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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.

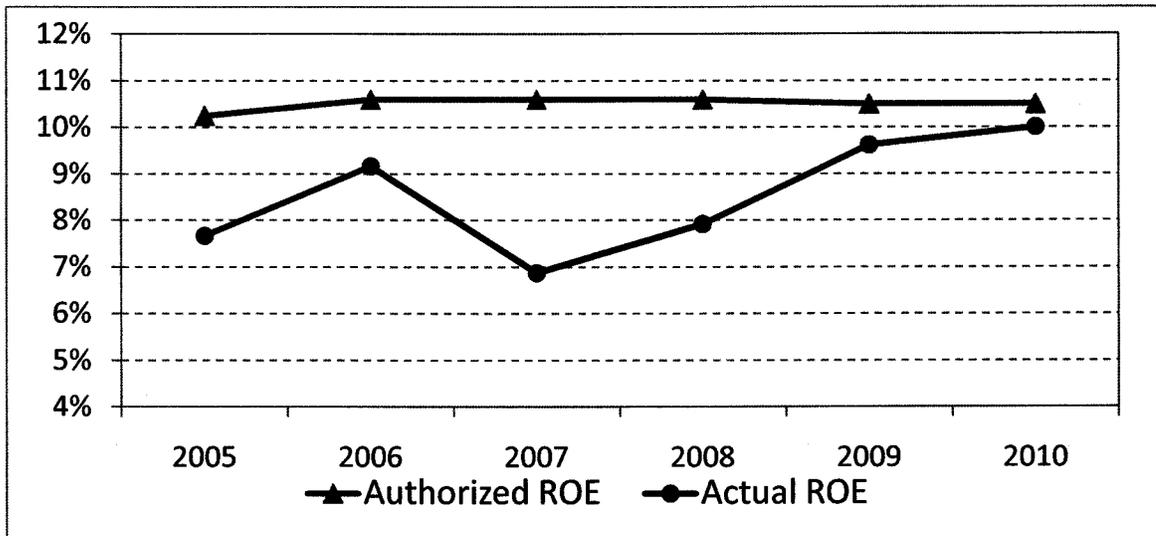
18           Q.       What is the purpose of your testimony in this  
19 proceeding?

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.

24

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

25

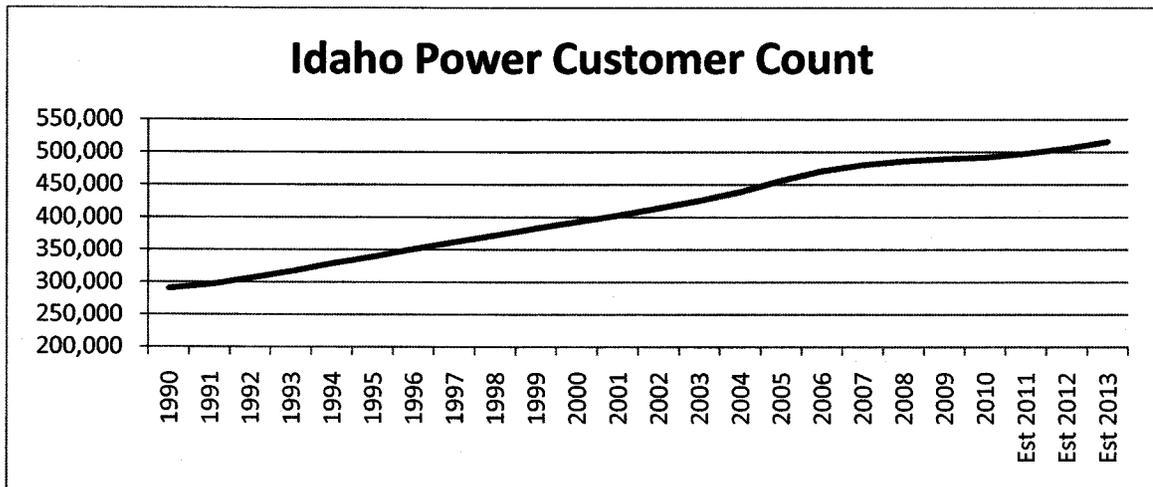
1 to operate in up and through the period in which you expect  
2 rates to become effective.

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?

