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IDAHO 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-11-08
AND CHARGES FOR ELECTRIC SERVICE)
TO ITS CUSTOMERS IN THE STATE OF)
IDAHO.)
_____)

IDAHO POWER COMPANY
DIRECT TESTIMONY
OF
DARREL ANDERSON

1 Q. Please state your name and business address.

2 A. My name is Darrel Anderson and my business
3 address is 1221 West Idaho Street, Boise, Idaho.

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

5 A. I am employed by Idaho Power Company ("Idaho
6 Power" or "Company") as the Executive Vice President of
7 Administrative Services and Chief Financial Officer.

8 Q. Please describe your educational background.

9 A. In 1979, I graduated from Oregon State
10 University with a Bachelor of Science Degree in Accounting
11 and Finance. I am a licensed Certified Public Accountant
12 in the state of Oregon (#4312 inactive). In 2005, I
13 completed the Advanced Management Program at the Harvard
14 Graduate School of Business.

15 Q. Please describe your work experience prior to
16 joining Idaho Power.

17 A. Before joining Idaho Power in 1996, I was the
18 Chief Financial Officer of Sisters of Saint Mary of
19 Oregon. Prior to joining the Sisters of Saint Mary of
20 Oregon, I was a senior manager of Audit Services for
21 Deloitte & Touche and was a firm-designated specialist in
22 electric and gas utility operations. I was employed at
23 Deloitte & Touche from 1979 until 1995.

24 Q. Please describe your work experience with
25 Idaho Power and IDACORP, Inc. ("IDACORP").

1 A. I joined Idaho Power in 1996 as a Controller
2 in the Finance Department. In 1998, I moved to Lacey,
3 Washington, where I served as Executive Vice President of
4 Finance and Operations at Applied Power Corporation, a
5 subsidiary of IDACORP. In April 1999, I became Idaho
6 Power's Vice President of Finance and Treasurer. From July
7 2004 to September 2009, I served as the Company's Senior
8 Vice President of Administrative Services and Chief
9 Financial Officer and was responsible for all financial and
10 treasury functions as well as certain corporate functions
11 that support the operations of the utility business. These
12 functions include inventory management, procurement, human
13 resources, information technology, facilities and
14 communications. Since being appointed Idaho Power and
15 IDACORP's Executive Vice President of Administrative
16 Services in October 2009, I continue to oversee Finance,
17 Treasury, and Administrative Services.

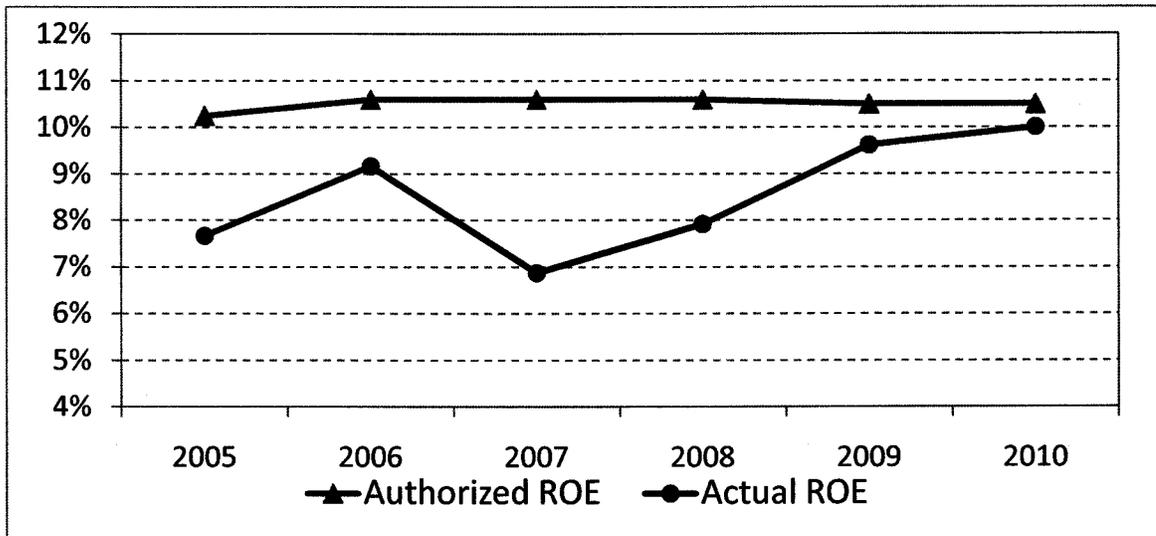
18 Q. What is the purpose of your testimony in this
19 proceeding?

20 A. My testimony will provide an overview of
21 challenges facing the Company and the need for general rate
22 relief that is requested in this filing. I will describe
23 the growth in investment and expenses since the Company's
24 last general rate case. I will describe the reasons why
25 utility costs are increasing and discuss how Idaho Power is

1 prudently managing those cost increases. I will also
2 discuss the Company's earnings performance since 2008 and
3 describe how the stipulation that was approved by the Idaho
4 Public Utilities Commission ("Commission") on January 13,
5 2010, in Order No. 30978 ("Stipulation") has provided
6 benefits to both customers and the Company. I will
7 describe how the Stipulation has made it possible for the
8 Company to communicate to the capital markets that the
9 Company has had the opportunity to earn a level of return
10 that might not have been otherwise attainable. I will
11 further describe how adjusting components of base rates
12 upward at the same time that mechanistic components of
13 overall rates were declining provided stable and/or
14 declining overall rates to customers during these
15 challenging economic times. Nonetheless, the Company has
16 not earned its authorized return on equity ("ROE") for more
17 than five years and does not expect to in 2011, unless the
18 Company is successful in its effort to sustain a positive
19 determination from the Internal Revenue Service regarding
20 its request to change tax methods related to uniform
21 capitalization for income taxes. The chart below shows
22 Idaho Power's system-wide annual, actual ROE compared to
23 its authorized ROE over the last six years.

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25



1

2

Q. Are you the witness that can address overall

3

Company policy?

4

A. Yes.

5

Q. What are the challenges facing the Company?

6

A. Rising prices and costs, constrained capacity,

7

and the uncertain impacts of climate change legislation are

8

challenges facing utilities across the nation, and Idaho

9

Power is no different. Despite considerable investment and

10

expansion in recent years, much of the Company's system

11

today is fully utilized. To provide safe, reliable service

12

to all customers, the Company must continue to make major

13

investments in both new and existing infrastructure.

