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BEFORE THE

IDAHO PUBLIC UTILITIES COMMISSION

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

DIRECT TESTIMONY OF RANDY LOBB IN SUPPORT OF THE STIPULATION

IDAHO PUBLIC UTILITIES COMMISSION

MARCH 4, 2011

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

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

Q. By whom are you employed?

A. I am employed by the Idaho Public Utilities Commission as Utilities Division Administrator.

Q. What is your educational and professional background?

A. I received a Bachelor of Science Degree in Agricultural Engineering from the University of Idaho in 1980 and worked for the Idaho Department of Water Resources from June of 1980 to November of 1987. I received my Idaho license as a registered professional Civil Engineer in 1985 and began work at the Idaho Public Utilities Commission in December of 1987. My duties at the Commission currently include case management and oversight of all technical Staff assigned to Commission filings. I have conducted analysis of utility rate applications, rate design, proposed tariffs and customer petitions. I have testified in numerous proceedings before the Commission including cases dealing with rate structure, cost of service, power supply, line extensions, regulatory policy and facility acquisitions.

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

A. The purpose of my testimony is to describe and support the Settlement Stipulation signed by most of the parties in this case. Parties that did not sign the Stipulation include the Industrial Customers of Idaho Power Company who participated in settlement discussions and the Idaho Irrigation Pumpers Association who did not.

Q. Could you please summarize your testimony?

A. Yes. While not fully supporting all details in Idaho Power Company's application, Staff believes it is necessary and reasonable for the Company to recover prudently incurred DSM expenses in a timely manner. Staff also believes that a balanced approach using a variety of methods to recover DSM program costs is more appropriate than a single tariff rider percentage, currently 4.75%.

Staff recognizes that DSM programs have been promoted and historically viewed on an equal footing with supply side resources. To the extent the Company earns a return on some of its supply side resources, Staff believes it is appropriate for the Company to earn a return on some of its demand side resources in a similar manner.

Consequently, with provisions that mitigate cost shifting among classes within the PCA, extend the amortization period for the regulatory asset, and establish future base and PCA rate treatment, Staff supports the

Stipulated Settlement and recommends that it be approved by the Commission.

Q. What did the Company propose in its application?

A. The Company proposed: (1) moving demand response incentives paid to customers from tariff rider recovery (Schedule 91) into the Power Cost Adjustment (PCA) mechanism on a prospective basis beginning June 1, 2011; (2) establishing a regulatory asset for Custom Efficiency incentives paid to customers beginning January 1, 2011; and (3) changing the carrying charge on the Energy Efficiency Rider from the customer deposit rate to the Company's authorized rate of return.

Q. What is specified in the Stipulation?

A. The Stipulation generally accepts the Company's proposal to move demand response incentive payments from Tariff Rider recovery to PCA recovery. The Stipulation also accepts the Company's proposal to establish a regulatory asset for Custom Efficiency incentive payments and allow a carrying charge equal to the Company's overall rate of return during amortization. The Stipulation provides for no increase in the carrying charge on the unrecovered Energy Efficiency rider balance.

Q. What was the process leading to the Settlement Stipulation?

A. Staff first met with the parties on January 12, 2011 to discuss case scheduling and again at a settlement conference on February 7, 2011. Parties attending the settlement conference included Idaho Power Company, the Industrial Customers of Idaho Power (ICIP), the Community Action Partnership Association of Idaho ("CAPAI"), the Idaho Conservation League, the NW Energy Coalition, and the Snake River Alliance. The Idaho Irrigation Pumpers Association (IIPA) was also a party to the case but did not attend the settlement conference.

Staff and all of the parties participating in the settlement conference, with the exception of the ICIP, agreed to settle the issues presented in the Case. ICIP and IIPA have not signed the Stipulated Settlement.

Q. How does the Stipulation differ from the Company's proposal for PCA cost recovery?

A. The Company proposed that DSM incentive payments placed in the PCA would use existing PCA methodology to recover costs. The PCA currently spreads power costs to all customer classes using a uniform rate per kilowatt hour (kWh). The Stipulation separates the DSM costs subject to PCA recovery and allocates them to each customer class based on the amount that would have been recovered from each class through the tariff rider. In the interim period before incentive payments are ultimately moved into base rates, a separate rate per kWh in addition to the uniform

PCA rate will be established for each customer class to recover the DSM costs. This will assure that DSM cost recovery responsibility will not be shifted among the customer classes simply due to the change from tariff rider recovery to PCA recovery.

Q. How does the Stipulation differ from the Company's proposal to create a regulatory asset for Custom Efficiency incentive payments?

