BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of Demand Side Management Cost Recovery by PacifiCorp dba Utah Power & Light Company	))))	CASE NO. 02-035-T12

DIRECT TESTIMONY OF JOHN STEWART

PACIFICORP

April 11, 2003

Q. Please state your name, business address and present position with PacifiCorp (the Company).

A. My name is John Stewart, my business address is Suite 2300, 201 South Main Street, Salt Lake City, Utah, 84111, and my present position is Director, Utah Regulation.

Qualifications

Q. Briefly describe your education and business experience.

A. I have a Business Degree from the University of Strathclyde in Glasgow, Scotland. I have worked for ScottishPower for over 11 years in a variety of business roles.

Q. Please describe your current duties.

A. I am responsible for the coordination, development and presentation of the Company's regulatory policy in Utah. I coordinate the Company's applications for approval of regulatory programs in Utah, which include the current Demand Side Management Programs (DSM).

Purpose of Testimony

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to discuss the implementation of the Demand Side Management (DSM) Cost Adjustment (Tariff Rider) approach to funding Public Service Commission approved DSM services and programs. The Company does not seek to propose a specific tariff collection rate at this time, but rather to propose the methodology and the process that it will use for implementing a Tariff Rider.

Background

Q. Please explain how DSM services and programs are currently accounted for.

A. Approved DSM service and program costs are currently accounted for in accordance with Docket No. 01-035-21, effective August 1, 2001. The Order in Docket No. 01-035-21 provides that approved DSM program expenditures be deferred as spent and amortized to expense over a 5-year schedule, beginning when the amortization expense is reflected in prices or at the beginning of the third calendar year following the year in which the costs were incurred, whichever occurs first. The deferred expenses accrue a carrying charge (at the AFDUC rate) until such time as they are reflected in prices or the beginning of the third calendar year following the year in which the costs were incurred, whichever occurs first. This method is preferable to the Company over the previous "expense as spent" methodology, although it still results in a degree of recovery uncertainty.

Q. Can you explain this recovery uncertainty?

A. Yes, in addition to the uncertainty surrounding the timing of recovery, the current methodology may result in the under collection of DSM investments, especially during periods of increasing investment. The frequency of general rate cases and the DSM expenses present in a general rate case test period both impact whether accurate expenses are being analyzed when calculating the Company's revenue requirements and therefore its actual recovery amount. Fluctuating investment, under the current mechanism, may unduly favor customers or the Company depending on the frequency of rate case activity and whether DSM investments are increasing or decreasing. The current recovery mechanism works most equitably under a scenario of stable DSM investment and frequent rate case activity. Presently, the Company's Integrated Resource Plan (IRP) has identified several new DSM program opportunities that are in various stages of design and implementation. In addition, the IRP proposes the Company seek to identify and implement additional DSM projects, provided they are found to be cost-effective and beneficial to the Company and our customers. This IRP proposes a possible increase in the Company's reliance on cost-effective DSM acquisitions in Utah compared to prior resource plans.

Q Have there been previous proposals for the implementation of a DSM tariff rider?

A. Yes, in the Company's last two rate cases, proposals were made for a surcharge to fund DSM activity. However, there were concerns with whether a tariff rider surcharge could be put in place under state law, and the proposals were not pursued.

Q. Has something changed since then?

A. Yes, in January 2002 the Company was successful in proposing, gaining support for, and helping pass legislation that specifically addressed these concerns. The passage of Senate Bill 152 enables the PSC to consider the use and approve a Tariff Rider mechanism specifically for the recovery of electric utility DSM investments. This legislation's design and passage was a collaborative effort with Utah Power's DSM Advisory Group.

Q. Why is the Company Proposing a Tariff Rider approach for recovery of Company DSM investments?

A. A Tariff Rider approach, with the utilization of a DSM Cost Adjustment balancing account, more accurately captures and accounts for qualified DSM expenditures and reduces the possibility of over or under collection of those costs under various investment and rate case scenarios. This certainty is preferable to the Company over the current deferral with 5-year amortization methodology, and as proposed minimizes financing disincentives by providing near contemporaneous recovery of DSM costs.

Q. Are there additional benefits from this approach?

A. Yes. By providing dollar-for-dollar recovery, customers will benefit by not paying a return on the investments that have been deferred. Also, by separating DSM recovery from general rate case activity it heightens customer awareness of the importance of efficiency and allows key messaging on the issue of demand side management. This is especially important in Utah where peak demand growth is exceeding underlying demand growth.