14

Worldwide demand for the materials and services required to

15

build needed infrastructure has driven up prices

16

dramatically over the last several years. Climate change

17

concerns require selection of lower emission-generating

18

resources that are often more costly compared to Idaho

1 Power's current generating fleet. Also, the Company must
2 operate under increasingly complex compliance standards.

3 Idaho Power's credit quality as measured by the
4 national credit rating agencies has stabilized, albeit at a
5 lesser credit quality than in prior years and at the lower
6 end of investment grade. The Company's stock price has
7 rebounded over the last two years due in part to the 2010
8 Stipulation, which essentially created a virtual floor
9 around expected earnings in the Idaho jurisdiction and
10 allowed for changes to Power Cost Adjustment ("PCA") base
11 level expenses. Rates in effect today absent the current
12 Stipulation and/or one-year impacts of changes to certain
13 tax methods that I will describe later in my testimony do
14 not provide the Company a sufficient opportunity to earn
15 the rate of return necessary to assure access to the
16 capital markets to finance needed investments under
17 reasonable terms. Any delay in or lack of recovery of
18 prudent operating or financing costs is seen as risk by the
19 financial community, including the credit rating agencies,
20 during this period of plant expansion and difficult
21 economic times. These pressures combine to present a
22 formidable challenge to sustaining the financial health,
23 operational excellence, and, ultimately, the independence
24 of the Company.

25

1 Q. You mentioned growth in investment over the
2 past few years. What is driving the growth in investment
3 since the Company's last general rate case?

4 A. Idaho Power and the utility industry in
5 general are experiencing a cycle of heavy infrastructure
6 investment. Although there has been a pause in the rapid
7 growth experienced a few years ago, growth is still
8 occurring as the Company continues to add new customers.
9 The Company must be prepared to serve that growth as it
10 occurs. To provide safe, reliable service to all
11 customers, the Company must make investments in both new
12 and existing infrastructure. The Company is adding
13 capacity to its base load generation, transmission system,
14 and distribution facilities to ensure an adequate supply of
15 electricity to customers, to provide service to new
16 customers, and to maintain system reliability.

17 Idaho Power's aging transmission and distribution
18 infrastructure requires continuing investment in upgrades
19 and replacement to maintain their operational viability.
20 The Company's aging hydroelectric and thermal generation
21 facilities also require continuing investment in upgrades
22 and component replacement. In addition, environmental
23 mandates require the replacement or retro-fitting of aging
24 equipment with often more expensive technology. Idaho
25 Power has partnership investments in coal facilities that

1 are over 30 years old and require additional investment to
2 maintain their operational viability while continuing to
3 provide low cost baseload generation. In addition, the
4 Company is operating in an environment of ever increasing
5 reliability and compliance standards that also require
6 increased levels of investment.

7 Q. In light of the continued need for investment
8 in new infrastructure for distribution, transmission, and
9 generation resources, what is the Company doing to reduce
10 the need for this new investment?

11 A. Idaho Power has a legal obligation to serve
12 the energy needs of its customers. The Company takes this
13 obligation seriously. In planning to meet customer energy
14 needs, the Company assesses both supply-side and demand-
15 side options. In addition to expanding its production and
16 delivery systems, the Company is aggressively promoting
17 demand-side management and energy efficiency programs and
18 services. These efforts serve to reduce the pace of growth
19 in investment in a cost-effective manner by delaying the
20 need for additional generating resources. Additionally,
21 these efforts help to educate customers on responsible use
22 of energy.

23 Q. Please briefly describe the current business
24 environment that the Company is operating in and expected

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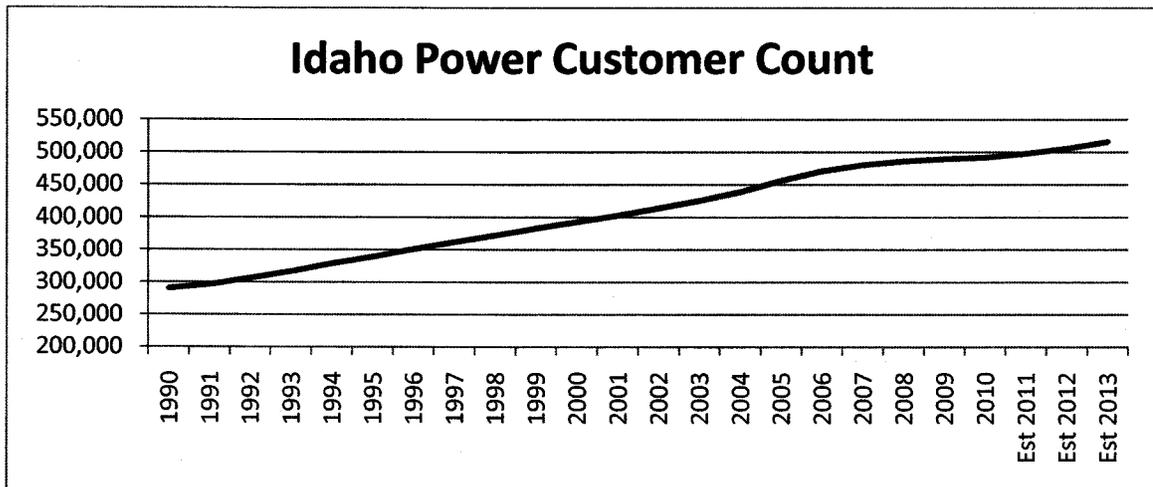
1 to operate in up and through the period in which you expect
2 rates to become effective.

3 A. The Company's service area continues to
4 experience difficult economic times as evidenced by
5 unemployment rates that are at or slightly higher than the
6 national average. As noted in a Moody's Analytics article
7 for April 2011, the government and construction sectors are
8 still experiencing layoffs. Housing permit issuances are
9 low and house prices are still heading down while
10 foreclosures are beginning to ease.

11 Q. With the continued negative economic news, why
12 is it that utility investment is expected to grow?

13 A. Despite all the relatively negative economic
14 news, the forward looking view is more positive. It is
15 expected that income growth in Idaho will accelerate in
16 2011. Income growth in Idaho for 2010 was 2.7 percent,
17 rebounding from a decline of 2.5 percent in 2009. As
18 referenced by the Moody's Analytics April 2011 article,
19 Idaho is expected to be an above-average performer in
20 reference to income growth over the extended forecast
21 horizon. With income growth comes the assumption of
22 continued customer growth as well as an expectation of
23 increased energy usage. Over the next three years, the
24 Company is expecting billed sales to increase an average of
25 3 percent. The largest increase is expected in 2011 when

1 Hoku Materials, Inc. ("Hoku") will begin operation, which
2 makes up the majority of the first year increase. In
3 addition to this growth, other potential new large loads
4 totaling approximately 790 megawatts ("MW") have made
5 inquiries to the Company but have not been included in
6 these estimates. The Company expects to add up to 6,000
7 customers this year. The following graph shows actual and
8 projected growth in number of customers from 1990 through
9 2013.