A. The Company proposed to capitalize Custom Efficiency incentive payments by creating a regulatory asset and then amortizing the asset over 4 years with a carrying charge equal to the Company's overall authorized rate of return. The Stipulation provides capitalization through creation of the regulatory asset but amortizes the asset balance over seven years at the Company's overall authorized rate of return.

Q. What is the effect of the Stipulation if approved by the Commission?

A. If the Stipulation is approved by the Commission, an estimated $15 million annually in demand response incentive payments will be tracked during the 2011/2012 April through March period and recovered through the PCA. In addition, an estimated $5.2 million in Custom Efficiency incentive payments will be capitalized in 2011 and another $5.6 million will be capitalized in 2012. All of these costs would otherwise be recovered from the Schedule 91 tariff rider.

Q. Will the current Schedule 91 percentage of 4.75% be reduced to reflect the alternative cost recovery method for these programs?

A. Yes, eventually, but not initially. The current Schedule 91 percentage applied to all customer bills has not generated sufficient revenue to cover all of the DSM costs incurred by the Company. Consequently, unrecovered DSM program costs have been accumulating in a deferral account. Deferred costs now total approximately $17 million and are estimated to reach $29.7 million by the end of 2012 if the proposed changes are not made.

Total DSM expenditures are estimated to be $43.4 million in 2011 with Schedule 91 revenues estimated to be approximately $38 million for an additional cost recovery shortfall of approximately $5.4 million. By capitalizing and shifting $20 million in DSM annual costs to the PCA and subsequently base rate recovery, all unrecovered, currently deferred DSM costs should be fully recovered by early to mid 2012. Once deferred DSM costs are recovered, the Schedule 91 percentage of 4.75 should be reduced.

Q. Why not just increase the Schedule 91 percentage to cover the higher annual DSM expenses and pay off the deferral balance over time?

A. The Company estimates and Staff agrees that the Schedule 91 percentage would have to increase from 4.75% to 6.6% to cover expected annual DSM expenditures and pay off the deferral balance by the end of 2012. While the cost ultimately paid by customers will be the same whether recovery is through base rates, the PCA or Schedule 91, Staff believes using a combination of all three cost recovery approaches makes sense for several reasons.

The DSM tariff rider was originally implemented as a mechanism to facilitate timely adjustments to revenues for DSM programs as their costs fluctuated. At the time the rider was implemented, Staff believed that line-item identification on customers' bills would assist the Company in marketing its energy efficiency programs. Both of these reasons still exist for having the tariff rider. However, because the funding needed for the Company to pursue all cost-effective DSM programs has grown beyond 5% of base revenue, it is attracting unwarranted attention and criticism. Consequently, timely recovery of DSM costs needed to promote acquisition of cost effective DSM has not occurred.

In addition, demand response programs that are viewed as capacity resources with variable payments from year to year should be treated more like capacity related supply side resources with cost recovery through base rates and PCA true up. Finally, DSM costs included in base rates can be more effectively evaluated and incorporated in overall customer rates as part of a general rate case.

Q. Why has Staff agreed to accept capitalization of DSM expenses and allow the Company to earn its authorized return on the unamortized balance?

A. Staff agreed to limited capitalization of DSM expenses in this case in recognition that DSM programs have been historically compared and evaluated in a manner equivalent to Company owned supply side resources. The Company is allowed to rate base supply side resource investment and earn its authorized return as the assets depreciate.

While Staff continues to evaluate the appropriate level of DSM expense capitalization and assess the resulting customer benefits that may accrue, Staff recognizes that similar treatment has been allowed by the Commission in the past.

Q. What has the Commission said in the past with regard to capitalization of DSM expenses?

A. In allowing capitalization of DSM expenses in the past, the Commission has stated that conservation (DSM) investment should be treated in a manner similar to the recovery of costs associated with generation resources (Order No. 22299, 22623 and 22758). In Order No. 30201, the Commission directed Idaho Power Company to pursue all cost effective DSM. Finally, in Order No 24417 the Commission has questioned the need for further incentives for a utility to do what is otherwise expected of it. Based on these Commission positions, Staff takes a measured approach to promote cost effective DSM through limited capitalization.

Q. Would you please describe Idaho Power's three demand response programs proposed for cost recovery through the PCA and subsequently base rates?

A. Yes, the residential air conditioning cycling program (A/C Cool Credit) was implemented in 2003. By 2009 more than 30,000 customers were participating in the program with an estimated peak savings of 39 Mw. Idaho Power's total cost for the program in 2009 was $3.5 million, of which $0.6 million were incentives paid to participants.

