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PUBLIC UTILITIES COMMISSION

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION)
OF IDAHO POWER COMPANY FOR)
AUTHORITY TO INCREASE ITS RATES) CASE NO. IPC-E-07-8
AND CHARGES FOR ELECTRIC SERVICE)
TO ELECTRIC CUSTOMERS IN THE STATE)
OF IDAHO.)
_____)

IDAHO POWER COMPANY
DIRECT TESTIMONY
OF
J. LAMONT KEEN

1 Q. Please state your name and business address.

2 A. My name is J. LaMont Keen and my business
3 address is 1221 West Idaho Street, Boise, Idaho 83702.

4 Q. What is your position at Idaho Power Company?

5 A. I am the President and Chief Executive
6 Officer of Idaho Power Company.

7 Q. What is your educational background?

8 A. I graduated magna cum laude in 1974 from the
9 College of Idaho in Caldwell, Idaho now called Albertson
10 College of Idaho, receiving a Bachelor of Business
11 Administration Degree in Accounting. In 1994, I completed
12 the Advanced Management Program at the Harvard Graduate
13 School of Business. I have also attended many utility
14 management-training programs, including the Stone & Webster
15 Utility Management Development Program, the University of
16 Idaho Public Utilities Executive's Course and the Edison
17 Electric Institute Executive Leadership Program.

18 Q. Please outline your business experience.

19 A. I have worked in the electric utility
20 industry at Idaho Power Company for over 33 years, the last
21 19 years as an officer of the Company. I joined the Company
22 in 1974 and advanced through several accounting, analyst and
23 management positions. In July 1988 I was promoted to
24 Controller. In November 1991 I was appointed Vice President
25 of Finance and Chief Financial Officer and served in that

1 capacity until March of 1999 when I was also given
2 responsibility for all of the administrative areas of the
3 Company as Senior Vice President of Administration and Chief
4 Financial Officer. In March of 2002, I was appointed
5 President and Chief Operating Officer where I had
6 responsibility for the Company's operating units. In July
7 of 2004 I was elected to the Board of Directors of IDACORP,
8 Inc. and Idaho Power Company and on November 17, 2005 was
9 appointed President and Chief Executive Officer of Idaho
10 Power Company. On July 1, 2006 I also became President and
11 Chief Executive Officer of IDACORP in addition to my duties
12 with Idaho Power Company. I am also a Board Member of the
13 Edison Electric Institute and a Board Member and Chairman
14 Elect of the Western Energy Institute.

15 Q. What are your duties as President and Chief
16 Executive Officer of Idaho Power Company?

17 A. I am responsible for policy and strategic
18 oversight of all utility operations including power supply,
19 delivery, administration and finance, as well as legal and
20 compliance activities.

21 Q. What is the purpose of your testimony in this
22 proceeding?

23 A. My purpose is to provide the Idaho Public
24 Utilities Commission (Commission) with a general overview of
25 Idaho Power's operating and financial status and to urge

1 that the Commission utilize a forecast test year in this
2 proceeding to determine Idaho Power's revenue requirement.

3 Q. Please comment on customer growth and the
4 need for investment in the Company's system.

5 A. Idaho Power added more than 31,000 new
6 customers in the past two calendar years, and the Company
7 continues to experience significant customer growth in 2007
8 although at a somewhat slower pace. While fluctuations over
9 time in customer growth and consumption are reasonable to
10 expect, for planning purposes the Company estimates growth
11 to average 2 percent annually over the next 20 years. Last
12 summer the Company exceeded its previous record peak load of
13 2,963 megawatts many times before setting a new all-time
14 system peak of 3,084 megawatts on July 24. This clearly
15 shows that the Company must continue its efforts to find
16 new, reliable and environmentally responsible sources of
17 energy. Serving these new customers requires infrastructure
18 expenditures to connect and meet their electric energy needs
19 as well as more employees, vehicles and other resources to
20 operate and maintain the new facilities and systems.

21 Additional investment is also required to
22 serve the Company's existing customers as well. The Company
23 must make investments in, and is experiencing rising costs
24 associated with, preserving the Company's existing power
25 plants and transmission and distribution infrastructure.