Q. Have you considered how the effectiveness of DSM expenditures would be tracked?

A. Yes, under this mechanism only costs associated with PSC approved Programs would be included in the balancing account. Programs are developed and reviewed in conjunction with the Division of Public Utilities ("DPU"), Committee of Consumer Services ("CCS") and others. This specific focus provides a report and review process that is more thorough than is typically afforded to expenditures within a general rate case environment.

Q. Will the cost-effectiveness of the DSM Programs be reviewed?

A. Absolutely. In addition to the analysis that is conducted by the Company, the Division, and Committee at the time DSM programs are filed for approval, the Company also proposes the preparation of annual evaluations of all DSM Programs whose costs are being recovered through the Tariff Rider mechanism. The purpose of these evaluations is to assure program cost-effectiveness. If a program is found to be not cost-effective, it will be modified to make it cost-effective or discontinued.

Expenses posted into the DSM Cost Adjustment balancing account are subject to the same prudency review and guidelines that exist today. Disallowed expenses, if any, would be removed from the balancing account and would not be eligible for recovery.

Q. How will the Tariff Rider appear to customers on their bills?

A. The Tariff Rider would appear to customers as a separate line item charge on their monthly Utah Power billing statement.

Q. How will the Tariff Rider collection rate be set and adjusted?

A. We propose that the collection rate would be set based on three factors:

1) The balance in the DSM Cost Adjustment balancing account at the time the collection rate is being set, reviewed, or adjusted;
2) A forecast of the coming year's approved DSM program expenses;
3) The current collection amount or rate.

The objective would be to set a Tariff Rider collection rate that would result in a zero balance in the balancing account by the following annual review period. This minimizes carrying charges associated with DSM investments and most closely tracks actual recovery to actual expenses within the same timeframe.

Q. Would the setting of the initial Tariff Rider collection rate require additional considerations?

A. Yes. The Company has proposed that in setting the initial Tariff Rider collection rate that consideration of the imbalance within the DSM Cost Adjustment balancing account be taken into account. The Company has been deferring qualified DSM expenses since August 1, 2001, and those expenses would go into the DSM Cost Adjustment balancing account. Currently there is over $8 million awaiting recovery either through a general rate case or if approved the Tariff Rider mechanism. By January of 2004, it is forecasted that this amount could grow to $15-$18 million. Attempting to collect this entire amount, in addition to the forecasted expenditures of the next twelve months within the first year of the Tariff Rider's implementation would result in a large Tariff Rider collection rate in year 1 followed by a sharp decrease in that rate in year 2. To minimize the likelihood of such sharp adjustments, the Company has proposed that the collection of these deferred expenditures occur over time. Our filing proposes spreading these expenses out over a period of three years, after which the Tariff Rider collection rate will be based more strictly on maintaining a near zero balance in the balancing account from year to year. Based on subsequent discussions during the Technical Conferences held to discuss the Tariff Rider filing, several attendees expressed agreement with this approach and suggested that this prior balance could be spread out over a longer period, perhaps up to 5 years. The Company is not opposed to entertaining a longer or shorter period, but believes three years properly balances competing considerations.

Q. What are the benefits of this "spreading of costs" approach?

A. While this approach wouldn't result in a balancing of the DSM Cost Adjustment balancing account for the first several years, it would enable the Company to set the Tariff Rider collection rate at a sufficient level to recover current expenditures and, over time, those expenditures that have accumulated. During the Tariff Rider design meetings prior to filing the Application in this case, as well as during the Technical Conferences since that filing, the Company heard customer concerns regarding rate stability. Making this temporary modification in how the Tariff Rider collection rate is set and adjusted, until these prior costs are recovered, we believe best addresses those customer concerns.

Q. Are there any other issues relating to rate stability?

A. Yes. The Company originally proposed to start recovery of DSM expenditure through the surcharge effective January 1, 2004. In listening to rate stability concerns from the DPU and the CCS, the Company is willing to propose that collection of the DSM surcharge take effect from April 1, 2004. This would mean that this tariff would become effective at the same time that the excess power costs surcharge terminates.

Q. How often will the Tariff Rider collection rate be reviewed and possibly adjusted?

A. Annually, beginning on the 1 year anniversary of the Tariff Rider's implementation, the Company will prepare a DSM Cost Adjustment balancing account analysis based on the three factors used to set and adjust the Tariff Rider collection rate. This analysis would then be reviewed with the DPU and the CCS and other interested parties. The purpose of this annual analysis review would be to share information in determining whether there is a need to adjust the existing collection rate, review the prior year's program results, and provide an overview of the DSM activity planned for the coming year.