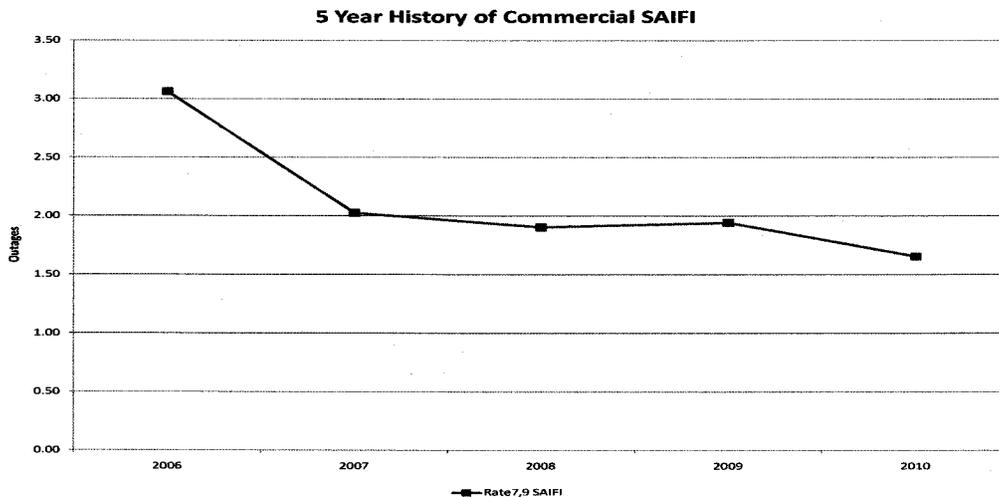
19          A.     In the electric industry, reliability is,  
20 simply put, how good companies are at consistently keeping  
21 customers' lights on. Idaho Power measures its  
22 distribution system reliability by using industry  
23 recognized reliability metrics such as the System Average  
24 Interruption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

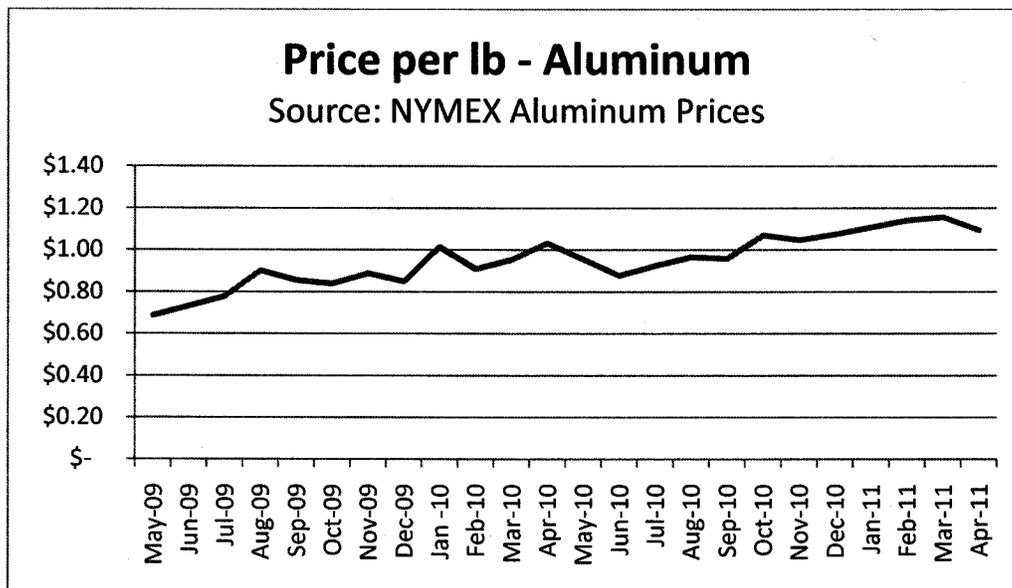
20 Q. Please discuss the increases in material and  
21 supply-related costs.

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.