The irrigation pump control program (Irrigation Peak Rewards) was implemented in 2004. By 2009 more than 1,500 service points were included in the program, giving Idaho Power more than 222 MW of load reduction in 2010. Idaho Power's total cost of the program in 2009 was nearly $9.7 million, of which about $8.2 million were incentives paid to participating irrigation pumpers.

The commercial demand response program, FlexPeak

Management, was initiated in May of 2009 and had 33 participants by the end of the year providing 19 Mw of peak load reduction. The program provided 34 MW of load reduction in 2010. Idaho Power's total cost of the program in 2009 was a little over $0.5 million, of which about 85% or $0.45 million were incentives paid to the program contractor, EnerNOC. The incentives paid to EnerNOC quadrupled to $1.9 million in 2010. Incentive payments in the three demand response programs totaled to a little over $12 million in 2009.

Q. Why do you believe it is appropriate to recover the cost of these particular programs through the PCA and base rates?

A. While theoretically any of the DSM programs could be funded through the PCA, the peak load reductions from demand response programs are dispatchable resources that resemble supply-side resources whose costs have traditionally been recovered through the PCA. In particular, the demand response incentive payments are costs that vary from year to year and are most analogous to PCA-type power costs.

Q. Would you please describe Idaho Power's Custom Efficiency program proposed for capitalization?

A. Yes, the Custom Efficiency program provides incentives for specifically engineered energy efficiency improvements for Idaho Power's largest energy users. It was implemented in 2003 and grew to a $6 million program with 132 participants in 2009. In that year alone, Idaho Power reported that the program resulted in 154,123 megawatt-hours of annual energy savings. It also claims that the benefit/cost ratios for that program in 2009 are 6.37 from the utility cost test perspective, 3.56 from the total resource cost test perspective, and 2.03 from the participants' perspective.

Q. Please explain why Staff agrees that incentive costs in the Custom Efficiency program are the most appropriate DSM costs to capitalize.

A. The Custom Efficiency program is reported by Idaho Power to be one of its most cost-effective programs and, aside from the Irrigation Peak Rewards, is the largest program in the Company's DSM portfolio. Staff believes capitalization of costs in this program will provide both the most relief to the DSM tariff rider and the best opportunity to test the long-term viability of capitalization of DSM costs.

Q. Is treatment of DSM costs as proposed by the Stipulation in this case allowed under the rate Stipulation approved by the Commission in Case No. IPC-E-09-30?

A. Yes, the Stipulation approved by the Commission in that case specifically allowed for the Company to "make filings with the Commission to adjust its revenue requirement and change rates to become effective prior to January 1, 2012 for the following: (a) Annual Power Cost Adjustment ("PCA"). . ., (e) Energy Efficiency Rider Adjustment". Stipulation, Case No. IPC-E-09-30, Section 5.2, p. 3. Staff believes that modifying the PCA to reasonably recover costs that could otherwise be recovered by increasing the tariff rider percentage is allowed under the previously approved Stipulation.

Q. In your view, is shifting of DSM cost responsibility between customer classes allowed under the rate Stipulation approved in Case No. IPC-E-09-30?

A. While cost shifting between classes is not specifically precluded; I do not believe it was intended by parties signing that agreement. Absent the special PCA treatment in this case allocating DSM costs to customer classes based on expected tariff rider revenue, significant cost shifts would occur. Large industrial customers would see an estimated $1.9 million per year increase in DSM cost recovery responsibility while residential customers would see a decrease. While it may be reasonable to change class cost recovery responsibility in the future, it should not occur during the rate moratorium period ending January 1, 2012.

Q. Does changing cost recovery from the DSM tariff rider to the PCA, base rates or rate base capitalization change how the Commission Staff will review the prudency of DSM programs?

A. No. Whether DSM cost recovery is through the Tariff Rider, the PCA or base rates, Staff will review prudency on a routine basis, in response to specific requests of the Company or in conjunction with specific PCA or general rate cases. If Staff believes any DSM expenditures were imprudent, it will recommend that the Commission disallow recovery of such expenditures from Idaho Power's customers. The Company will continue to maintain an accounting for review by Staff and other interested parties of all DSM program expenditures, regardless of program funding methodology.

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

A. Yes, it does.

CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 4TH DAY OF MARCH 2011, SERVED THE FOREGOING **DIRECT TESTIMONY OF RANDY LOBB IN SUPPORT OF THE STIPULATION,** IN CASE NO. IPC-E-10-27, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

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