Q. Which expenses will be eligible for collection through the Tariff Rider?

A. Only DSM expenses associated with PSC approved DSM programs and services on or after August 1, 2001 will be eligible for recovery through the DSM Cost Adjustment/Tariff Rider mechanism. Under no circumstances would DSM expenses included in the DSM Cost Adjustment balancing account be considered in the calculation of the Company's revenue requirement in preparation for general rate case actions.

Q. How will you ensure that DSM costs are not charged to the balancing account and included in general rate case filings?

A. All DSM activity relating to PSC-approved programs will be charged into the DSM cost adjustment-balancing account. In order to ensure that there is no double counting of costs, this procedure will continue. The only DSM related costs that would be included in the next rate case filing would be the CESway Contract and the Utah proportion of non-program allocated expenses specific to

Utah incurred by the PacifiCorp DSM team (i.e. administrative work such as budgeting, management reporting, staff meetings, etc.).

Q. Once the Tariff Rider collection amount or rate is determined, how would the amount be allocated among the various customer classes and what would be the process?

A. The Company has proposed a uniform percentage spread across customer classes. After discussing several different rate design possibilities during our pre-filing design meetings, the uniform percentage method emerged as the best option as it most effectively matched DSM costs to associated system benefits. The uniform percentage method recovers DSM expenses in a manner consistent with the methodology used in establishing the Schedule 95 Net Power Cost surcharge. The design of the Tariff Rider collection rate would be as follows:

1) Identification of the annual dollar amount to be collected;
2) Select a recent historical test period, i.e., 12 months ending December 2003;
3) Determine an equal percentage amount of historic revenue for each rate schedule that is sufficient to generate the total annual target amount to be collected.
4) Design a specific percentage rate for each rate schedule to collect this equal percentage revenue target amount by rate schedule. The collection rate would vary slightly by rate schedule as it would only be applied against a customer's Power Charge, Energy Charge, and Voltage Discount each month in determining a customer's applicable DSM related charges.

This proposed method is identical to the method applied in setting the rate for the currently effective Schedule 95 surcharge.

It is this uniform percentage by customer class that would be applied against a customer's Power Charge, Energy Charge, and Voltage Discount each month in determining a customer's applicable DSM related charges.

Q. Are there any special provisions associated with the Tariff Rider filing that may result in customers receiving credits against charges under this tariff?

A. Yes. The Tariff Rider filing contains a provision stating that customers on rate schedules 6, 9, 10, 19, 21, and 23 whose annual usage in the prior twelve months at a given site exceeds 20,000,000 kwh may be eligible to receive a credit against charges under this tariff equal to 75% of the total amount of the DSM cost adjustment billed in accordance with this Schedule. The provision is referred to as the "Self Direction Credit Provision." This provision provides qualifying customers the opportunity to self-invest in energy efficiency projects and receive a credit against the charges imposed under the Schedule. In our filing, we acknowledged that before qualifying customers could exercise this provision, procedures to govern a self-direction program had to be established. We requested that the Commission utilize this docket to develop self-direction criteria and procedures that would become effective before the date the Tariff Rider might become effective.

Q. Has progress been made on developing these self-direction criteria and procedures?

A. Yes. At the third and fourth Technical Conferences held to discuss the Tariff Rider filing, UAE presented, on behalf of their customer groups, a self-direction proposal for consideration. Although their proposal varied in regards to the size of the customers who might qualify, the amount of the credit, and eliminated our proposed exclusion on self-direction participants from participating in other utility programs, the general intention of a self-direction program remained the same. Detailed proposals are still being developed by the UAE, and possibly other parties, who will file testimony on a self-direction program.

Q. Does the Company support these changes and the proposal as presented by UAE?

A. The Company is supportive of their approach in principle although cannot provide further comments until we more fully understand the ramifications of the administrative issues yet to be clarified. We do not object to their current direction and applaud them for their work to date.

Q. What's the purpose or value of the self-direction provision?

A. A self-direction provision would provide larger customers an incentive to invest in energy efficiency projects within their own facilities. It provides facility managers at these companies a tool to leverage in competing for limited capital dollars. In general, we agree that such a provision will encourage efficiency projects by larger customers beyond what would be otherwise realized.

Q. Do you have any additional general comments regarding the Company's Tariff Rider proposal?

A. Yes. The Tariff Rider is a reasonable means of providing for recovery of expenses incurred by the Company in implementing cost-effective DSM programs. The Tariff Rider will be beneficial to customers as well as the Company, and it would be in the public interest for the Commission to approve the proposed Tariff Rider for later implementation after the Company files for a specific level of recovery.

Q. Does this conclude your testimony?

A. Yes.