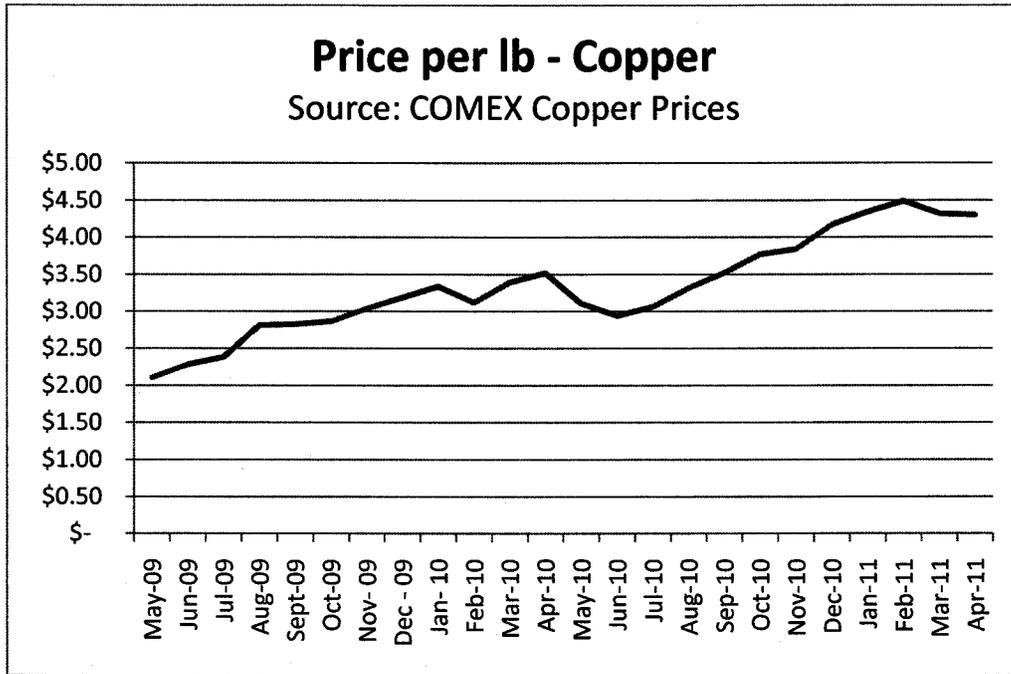
4 Q. What is causing the increase in the cost of  
5 materials for Idaho Power, and the utility industry in  
6 general?

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.

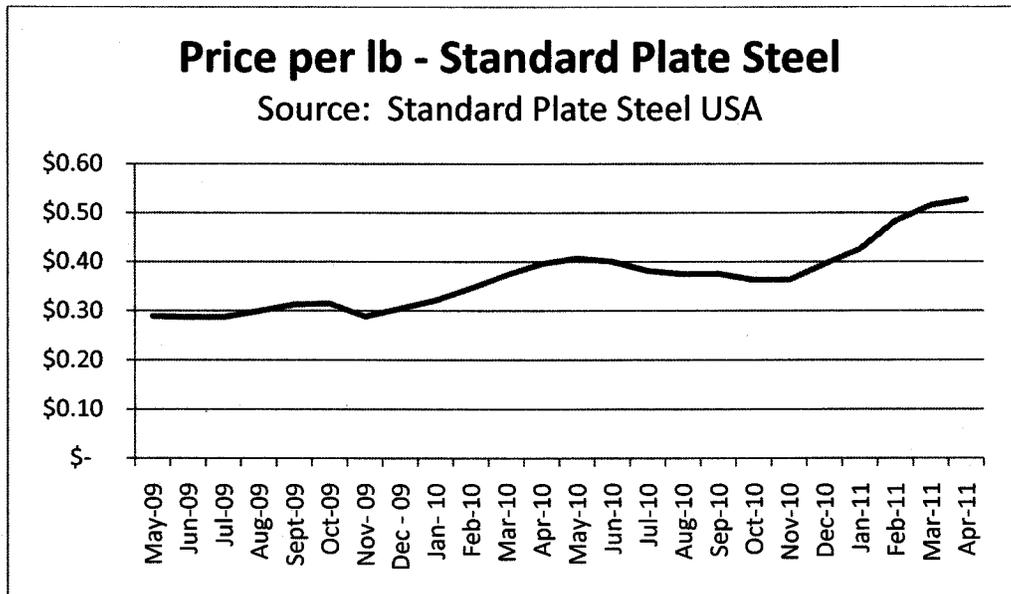


16

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.



6  
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?