10
11 This growth, combined with the need to refurbish the
12 existing infrastructure utilized to serve Idaho Power's
13 nearly 500,000 customers safely and reliably on a 24 hours
14 a day, 7 days a week basis is what continues to drive the
15 Company's new utility investment.

16 **I. INVESTMENT GROWTH**

17 Q. How would you describe the environment that
18 Idaho Power encounters when seeking financing for capital
19 projects?

1 A. Idaho Power's credit quality as measured by
2 the national credit rating agencies has only become stable
3 during the last year. Credit reports note Idaho Power's
4 significant near-term capital programs as being the primary
5 challenge, mitigated by the degree of regulatory support it
6 receives from the Idaho legislature and the Commission.
7 Customers benefit when the Company has good access to
8 capital markets under reasonable terms in order to finance
9 needed investments in infrastructure.

10 Q. Please describe the growth of investment since
11 the Company's last rate case.

12 A. Since the Company's last general rate case in
13 2008, it has placed in service over \$450 million in gross
14 plant.

15 Q. Please discuss the Company's investment in
16 generation plant.

17 A. The Company made significant investments on
18 all four of the Jim Bridger Power Plant units to install
19 pollution control equipment as required to comply with the
20 Regional Haze Best Available Retrofit Technology ("RH
21 BART") ruling from the state of Wyoming. Investment in
22 2011 for the installation of additional pollution control
23 equipment will be required to comply with the RH BART
24 ruling. Also at the Jim Bridger Power Plant, the Company
25 completed a project in 2010 to upgrade the turbines on Unit

1 #1 in order to improve turbine efficiency. In 2011, the
2 Company will also make investments at the Valmy Power Plant
3 Unit #1 to replace the reheating tube, cooling tower and
4 secondary super heater assembly, and to upgrade the
5 evaporation pond liner.

6 Total nameplate generating system capacity increased
7 by 9 MW from 3,267 MW at the end of 2008 to 3,276 MW at the
8 end of 2010.

9 Q. Please discuss the Company's investment in its
10 transmission system.

11 A. In 2010, the Company completed the
12 construction of the new 500 kilovolt ("kV") Hemingway
13 Transmission Station and the associated Hemingway to
14 Bowmont 230 kV transmission line (collectively referred to
15 as "Hemingway") with a total cost of \$54 million.
16 Operating constraints in the Northwest and load growth in
17 the Treasure Valley since 2003 required an additional
18 transmission path coming into the Treasure Valley by the
19 summer of 2010. Hemingway provides that additional route
20 for power to flow into and out of the Treasure Valley load
21 center and improves reliability.

22 Hemingway proved to be crucial to system reliability
23 in the summer of 2010 when wild fires burned close to the
24 Midpoint 500 kV transmission line. That line had to be
25 taken out of service due to the proximity of the fires. If

1 Hemingway had not been in service, additional sections of
2 the 500 kV transmission system would necessarily have been
3 taken out of service. With Hemingway in service, only the
4 Midpoint to Hemingway section of the line had to be taken
5 out of service, leaving other sections available to serve
6 load.

7 In 2009, the Company completed the construction of
8 the new 230 kV Danskin to Hubbard transmission line. This
9 project utilized an existing de-energized 138 kV
10 transmission line route and provides enhanced reliability
11 and additional access to the Company's Danskin generation
12 unit.

13 Total transmission line miles increased from 4,752
14 miles at the end of 2008 to 4,817 miles at the end of 2010.

15 Q. Please discuss the Company's investment in
16 distribution facilities.

17 A. In 2011, the Company will complete the
18 Advanced Metering Infrastructure ("AMI") project at a total
19 estimated cost of approximately \$73 million, with a portion
20 of the investment already reflected in base rates through
21 two separate filings approved by the Commission in 2009 and
22 2010 in Order Nos. 30829 and 31097, respectively.

23 In 2011, the Company will build a new 138-12.5 kV
24 substation at Kimberly with the capability to serve up to
25 80 MW and one mile of 138 kV transmission line that will

1 serve the station from the west. This project is required
2 to serve the growing load in the Kimberly area that has
3 exceeded the capacity of the existing substation and
4 feeders serving the area.

5 Total distribution line miles (overhead and
6 underground) increased from 26,576 miles at the end of 2008
7 to 26,697 miles at the end of 2010.

8 Q. Please discuss the Company's investment in
9 general plant.

10 A. In 2010, the Company completed construction of
11 the new Long Valley Operations Center in Lake Fork that
12 replaced the existing McCall Operations Center. Expansion
13 of the McCall substation in 2008 reduced the space
14 available in the existing Operations Center's yard. The
15 Company expanded the existing McCall substation because it
16 was a lower cost option than building a new substation.
17 Community plans also made the existing location undesirable
18 due to its central McCall location.

19 **II. GROWTH IN EXPENSES**

20 Q. Please provide some background on the changes
21 in costs the Company is experiencing which contribute to
22 the need for a rate increase.

23 A. The Company is experiencing cost increases
24 related to power production, compliance requirements,
25 reliability requirements, materials and supplies, property

1 taxes, land use fees, maintenance costs and labor costs. I
2 will briefly discuss some of these changes.

3 Q. Please discuss increases in power production
4 related costs.

5 A. Power production costs have increased
6 primarily due to operations and maintenance ("O&M")
7 increases passed on to Idaho Power by the Company's
8 operating partners at jointly owned thermal plants. Higher
9 maintenance costs associated with aging equipment,
10 increased labor costs resulting from union contracts that
11 were renegotiated in 2010, and higher chemical costs are
12 the primary drivers of the increases. Costs have increased
13 at the Company's Bennett Mountain plant primarily due to
14 required periodic combustor inspections and combustor parts
15 refurbishment. There have also been price increases in the
16 chemicals used in the thermal plants, along with
17 environmental compliance that requires the use of more
18 chemicals.

19 Q. Please discuss increases in compliance
20 requirement related costs.

21 A. There has been an increase in mandatory
22 compliance required of Idaho Power, and utilities in
23 general, related to reliability, environmental compliance,
24 safety, and security. These changes drive corresponding
25 increases in regulatory compliance costs. I will briefly

1 describe some of the areas where compliance related
2 expenses have increased.

