Q. Please state your name, position, and address.

A. My name is Brian Hedman. I am manager of integrated resource planning and demand side policy at PacifiCorp. My address is 825 NE Multnomah, Portland Oregon.

Q. Are you the Brian Hedman who previously testified in this docket?

A. Yes.

Q. What is the purpose of your testimony?

A. My testimony responds to recommendations of the Utah Energy Office (UEO), the Land and Water Fund of the Rockies (LAW Fund), and the Salt Lake Community Action Program (SLCAP). Specifically, the purpose of my testimony is fourfold: 1) to describe the cost recovery mechanisms for DSM expenditures that are used in the Company's other jurisdictions, 2) to discuss the advantages and disadvantages of expense, deferred accounting and tariff rider recovery methods for DSM expenditure, 3) to address specific concerns regarding the power cost credit proposed by Mr. Nichols, Mr. Burks and Mr. Gilliam, and finally 4) to address comments made by Ms. Wolf concerning the Company's integrated resource planning process.

Q. UEO and the LAW Fund recommend tariff riders for the funding of DSM costs. Does the Company have experience with such mechanisms?

A. Yes, we have tariff riders in Washington and Oregon.

Q. What is the cost recovery mechanism for DSM in Washington?

A. In November of 2000 the Washington Commission approved a specific tariff rider cost recovery mechanism. The mechanism works as a balancing account, similar

to an energy balancing account. The initial level of the rider was set at the expected expenditure rate for demand side programs in that state, $2.8 million or approximately 1.5 percent of retail revenues.

Q. How does the Washington Commission track the expenditures and revenues?

A. The Company provides the Commission annual reports of the expenditures and revenues. These are netted against each other throughout the year in a balancing account and interest accrues when the revenues collected exceed the expenditures. At the end of the year the collection rate may be adjusted, as required, to assure a match of expenditures and revenues.

Q. Does the Washington Commission pre-approve the expenditures?

A. No. The Commission approves individual programs when they are filed by the Company. These programs are developed in consultation with an advisory group. The filings contain documentation developed by third party consultants that demonstrate the expected costs and savings of the program. The Commission reserves the right to disallow any imprudently incurred costs. In such an event the costs would be removed from the balancing account. Over time it is expected that the balancing account will net to zero.

Q. Are the programs evaluated after they are implemented?

A. Yes. The Company hires an independent evaluation of all of its DSM programs on an annual basis. This evaluation is then presented to an advisory group consisting of representatives of each of the Company's jurisdictions. The results of the evaluation demonstrate whether the costs and savings are consistent with

expectations. Programs may be modified to address issues raised by the evaluations.

Q. What recovery mechanism is used in Oregon?

A. Oregon's mechanism is similar to Washington with two exceptions. First, effective March 1, 2002 the state legislature has mandated a 3 percent public purpose charge for all electric use. This charge will be collected by the Company and distributed to several organizations for their use in energy efficiency and renewable energy expenditures. The law requires that all utility programs be removed from rates. Prior to March 1, the Company will recover its DSM expenditures according to a mechanism established in 1994. The mechanism provides recovery, including net lost revenues, on a one-year lag. That is, costs expended in a year are recovered through a tariff rider in the subsequent year. This tariff rider is adjusted annually according to the expenditures of the prior year.

Q. What recovery mechanism is used in Idaho and Wyoming?

A. Idaho and Wyoming allow deferred accounting for DSM expenditures. Costs are accumulated between rate cases with a carrying charge. Amortization of these costs is established during the course of a general rate case.

Q. What recovery mechanism is currently used in Utah?

A. Currently, there is no specific recovery mechanism for DSM expenditures. Consequently, they are treated as any other expense item for the Company and are recovered through a general rate case.

Q. Are there advantages and disadvantages of alternate cost recovery mechanisms?

A. Yes. Mr. Gilliam of the Land and Water fund of the Rockies provides a well detailed description of the advantages and disadvantages of the three primary cost recovery mechanisms; expense, deferred and tariff rider. Consequently, I will simply provide a brief summary.

Q. Please describe the advantages and disadvantages of expense treatment.

A. Expense treatment may be appropriate if expenditures are expected to remain constant over time at a level consistent with that of the test period. However, there are two primary disadvantages to this approach. First, the level of DSM expenditure is established according to its cost effectiveness that varies with resource need and alternate resource cost. Consequently, the expenditures within a rate effective period are unlikely to remain at a constant level. Second, as an expense item for the Company DSM expenditures are subject to cost reduction efforts. While cost reduction is generally laudable, in this instance the Company is bound to a cost effective achievement level that may be at odds with those efforts.

