially mitigates ICIP's expressed concern.

The ultimate irony of ICIP's position on arguing for a longer amortization than provided in the Stipulation is that it represents an extreme departure from what Dr. Reading really proposes - a one-year expensing of all DSR investments. This position when coupled with ICIP's continued support of using the customer deposit rate as the carrying charge creates a "de facto" regulatory asset with a one percent return. As intelligent business people, ICIP's members must understand that if this were their business, the model described above would not be conducive to sustained investment. It is worse than treating DSR as an expense and worse than treating it as a prudently invested asset.

Q. On page 15, lines 8-11, of Dr. Reading's testimony, he discusses a utility's fiduciary responsibility to its shareholders and, in his opinion, the best way to build profits is to build plants and put them into rate base. Additionally, he notes that effective DSR will prevent the need for new plants. Do you agree with his testimony in this respect?

A. I agree with elements of the testimony, but not the conclusion that the testimony infers. A rate of return on prudently built or acquired rate base is the method in which utilities make their money. However, as long as the Commission allows the asset in rate base and the return is the same, a utility is indifferent from a fiduciary standpoint on whether the asset is demand related or supply related. That is precisely why adding a return component is an improvement to the demand-side regulatory model.

Q. Dr. Reading describes a reduction in Idaho Power's demand response capability as articulated in an Integrated Resource Plan as inconsistent with an earlier

DSR capacity potential. Is this a case of the Company using information in a self-serving manner?

A. No. Idaho Power firmly believes in using demand response programs to help manage peaks and, to my knowledge, uses them as much as any utility. However, the Company's demand response programs are relatively new. The Company is still learning how to optimize these resources over the long-term, which involves such things as customer acceptance, program persistence, dispatching the programs, and optimizing the hours from a system and customer perspective. The reduction from the 376 megawatt to the 330 megawatt operational level reflected a more practical and sustained use of the resources as opposed to more of a maximum potential capability.

Q. In addition to the stated reasons to oppose the Stipulation, Dr. Reading's testimony discusses issues contained in the Stipulation and recommendations related to it. Please discuss these Stipulation issues.

A. While opposing the Stipulation, ICIP wants to modify it in several ways, including (1) increasing the amortization period and (2) memorializing the cost of service treatment for the demand response incentives. I have previously discussed the amortization issue. Regarding memorializing a permanent cost of service treatment, the Company simply feels that the immediate issue has been addressed and that a longer term resolution is properly vetted in the context of a general rate proceeding where all parties can weigh in fully. ICIP's arguments for specific cost of service treatment will hold without any prejudice until such time. To act now is premature. In the interim period, the Stipulation contains no cost allocation shift among the customer classes.

Q. In addition to the specific disagreements with Dr. Reading's testimony already discussed, do you have a general comment regarding the Stipulation and ICIP's unwillingness to support it?

A. Yes. The Stipulation actually addresses several of ICIP's concerns expressed in Dr. Reading's testimony. These items included the lengthening of the amortization period for the regulatory asset from four years to seven and the interim revenue neutral allocation to the PCA, which is beneficial to the high-load factor customers, such as the industrial class. In my personal opinion, it would be a shame if by actively opposing the Stipulation, the ICIP was rewarded by the Commission with an extra bite of the apple.

Q. Has the ICIP testimony changed Idaho Power's opinion regarding the value of the Stipulation?

A. No. The Company believes the Stipulation is a reasonable compromise by the parties that advances the treatment of the Company's investments in DSR to a position essentially equivalent to its investments in supply-side resources. The seven-year amortization period causes some concern because of the different risk profile of DSR, but strikes a reasonable balance when compared to the overall lives of the demand-side measures. The Company determined that it could drop its carrying charge request in light of the substantial impact to the Rider's negative balance of the other agreed upon actions.

Q. Are the terms of this Stipulation, in your opinion, consistent with the Stipulation entered into by Idaho Power and other parties and approved by this Commission in Case No. IPC-E-09-30 on January 10, 2010?

A. Yes, as the Company's lead negotiator to that agreement, it is my testimony that the Stipulation is fully consistent with the prior stipulation approved by the Commission in Case No. IPC-E-09-30. The Stipulation in this current case does not seek a general rate change; it only adjusts the PCA and changes the inputs to the Rider, both of which are specified exceptions to the rate moratorium as provided under Section 5.2 of the stipulation in Case No. IPC-E-09-30.