3 The North American Electric Reliability Corporation
4 ("NERC") now requires Light Detection and Ranging surveys
5 to verify transmission line rating values. Costs for 2011
6 are expected to be \$1.4 million and the project will be
7 ongoing through 2013.

8 Beginning in 2011, Idaho Fish and Game ("F&G")
9 hatchery operation expenses are projected to increase
10 \$730,000 per year due to a number of factors, including
11 expanded harvest monitoring and harvest performance
12 evaluation, increased personnel, higher F&G O&M and
13 overhead costs, development of a fish identification
14 system, and a contribution toward a region-wide hatchery
15 database.

16 Cumulatively, Federal Energy Regulatory Commission
17 ("FERC") administrative and land use fees have increased
18 \$480,000 since 2008.

19 Annual fees paid to state regulatory agencies have
20 increased \$360,000, or 21 percent from 2008 to 2011.

21 Western Electricity Coordinating Council ("WECC")
22 annual dues have increased over \$200,000, or 33 percent
23 from 2008 to 2011.

24

25

1 In 2011, Idaho Power has added three new positions
2 to manage and comply with the increased regulatory
3 compliance requirements of the FERC, NERC, and WECC.

4 Q. Please discuss increases in reliability
5 requirement-related costs.

6 A. The Energy Policy Act of 2005 significantly
7 impacted the national reliability standards for utilities
8 and changed compliance from voluntary to mandatory starting
9 in June 2007. These standards apply to the bulk power
10 system in North America and are enforced by the NERC and
11 WECC. Non-compliance with any of the requirements may
12 result in monetary penalties up to \$1 million per day per
13 violation. NERC's more than 100 reliability standards are
14 mandatory, enforceable, and primarily address system
15 operation, transmission planning, and equipment
16 maintenance.

17 Q. How does Idaho Power measure the reliability
18 of its distribution system?

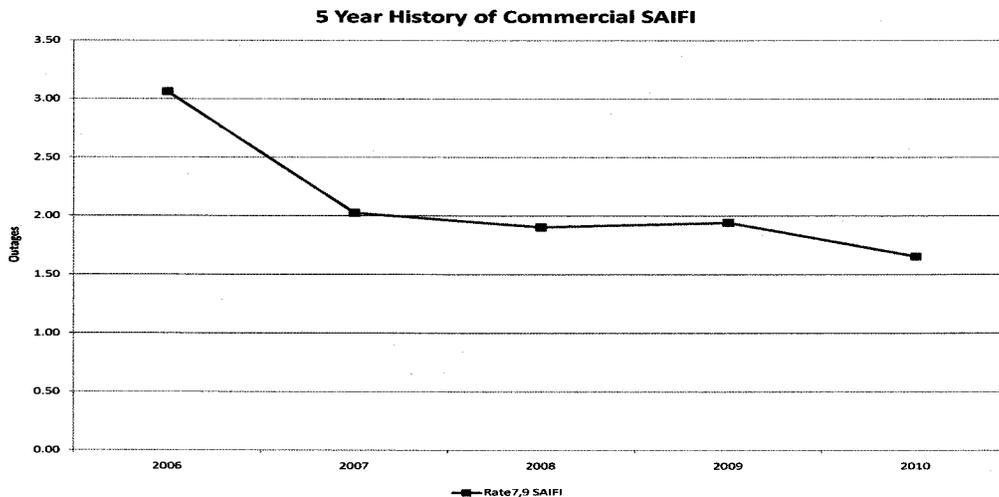
19 A. In the electric industry, reliability is,
20 simply put, how good companies are at consistently keeping
21 customers' lights on. Idaho Power measures its
22 distribution system reliability by using industry
23 recognized reliability metrics such as the System Average
24 Interruption Frequency Index ("SAIFI"), the System Average
25 Interruption Duration Index, and the Momentary Average

1 Interruption Frequency Index. In general, these indices
2 are measured by looking at the average number of outages
3 and the duration of outages experienced by customers across
4 the system.

5 Q. What are Idaho Power's reliability results?

6 A. In 2007, the Company increased its focus on
7 reliability and consolidated the reliability activities
8 under one senior manager. Since that time, there have been
9 measured improvements in the Company's reliability metrics.
10 In 2006, the system SAIFI was 3.06 average outages per year
11 for commercial customers. In 2010, the system SAIFI had
12 improved to 1.66 average outages per year for commercial
13 customers. An outage is defined as an interruption to
14 electric service lasting five minutes or longer.

15 The graph below shows the improvements in the last
16 five years of Idaho Power's commercial customers' SAIFI
17 measurements.



1 Q. Please briefly describe Idaho Power's recent
2 efforts to improve reliability.

3 A. In addition to the Hemingway projects
4 discussed earlier, Idaho Power has completed many projects
5 to either maintain or improve reliability. These projects
6 include work such as the replacement of distribution wood
7 cross-arms and associated wood pins, the injection and
8 replacement of certain underground distribution cables, and
9 improvements to portions of the transmission system and
10 substations. Most recently, reliability work has been
11 performed in the Wood River Valley and McCall areas.

12 Q. Please briefly describe other areas where
13 Idaho Power is currently working or will work to improve
14 reliability.

15 A. The Company is continuing its efforts to
16 replace deteriorated wood cross-arms and wood pins, the
17 injection and replacement of certain underground cables,
18 and the upgrade of a portion of the sub-transmission system
19 in the Jerome area.