Q. Please describe the advantages and disadvantages of deferred accounting.

A. Deferred accounting has the advantage of smoothing the peaks and valleys associated with DSM spending. Costs are accumulated between general rate cases or for a specific length of time. These costs are then amortized into rates over an agreed upon period, for example 5 years. In this sense the treatment is similar to that of a new generation facility.

Q. Are there reasons why DSM should not be treated similarly to new generation?

A. I believe so. DSM has two characteristics that differentiate it from a generation facility. First, it is acquired in small increments. A generation facility does not provide any energy until it is fully completed, often after several years of construction. DSM projects are completed much more quickly. In the case of a compact florescent light bulb program the savings start the minute the bulb is installed. In the case of a major retrofit of a large industrial of commercial customer the construction time may be several months. Since the suite of programs offered by the Company encompass the full range of customers and measures there is DSM energy being provided on a continual basis. Thus it is not necessary or desirable to accumulate the costs of these programs for a period of time before recovery begins. It is more appropriate to design a mechanism that provides recovery contemporaneously with the expenditures. Second, unlike a generation facility, the Company does not own the DSM measure that is installed at the customers' facility. Consequently, the "asset" created by the deferred accounting is a regulatory asset, that is its value is only the expectation that it will be allowed future recovery. This can create concerns if the asset grows to a significant size.

Q. Are you saying that DSM programs are similar to energy purchases?

A. Yes, they are very similar. The savings associated with the installation of energy efficiency measures are very quantifiable. Consequently, the reduction in energy use associated with, for example, the conversion of a commercial office building from magnetic ballast, T12 florescent lighting to electronic ballast T8 florescent lighting will result in a known amount of energy use reduction. This energy is

then available to serve other load in the same manner as would be the case if the energy had been purchased on the wholesale market or generated by Company owned facilities. The cost of the conversion is synonymous with the purchase of energy.

Q. Does that mean that a DSM tariff rider is similar to an energy balancing account?

A. I think they can be thought of as similar. The tariff rider, whether established at a budget level as in Washington or on a one year lag as in Oregon, establishes an ongoing level of energy purchase through DSM. To the extent that these purchases fluctuate due to market conditions the fluctuations are captured in the balancing account. The rider can then be adjusted on a periodic basis to manage the balancing account towards zero.

Q. Does the Company prefer tariff rider treatment for DSM?

A. Yes. The tariff rider approach overcomes the disadvantages of both expense treatment and deferred accounting treatment.

Q. Does the Company agree with Mr. Nichols' and Mr. Gilliam's suggestion that savings from DSM programs should be shared with customers?

A. No. DSM programs represent a cost of acquiring energy. As with other means of acquiring energy, these costs are appropriately borne by the customer. Mr. Nichols and Mr. Gilliam impute hypothetical revenues to create a credit to be passed through to the customer.

Q. Please explain.

A. The proposals of Mr. Gilliam and Mr. Nichols are based on the same concept. Mr. Nichols presents a hypothetical situation in which the spending for DSM is

$10 million in each of two successive years. He then calculates purchased power savings of, hypothetically, $11 million and lost revenues of $4.2 million yielding a net purchased power cost reduction of $6.8 million. His proposal is to credit the DSM expenditures by this amount.

Q. Is there a flaw in his proposal?

A. Yes. Let's take a look at the pieces individually. The $10 million spent on DSM is an actual cost to the Company. The $4.2 million is a reduction in revenues. Neither of these pieces generate any cash or revenue that could be used as a credit. The credit must therefore come from the $11 million reduction in purchase power cost. Let me expand, then, on this aspect. Let’s assume that net power costs were expected to be some level and that this amount was embedded in the base rate. During the rate effective period let’s assume that in the absence of the DSM programs net power costs would have been $11 million higher than that embedded in rates. Thus the DSM programs have generated an $11 million "savings". The Company, however, has not received any additional revenue in this scenario. It has simply collected the power costs that were embedded in rates. Thus, while there has been a savings over an alternate scenario in which the Company does not undertake the DSM programs, that alternative would have resulted in additional costs to the Company. This absence of additional cost does not constitute additional revenue that could be used to credit the DSM account. The result of Mr. Nichols’ proposal is to require the Company’s shareholders to pay for DSM.

Q. Ms. Wolf criticizes the Company's integrated resource planning

process. How do you respond to her comments?

A. I think my general response is that I believe the Company's integrated resource planning process has been consistent with the Commission's and other commissions' directives regarding IRP. Having said that, I recognize that, like so many other processes, it is a process that evolves over time, and I believe that with input from interested parties, we continue to improve the process.

Q. Do you agree with Ms. Wolf regarding her view that the Commission should consider secondary effects of load curtailment programs?

A. No. I don't believe it is either practical or good policy to do so.

Q. Does this conclude your testimony?

A. Yes, it does.