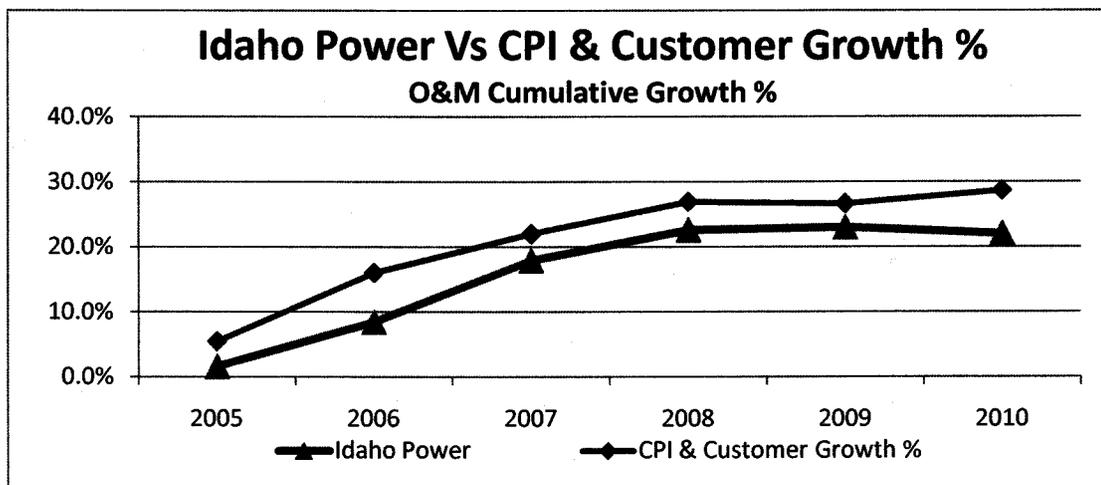
14 A. Idaho Power granted a 2 percent general wage  
15 adjustment in 2011. According to its analysis of salary  
16 increase budget surveys in the utility industry, companies  
17 were projecting average structural salary increases of 2.8  
18 percent for 2011. Union contract increases of Idaho  
19 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.

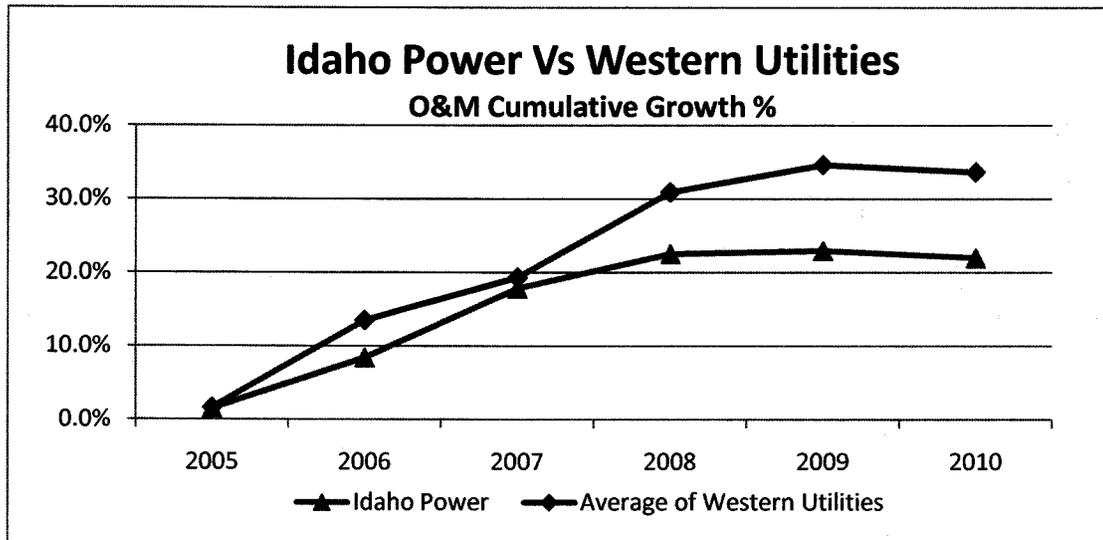
8 Q. What else is Idaho Power doing to manage its  
9 costs and mitigate the impact of increased costs on its  
10 customers?

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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