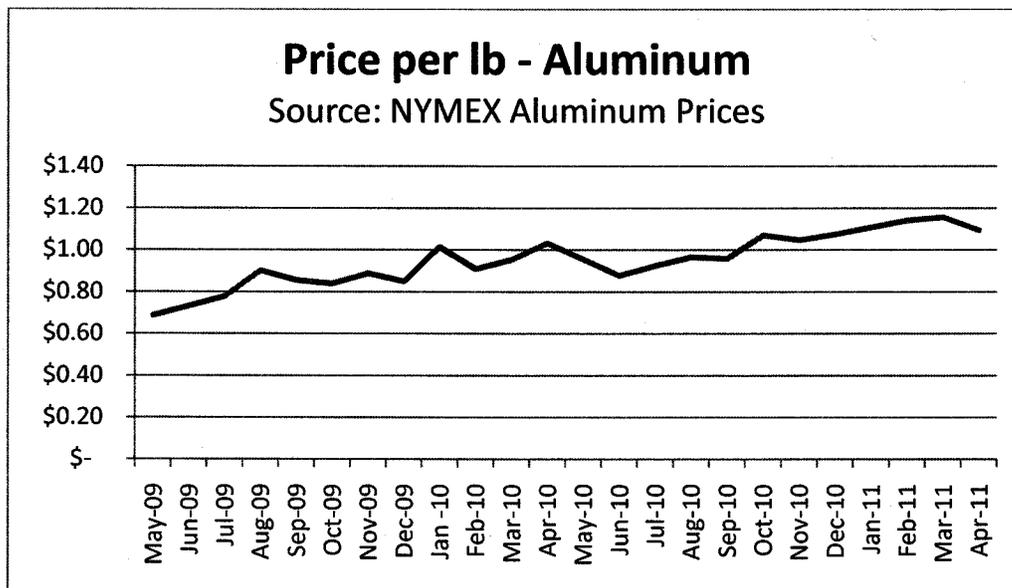
20 Q. Please discuss the increases in material and
21 supply-related costs.

22 A. Many of the main categories of materials that
23 the Company uses in its operations have seen upward market
24 price shifts in recent years. These categories include
25 transformers, wood poles, pole line hardware and

1 cable/conductor, which comprise most of the components of
2 the distribution network for serving customers and
3 contribute to overall product costs.

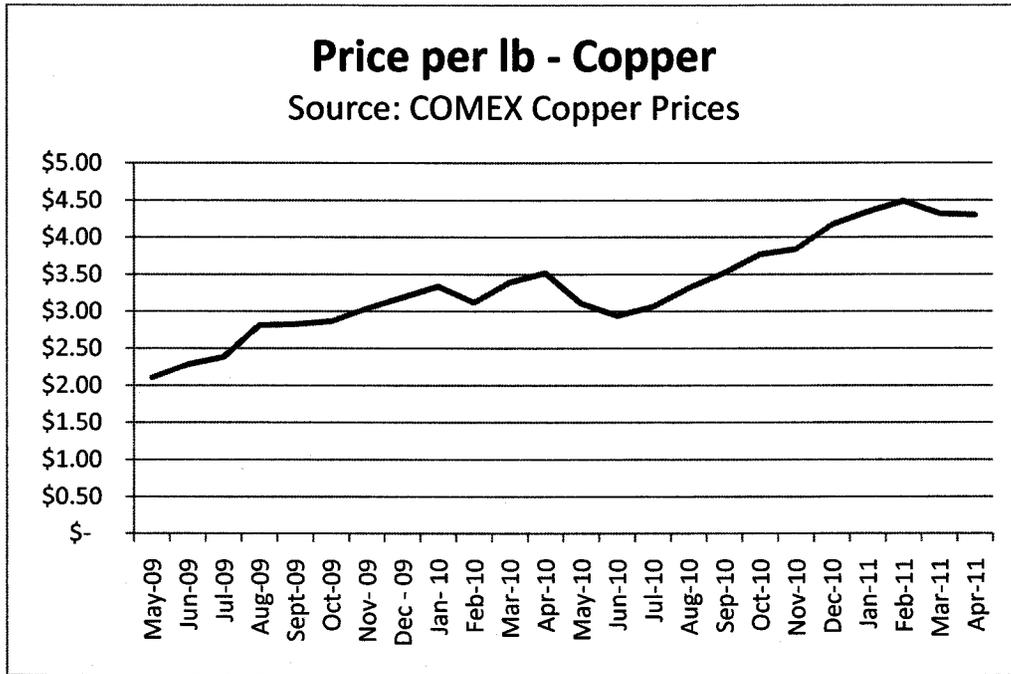
4 Q. What is causing the increase in the cost of
5 materials for Idaho Power, and the utility industry in
6 general?

7 A. A major driver for increases in material costs
8 has been the significant increase in certain commodity
9 costs (copper, aluminum, and steel) over the last few
10 years. These commodities are primary components of many of
11 the materials that Idaho Power utilizes throughout its
12 system. The chart below illustrates the overall upward
13 trend in the prices of key commodities. As can be seen on
14 the chart below, aluminum has increased 59 percent from May
15 2009 to April 2011.

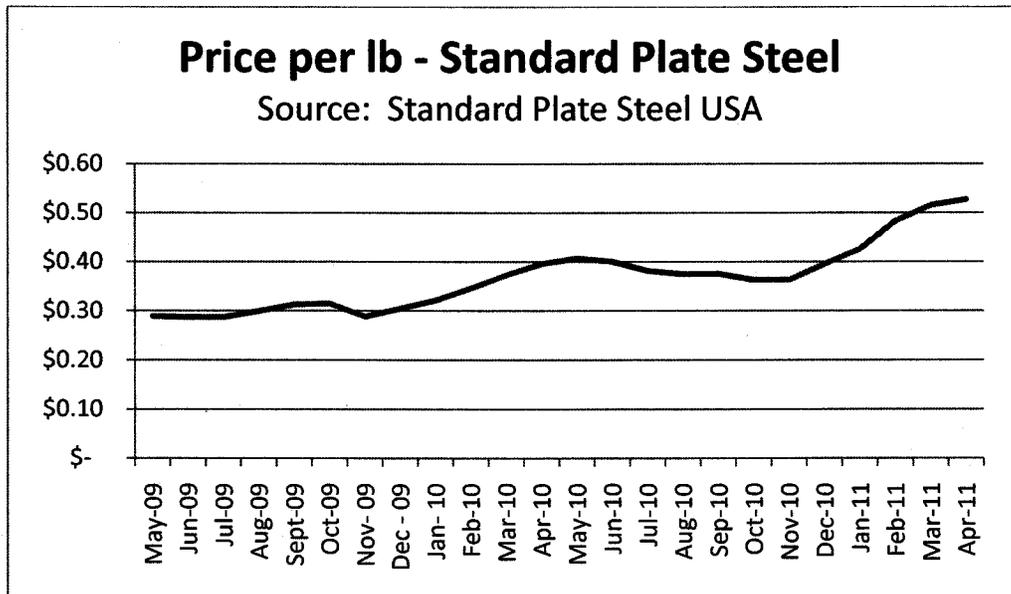


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1 Copper has likewise increased 104 percent from May
2 2009 to April 2011.



3
4 Standard plate steel has also increased 83 percent
5 from May 2009 to April 2011.