1 Looking at the near-term future, investment over the next
2 several years will be substantial.

3 Q. What are the Company's plans for additional
4 resources in the face of the load growth you have described?

5 A. The most recently acknowledged plan by the
6 Idaho Commission, the 2006 Integrated Resource Plan (IRP),
7 identifies two projects that carryover from the Company's
8 2004 IRP. Those two projects are the expansion of the
9 Company's Shoshone Falls hydro plant from 12.5 MW to 62.5 MW
10 and a new 170 MW gas-fired power plant near Mountain Home,
11 Idaho. The near-term action plan calls for continued
12 expansion of the Company demand side management (DSM)
13 activities. In addition, in the near-term, the 2006 IRP
14 calls for 100 MW of wind, completion of the 250 MW Borah-
15 West transmission upgrade and 50 MW of a geothermal resource
16 beginning in 2009. The 2006 IRP near-term action plan also
17 includes initiating the McNary-Boise transmission upgrade,
18 continued evaluation and selection of a coal-fired resource
19 and assessment of Combined Heat and Power Public Utility
20 Regulatory Policy Act resources.

21 Q. You have mentioned continued expansion of the
22 Company's DSM activities, would you please elaborate.

23 A. Idaho Power continues to work with the Energy
24 Efficiency Advisory Group which is comprised of customers,
25 DSM advocacy groups and Public Utilities Commission Staff

1 representatives from Idaho and Oregon in developing demand-
2 side management programs. Our portfolio of energy
3 efficiency programs and services is extensive and includes
4 programs for all four of our major retail customer groups -
5 residential, commercial, irrigation and industrial. With
6 the Commission's approval this spring of both the Fixed Cost
7 Adjustment rate mechanism and the Demand Side Management
8 Incentive Pilot Program, I expect the Company's energy
9 efficiency efforts to accelerate.

10

11 Q. Do demands on Idaho Power's distribution
12 system continue to grow every year?

13 A. Yes. Idaho Power continues to meet the
14 considerable load and customer growth in its service area by
15 expanding its system and by reinvesting in existing
16 infrastructure. Successful management of both the expansion
17 and the continued maintenance and operation of the
18 distribution system depends upon the attentiveness and
19 skills of our experienced workforce.

20 Q. What are some of the projects helping to meet
21 this growth?

22 A. During 2006 and 2007, Idaho Power will add
23 600 miles of new distribution lines and make a similar
24 investment in reconstructing existing distribution lines.
25 The Company will add 10 new distribution substations and

1 will improve other existing distribution substations.

2 These new capacity additions, while necessary
3 to keep pace with growth, continue to add more expensive
4 marginal-cost capacity to a low, inexpensive embedded-cost
5 system. These new facilities also add to the size of the
6 infrastructure we must operate and maintain going forward.

7 Q. Has Idaho Power Company also invested in
8 transmission facilities since the beginning of 2006?

9 A. Yes. Idaho Power has continued to invest in
10 backbone transmission facilities both to serve load and to
11 improve service reliability. These include several
12 backbone transmission projects: Nampa 230/138 kV
13 Transformer and 230 kV Line Tap; Boise Bench 230/138 kV
14 Transformer Upgrade; Horseflat 230/138 kV Substation; and
15 Borah West upgrades. The Borah West upgrades are scheduled
16 for completion in May of 2007.

17 Q. Are there any recent developments in the
18 region that would have a bearing on future levels of
19 transmission investment by Idaho Power?

20 A. Yes. On May 18, 2007 Idaho Power announced
21 the signing of a Memorandum of Understanding with
22 PacifiCorp under which the companies would pursue
23 development of new high voltage transmission lines from
24 Wyoming across southern Idaho. The companies anticipate
25 that various segments of the project under consideration

1 would be completed between 2012 and 2014, and would be
2 designed to meet growth in customers' demand for
3 electricity and increased electrical transmission capacity
4 across southern Idaho. The Memorandum of Understanding
5 will serve as a cornerstone for the two companies to
6 jointly study the development of the major transmission
7 projects necessary to meet each company's needs.

8 Q. Are the geographic areas where Idaho Power's
9 customer growth is occurring similar to the areas described
10 in prior rate cases?

11 A. Yes. As I have testified in prior
12 proceedings, a significant portion of the Company's load
13 growth continues to occur in the Treasure Valley area. The
14 next 10 to 25 years will require ongoing transmission
15 system and substation improvements in this area. The
16 Treasure Valley Electric Plan Community Advisory Committee
17 created to assist us in addressing the area's long term
18 electric needs is working well. The roster of this
19 advisory committee includes members of the public, mayors,
20 planning/zoning commissioners, city planners, and business
21 representatives. This effort is designed to engage the
22 community in advising Idaho Power in the development of a
23 25-year blueprint for the electrical system in the Treasure
24 Valley.