Q. What are the benefits of the Commission approving the Stipulation?

A. Approving the Stipulation relieves pressure to increase the Rider percentage again and provides all essential components to the DSR regulatory model, including the opportunity to earn on DSR investments. This action better aligns the risk/reward proposition for energy efficiency activities. Finally, the Stipulation provides the foundation for a continued robust DSR effort at Idaho Power. For these reasons, I believe the Commission should find the Stipulation in the public interest.

Q. Does this conclude your testimony?

A. Yes.

## CERTIFICATE OF SERVICE

I HEREBY CERTIFY that on this 18th day of March 2011 I served a true and correct copy of the REPLY TESTIMONY OF JOHN R. GALE IN SUPPORT OF STIPULATION upon the following named parties by the method indicated below, and addressed to the following:

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| **Commission Staff**<br>Weldon B. Stutzman<br>Deputy Attorney General<br>Idaho Public Utilities Commission<br>472 West Washington<br>P.O. Box 83720<br>Boise, Idaho 83720-0074 | _X_ Hand Delivered<br>____ U.S. Mail<br>____ Overnight Mail<br>____ FAX<br>_X_ Email Weldon.Stutzman@puc.idaho.gov |
| **Industrial Customers of Idaho Power**<br>Peter J. Richardson<br>Gregory M. Adams<br>RICHARDSON & O'LEARY, PLLC<br>515 North 27th Street<br>P.O. Box 7218<br>Boise, Idaho 83702 | ____ Hand Delivered<br>_X_ U.S. Mail<br>____ Overnight Mail<br>____ FAX<br>_X_ Email peter@richardsonandoleary.com<br>greg@richardsonandoleary.com |
| Dr. Don Reading<br>Ben Johnson Associates<br>6070 Hill Road<br>Boise, Idaho 83703 | ____ Hand Delivered<br>_X_ U.S. Mail<br>____ Overnight Mail<br>____ FAX<br>_X_ Email dreading@mindspring.com |
| **Idaho Conservation League**<br>Benjamin J. Otto<br>Idaho Conservation League<br>710 North Sixth Street<br>P.O. Box 844<br>Boise, Idaho 83701 | ____ Hand Delivered<br>_X_ U.S. Mail<br>____ Overnight Mail<br>____ FAX<br>_X_ Email botto@idahoconservation.org |
| **NW Energy Coalition**<br>Nancy Hirsh<br>NW Energy Coalition<br>811 1st Avenue, Suite 305<br>Seattle, Washington 98104 | ____ Hand Delivered<br>____ U.S. Mail<br>____ Overnight Mail<br>____ FAX<br>_X_ Email nancy@nwenergy.org |

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|---|---|
| **Snake River Alliance**<br>Ken Miller<br>Snake River Alliance<br>350 North 9th Street #B610<br>P.O. Box 1731<br>Boise, Idaho 83701 | ____ Hand Delivered<br>____ U.S. Mail<br>____ Overnight Mail<br>____ FAX<br>_X_ Email kmiller@snakeriveralliance.org |
| **Idaho Irrigation Pumpers Association, Inc.**<br>Eric L. Olsen<br>RACINE, OLSON, NYE, BUDGE & BAILEY, CHARTERED<br>201 East Center<br>P.O. Box 1391<br>Pocatello, Idaho 83204-1391 | ____ Hand Delivered<br>_X_ U.S. Mail<br>____ Overnight Mail<br>____ FAX<br>_X_ Email elo@racinelaw.net |
| Anthony Yankel<br>Yankel & Associates, Inc.<br>29814 Lake Road<br>Bay Village, Ohio 44140 | ____ Hand Delivered<br>_X_ U.S. Mail<br>____ Overnight Mail<br>____ FAX<br>_X_ Email tony@yankel.net |
| **Community Action Partnership Association of Idaho**<br>Brad M. Purdy<br>2019 North 17th Street<br>Boise, Idaho 83702 | ____ Hand Delivered<br>_X_ U.S. Mail<br>____ Overnight Mail<br>____ FAX<br>_X_ Email bmpurdy@hotmail.com |

Jason B. Williams