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7

1 Q. What has Idaho Power done to manage the
2 volatility of commodity costs?

3 A. Idaho Power utilizes a strategic sourcing
4 process to ensure competitive pricing from its suppliers.
5 The process ensures that the Company receives fair market
6 pricing throughout the duration of its agreements with its
7 suppliers by including price adjustment mechanisms (de-
8 escalation/escalation) within its contracts. These price
9 adjustment mechanisms, which are negotiated when
10 competitive leverage exists, outline when and how pricing
11 will adjust related to predetermined factors (i.e.
12 commodity prices).

13 The Company also manages its costs related to
14 transformers. For example, the Company utilizes an in-
15 house refurbishing operation to offset some of the higher
16 costs that the market has presented. The Company
17 refurbishes used transformers that have come from its own
18 operations in addition to buying from the open market. To
19 the extent that refurbished transformers can be used, the
20 unit cost is approximately 30 to 35 percent of the cost of
21 a new transformer.

22 Q. Please describe the increase in Idaho Power's
23 property taxes over the recent years.

24 A. Idaho Power's total property tax expense
25 increased \$2.0 million in 2009, another \$2.6 million in

1 2010, and another estimated \$3.0 million in 2011. Since
2 2008, property taxes have increased over \$7.0 million.

3 Q. What is causing the increase in property
4 taxes?

5 A. For the tax year 2010, the overall average
6 state of Idaho property tax levy increased 18 percent.
7 This increase was due to a 9 percent decline in assessed
8 values throughout the state and an increase in the taxing
9 district budgets. Idaho Power's average levy increase was
10 9 percent. While there was a decline in assessed values
11 statewide, Idaho Power's assessed value increased 10
12 percent. The Company's assessed value is based upon net
13 operating income and net plant. For the tax year 2011,
14 there again will be a rise in tax levies as there is a
15 continued decline in residential values and taxing district
16 budgets are expected to rise. Again, while statewide
17 assessment values are declining, Idaho Power's assessed
18 value is anticipated to increase once again in 2011 due to
19 a projected increase in its net operating income and
20 utility plant investments.

21 Q. What is driving the increase in land use fees?

22 A. Idaho Power pays land use fees to the Bureau
23 of Land Management ("BLM") for its facilities that are
24 located on public lands. At the end of 2008, BLM amended
25 its right-of-way regulations to update the linear right-of-

1 way rent schedule. The new rates took effect in 2009.
2 Land use fees are charged by the acre, based on the land
3 values in individual counties. In 2011, BLM will charge
4 \$159.93 per acre for use of public lands located in Ada
5 County compared to \$22.58 per acre in 2008. BLM land use
6 fees have increased over \$1 million on an annual basis from
7 2008 to 2011.

8 Q. Please provide a general discussion of Idaho
9 Power's compensation philosophy.

10 A. Idaho Power's compensation philosophy is to
11 provide a balanced, competitive, and sustainable total
12 compensation package, ensuring it attracts and retains high
13 quality employees and motivates them to achieve performance
14 goals that benefit customers and shareholders. Maintaining
15 a competitive compensation package allows the Company to
16 recruit and retain its highly skilled workforce. The
17 competitiveness of Idaho Power's compensation package also
18 supports the Company's intent to maintain a flexible
19 workforce that can easily adjust work duties and
20 assignments to meet changing demands and operational needs,
21 which in turn keep the Company's costs of service lower.
22 In support of this philosophy, the Company has experienced
23 increases in labor costs in order to maintain a market
24 competitive compensation package.

25

1 Q. Please describe the rationale for the
2 Company's general wage adjustment in 2011.

3 A. The Company closely monitors trends in the
4 utility industry and attempts to ensure that its overall
5 compensation package is within market ranges. The Company
6 reviews industry specific data from salary budget surveys
7 that are produced by independent consulting firms,
8 including Towers Watson, Mercer, Hewitt and World at Work.
9 The Company's main objective in this review is to ensure
10 that any general wage adjustment percentage realign
11 employee compensation at levels that remain competitive
12 when compared to other utilities' annual salary
13 compensation. A further evaluation is conducted that
14 compares the Company's general wage adjusted compensation
15 to compensation provided by a specific group of peer
16 companies comprised of similar-sized, investor-owned
17 utilities and other Intermountain utilities. The Company
18 also considers the salary provided by other companies local
19 to the state of Idaho when evaluating wages and salaries.

20 In recent years, the Company has been conservative
21 with its general wage adjustments in comparison with the
22 increases of its peer intermountain utilities. Because of
23 this, the Company has fallen behind its peer companies on
24 base salary for some of its critical operations roles, such
25 as skilled craft positions. Again this year, in light of

1 the current economic conditions, Idaho Power decided to
2 grant a general wage adjustment that was below what other
3 peer utilities in the Intermountain West granted.

4 Q. Please describe the standard the Company uses
5 to remain competitive in setting compensation.

6 A. The Company has a grade and step pay system.
7 The highest step in any grade is step 13. The Company
8 standard for remaining competitive is to set the step 13
9 pay to be approximately equal to the median pay for a
10 comparable position in the peer compared market.

11 Q. What was the general wage adjustment granted
12 in 2011 and how did that compare to other companies in the
13 same industry and/or region?

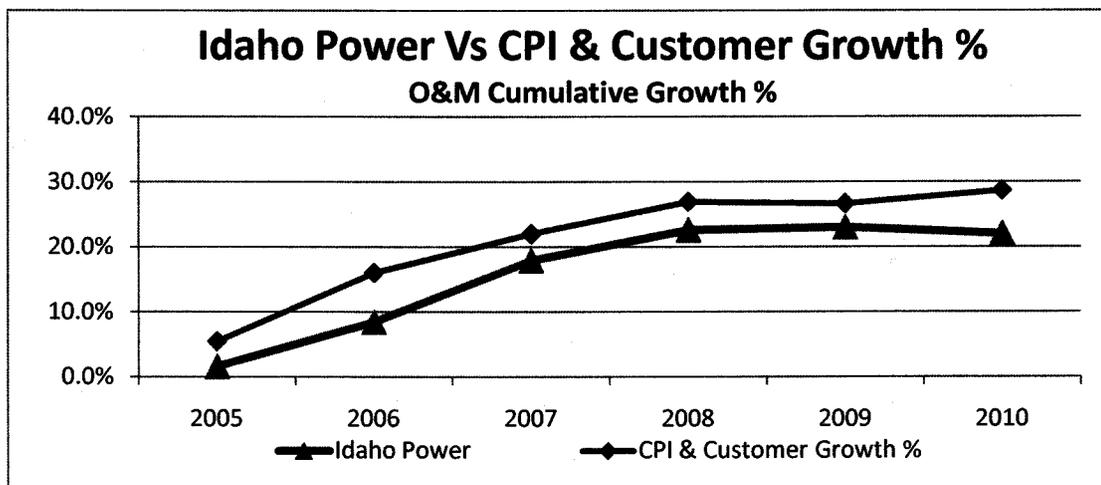
14 A. Idaho Power granted a 2 percent general wage
15 adjustment in 2011. According to its analysis of salary
16 increase budget surveys in the utility industry, companies
17 were projecting average structural salary increases of 2.8
18 percent for 2011. Union contract increases of Idaho
19 Power's peer utilities averaged 2.9 percent for 2011, and
20 the average non-union salary structure increase for the
21 same peer group of companies was 2.8 percent for 2011. The
22 local companies contacted were projecting an average salary
23 structure increase of 2.5 percent for 2011.