25 Q. What does the continued record growth mean to

1 the level of the Company's expenditures?

2 A. Both operation and maintenance and capital
3 expenditures have increased in order to enable us to serve
4 our growing customer base and to reinforce our system
5 reliability.

6 Q. Does the Company project that it will be
7 required to continue to make substantial infrastructure
8 investments over the next three years?

9 A. Yes. The Company's latest forecast shows
10 construction budgets of approximately \$266 million in 2008
11 and \$815 million for 2008 through 2010 combined.
12 Expenditures of this magnitude will enable the Company to
13 develop new resources and sustain those the Company already
14 has, and to build and upgrade transmission and distribution
15 systems required to serve the Company's customers.

16 Q. Can the Company internally generate the
17 necessary funds to sustain this construction plan?

18 A. No. The Company will be required to go to
19 the capital markets to obtain a significant portion of the
20 necessary funds.

21 Q. Please describe the Company's financial
22 performance over the last four years.

23 A. The Company has failed to earn its authorized
24 rate of return over each of the last four years and it is
25 not likely it will earn its authorized rate of return in the

1 year 2007.

2 Q. Why do you believe Idaho Power has been
3 unable to earn its authorized rate of return?

4 A. The Company's embedded costs to serve
5 existing customers are very low, partially reflecting the
6 age of the Company's existing generation resources and other
7 infrastructure. Consequently, when the Company makes
8 additional investments either to serve new customers or to
9 increase reliability and service to existing customers, its
10 incremental costs are much higher than its embedded costs.
11 The Company cannot absorb this cost differential, and as a
12 result, average costs unavoidably increase when the
13 Company's incremental costs are added to its existing or
14 embedded costs. This in turn necessitates increases in the
15 Company's prices or rates. If the Company is required to
16 base its prices or rates on historical costs, and is
17 precluded from taking into account the higher incremental
18 costs the Company will actually experience, the Company will
19 not attain its authorized rate of return.

20 Q. In your opinion, based on current conditions,
21 is it reasonable for the Commission to determine the rates
22 charged by Idaho Power Company using historical data?

23 A. No. Although I recognize that the rate of
24 return authorized by the Commission is not a guarantee of
25 any level of revenues or return, Idaho Power Company is

1 entitled to a reasonable expectation that it can earn its
2 authorized rate of return. Use of historical data to
3 determine a utility's revenue requirement may be a fair and
4 accurate method during non-inflationary times and/or for a
5 utility whose incremental costs are close to its embedded
6 costs. It is not fair nor reasonable to determine a
7 utility's revenue requirement based on historical data in a
8 period when prices are increasing or the utility's embedded
9 costs are far below the utility's incremental costs. In my
10 opinion, the use of historical data will inadequately
11 demonstrate the present revenue requirement of Idaho Power
12 Company and use of a forecast test year to set Idaho Power's
13 rates is not only reasonable but necessary.

14 Q. If the Commission issues an order suspending
15 the rates requested by the Commission in this filing until
16 late 2007, still using 2007 test year data, will the Company
17 earn the return that the Commission determines is the
18 Company's allowed rate of return?

19 A. No. If that occurs, the rates that will
20 actually be in effect for the year 2008 will be based on
21 2007 costs. As a result, it is highly unlikely that the
22 Company will earn the return authorized by the Commission.

23 Q. Why is timely rate relief important to Idaho
24 Power and its customers?

25 A. Timely rate relief is necessary to maintain

1 the credit rating agencies and the overall investment
2 community's confidence in Idaho Power's ability to meet its
3 financial obligations and earn a fair return on its
4 investments. This is especially important to our customers
5 during a period of heavy capital investment requiring
6 significant external funding, as the Company is experiencing
7 now. Without this confidence, the overall cost of acquiring
8 capital will be higher and access to needed capital may even
9 be limited. This ultimately results in higher rates for
10 Idaho Power customers. It is also important to provide the
11 equity investors in Idaho Power the opportunity to earn a
12 fair return on their investment in the Company.

13 Q. Does this conclude your testimony?

14 A. Yes, it does.