24 The Company's analysis indicates that in recent
25 years, Idaho Power has fallen below its peers such that it

1 will take a 5 percent increase to bring its critical
2 operations positions to the average market base salary rate
3 of its utility peer companies. Given the current economy,
4 the Company has been slow to keep pace with the structural
5 wage adjustments provided by others and is not requesting a
6 rate adjustment that would allow the Company to increase
7 its wages to the same level as its peers.

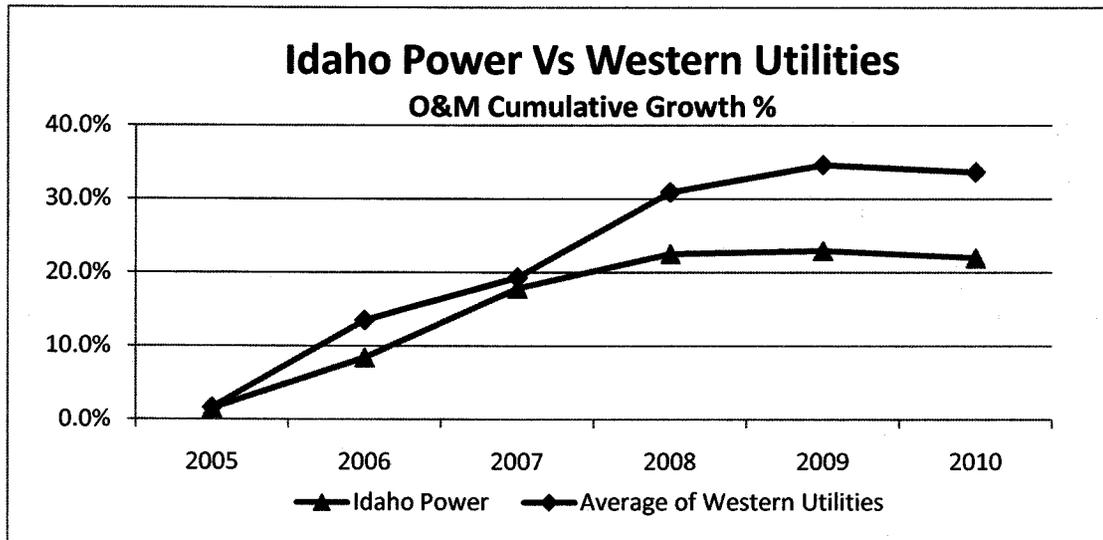
8 Q. What else is Idaho Power doing to manage its
9 costs and mitigate the impact of increased costs on its
10 customers?

11 A. Idaho Power is continually looking for ways to
12 reduce the costs of the services it provides to its
13 customers and for ways to provide those services more
14 efficiently. As seen in the following graph, Idaho Power
15 has done a good job of managing its costs as evidenced by
16 the growth in Idaho Power's O&M expenses compared to the
17 growth in the Consumer Price Index ("CPI") plus the growth
18 in number of customers served expressed as a percentage.



19

1 As can be seen in the below graph, Idaho Power has
2 also positively managed its O&M growth as compared to other
3 western utilities.



4
5 Q. Can you identify some areas where the Company
6 has been able to reduce expenses?

7 A. Yes. The Company has been able to reduce
8 expenses related to hiring employees, controlling budgets,
9 and reducing required fleet operations.

10 Q. Please describe the Company's efforts to
11 reduce expenses related to hiring employees.

12 A. Approval for all replacement or new positions
13 must be reviewed by me or the Executive Vice President of
14 Operations. Employee headcount has decreased by a total of
15 37 people from the end of 2008 to the end of 2010 and,
16 excluding temporary resources hired for the Smart Grid
17 initiative, headcount has decreased by 70 people during
18 this same time period. This represents a decrease in

1 headcount of approximately three percent from 2008 to 2010,
2 while total customers served increased one percent over the
3 same time period. Therefore, the number of customers
4 served per employee has increased from 234 in 2008 to 241
5 in 2010. At the end of 2011, total employee headcount is
6 projected to be 42 people lower than at the end of 2008.

7 Q. Please describe the Company efforts to control
8 budgets.

9 A. Idaho Power employs a robust capital and O&M
10 budgeting process. The capital budget process begins with
11 project managers, maintenance personnel, planners, and
12 others within the business identifying needs and submitting
13 projects to business unit management. Business unit
14 management reviews submitted projects and prioritizes them
15 based on spending guidelines provided by senior management.
16 The Company's 2011 annual capital budget is approximately
17 \$200 million (excluding the Langley Gulch Power Plant
18 project), which is down from approximately \$249 million
19 actually spent in 2008.

20 Operations and maintenance budgets are established
21 based on extensive discussions between the business units
22 and senior management, and represent a combination of prior
23 year experience plus or minus identified changes and
24 adjustments. As the Company prepared its O&M budgets for
25 2011, the target was based on holding to a 2010 budget with

1 only identified unavoidable increases allowed as an
2 adjustment.

3 Throughout the year, senior management reviews the
4 status of spends for both O&M and capital against short-
5 term estimates as well as original budget. Variances are
6 reviewed and analyzed in order to determine changes that
7 may need to be made during the year to manage to budgeted
8 levels of spend.

9 Q. Please discuss the reduction in expenses
10 related to fleet services.

11 A. The Company has significantly reduced the
12 gallons of fuel it uses in its fleet operations by a
13 projected 54,000 gallons from 2008 to 2011. This is mostly
14 due to the reduction of metering vehicles associated with
15 the implementation of AMI and has helped offset some of the
16 significant increases in gasoline prices experienced
17 recently. A recent fleet benchmarking study completed by
18 Utilimarc based on 2009 costs indicated that Idaho Power
19 ranked in the first quartile for cost competitiveness.

20 Q. How do Idaho Power's rates today compare to
21 what they were a year or two ago?

22 A. In each of the last two years, the Company has
23 requested rate decreases in its PCA applications that have
24 more than offset increases resulting from the Fixed Cost
25 Adjustment, AMI, pension expenses, and resetting of base

1 power supply expenses. The Company has not requested a
2 change in the Energy Efficiency Rider or increased funding
3 for weatherization assistance.

4 **III. THE STIPULATION AND EARNINGS**

5 Q. Please describe how the Stipulation has
6 benefitted the Company and its customers.

7 A. The Stipulation has been beneficial to the
8 Company by providing potential support to earnings if the
9 Company did not earn within 100 basis points of its
10 jurisdictional authorized ROE, while providing customers
11 with a moratorium on general rate case filings for three
12 years.

13 Q. What has Idaho Power's system total annual ROE
14 been since 2008?

15 A. Idaho Power's system total annual ROE was 9.62
16 percent for 2009 and 10.01 percent for 2010. In both years
17 the Idaho jurisdictional ROE was also within 100 basis
18 points but below the authorized ROE of 10.5 percent.
19 However, it is important to note that there was a tax
20 benefit related to repairs allowance that occurred in 2010.
21 If not for that tax benefit, the Company's ROE would have
22 been 7.9 percent and the Company would have accelerated use
23 of \$22.4 million of accumulated deferred investment tax
24 credits ("ADITC") to arrive at a 9.5 percent Idaho
25 jurisdictional ROE. The testimony of Mr. Steven R. Keen

1 discusses the tax benefit that occurred in 2010 in greater
2 detail.

3 Q. What has been the Company's use of additional
4 ADITC during this period?

5 A. Because of the prudent management of the
6 Company, along with the tax benefit related to repairs
7 allowance in 2010, no additional ADITC was used.

8 Q. Does the Company anticipate using additional
9 ADITC in 2011?

10 A. Yes. In 2011, Idaho Power is anticipating the
11 use of up to \$15 million of additional ADITC to get to a
12 9.5 percent ROE as per the Stipulation unless the Company
13 receives a positive determination related to its uniform
14 capitalization ("UNICAP") method for income taxes that is
15 currently awaiting U.S. Congress Joint Committee on
16 Taxation ("Joint Committee") approval.

17 Q. Please provide additional discussion of the
18 UNICAP method.

19 A. In 2010, Idaho Power reached an agreement with
20 the Internal Revenue Service related to the Company's
21 uniform capitalization method for tax reporting. This
22 issue is currently awaiting approval from the Joint
23 Committee and, if approved, Idaho Power would record
24 approximately \$60 million of tax benefit in the quarter
25 that the approval is received. Idaho Power cannot predict

1 when the Joint Committee will complete its review or the
2 outcome of that review, but believes the likelihood of
3 receiving a determination in 2011 is enhanced given the
4 case was submitted in April 2011. Mr. Keen's testimony
5 discusses this issue in greater detail.

6 Q. What has been the impact of the Stipulation
7 from a capital market perspective?

8 A. Once approved in January 2010, the Stipulation
9 was well received by analysts in the equity capital
10 markets. The agreement was seen as an opportunity to put a
11 virtual floor on potential earnings from the Idaho
12 jurisdiction closer to the authorized ROE. It also
13 provided a level of stability in an uncertain economic
14 time.

15 Q. As the Stipulation comes to an end, are there
16 concerns from a capital markets perspective?

17 A. Yes. As the end of the Stipulation draws
18 near, the capital market analysts are concerned with what
19 may follow. A recent equity analyst report from Key Banc
20 Capital Markets dated May 10, 2011, noted the following:

21 We believe shares have benefited
22 from IDA's settlement allowing a
23 9.5% ROE floor on an equity
24 balance enhanced by favorable tax
25 strategies. Looking past the
26 December 31, 2011 settlement
27 expiration, we believe IDA may
28 need to work within the boundaries
29 of a more traditional regulatory

1 framework, which we view as
2 carrying higher risk.

3 Q. Do you have a comment in regard to this
4 statement?

5 A. Yes. Idaho Power believes it is in the best
6 interest of the Company and its customers to continue to
7 look for creative solutions that can provide stable
8 earnings for the Company while lessening rate impacts to
9 customers.

10 Q. Did you provide any specific instructions to
11 the Regulatory Affairs Department in preparing this general
12 rate case filing?

13 A. Yes. In recognition of the prolonged economic
14 downturn and concern for the impact of any rate increase on
15 Idaho Power's customers, I instructed Mr. Gregory W. Said,
16 Vice President of Regulatory Affairs, to identify areas
17 where the Company could forego requesting an increase at
18 this time. Mr. Said and his department identified the
19 following areas where the Company is not asking for
20 incremental increases above what is already being collected
21 in rates:

- 22 • Incremental power supply expenses;
 - 23 • Incremental Allowance for Funds Used
- 24 During Construction associated with Construction Work in
25 Progress for Hells Canyon relicensing; and

1 • Incremental 2011 pension expense.

2 Q. Can you summarize the Company's requested rate
3 increase and explain why it is important not only to Idaho
4 Power but in the best interest of customers?

5 A. This general rate request reflects a revenue
6 requirement increase of approximately \$83 million, or a 9.9
7 percent increase and includes a requested ROE of 10.5
8 percent. This increase is important for Idaho Power to
9 achieve fair and timely recovery of its prudently incurred
10 expenses and a reasonable return on the Company's
11 investment in its electrical system, which today's rates do
12 not fully provide. Continued growth in demand for
13 electricity, aging infrastructure, and higher compliance
14 and reliability requirements are driving the need to invest
15 large amounts of capital to expand and improve electricity
16 supply, delivery, and reliability. This increases the
17 Company's need to access both the debt and equity markets
18 to fund large amounts of capital investment in the system.
19 In this environment, timely and fair recovery of the
20 Company's prudently incurred expenses and investments is
21 critically important to helping it attract capital
22 investment and manage financing costs. A low cost of
23 capital ultimately has a beneficial impact on customers'
24 rates. By providing for fair and timely recovery of the
25 Company's expenses it incurs on behalf of customers and

1 investments in the systems and activities that serve its
2 customers, this rate increase is in the best interests of
3 the Company, its shareholders, and the people and
4 communities it serves.

5 Q. Does this conclude your testimony?

6 A. Yes.

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