

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION)
OF IDAHO POWER COMPANY FOR) CASE NO. IPC-E-23-11
AUTHORITY TO INCREASE ITS RATES)
AND CHARGES FOR ELECTRIC SERVICE)
IN THE STATE OF IDAHO AND FOR)
ASSOCIATED REGULATORY ACCOUNTING)
TREATMENT.)
_____)

IDAHO POWER COMPANY

DIRECT TESTIMONY

OF

BRIAN R. BUCKHAM

1 Q. Please state your name, business address, and
2 present position with Idaho Power Company ("Idaho Power" or
3 "Company").

4 A. My name is Brian Buckham. My business address
5 is 1221 West Idaho Street, Boise, Idaho 83702. I am
6 employed by Idaho Power as Senior Vice President and Chief
7 Financial Officer ("CFO").

8 Q. Please describe your educational background.

9 A. I received a Bachelor of Science in Mining
10 Engineering from the University of Idaho, a Master of
11 Business Administration from Gonzaga University, and a
12 Juris Doctor from the University of Idaho College of Law.

13 Q. Please describe your work experience with
14 Idaho Power.

15 A. I was hired in 2010 as an attorney in Idaho
16 Power's Legal Department, where I focused predominately on
17 securities compliance and external reporting, capital
18 markets transactions, corporate governance, and commercial
19 transactions, among other areas. In 2016, I was appointed
20 as IDACORP's and Idaho Power's Vice President & General
21 Counsel, and in 2017 as Senior Vice President & General
22 Counsel, where in both roles I was responsible for
23 leadership of the legal, corporate governance, compliance,
24 risk management, and physical and cyber security functions
25 at IDACORP and Idaho Power. In 2022, I was appointed as

1 IDACORP's Senior Vice President and Chief Financial
2 Officer, where I oversee the companies' finance,
3 accounting, investor relations, treasury, tax, Sarbanes-
4 Oxley compliance, internal audit, compliance, risk
5 management, and physical and cyber security functions.

6 Q. What are your duties as Senior Vice President
7 and Chief Financial Officer of Idaho Power as they relate
8 to this proceeding?

9 A. I oversee the direct financial planning,
10 procurement, and investment of funds for Idaho Power, as
11 well as supervise corporate liquidity management. I also
12 have oversight and responsibility for our financial
13 reporting, both internal and external, and our investor
14 relations function, and for our capital markets
15 transactions and associated relationships with stakeholders
16 in that forum.

17 My duties and responsibilities include various
18 aspects of all the Company's capital markets transactions,
19 treasury management, and other financial matters. With
20 respect to long-term financings, sale of bonds, and sale of
21 equity, my duties include development of financial plans
22 with senior officers, meeting with representatives of
23 current and prospective investment banking firms that
24 underwrite Idaho Power securities, discussions with credit
25 rating agencies, assisting in preparation of financial

1 material (including registration statements and
2 prospectuses filed with the U.S. Securities and Exchange
3 Commission), representing the Company in meetings with
4 investment banking firms, reviewing information relative to
5 the Company's financings, meeting with current and
6 prospective debt and equity investors, meeting with
7 investment analysts, and recommending disposition of net
8 proceeds. With respect to short-term financing, these
9 duties and responsibilities include negotiation of credit
10 facilities and term loans with commercial banks and
11 overseeing the purchase and sale of commercial paper, and
12 establishing and maintaining the relationships that help
13 facilitate those transactions.

14 Q. Do your responsibilities include communicating
15 with members of the financial community?

16 A. Yes. I am in regular contact with individuals
17 representing investment and commercial banking firms,
18 credit rating agencies, insurance companies, institutional
19 investment firms, pension funds, infrastructure funds, and
20 other organizations interested in publicly traded
21 securities, who follow IDACORP and Idaho Power. Along with
22 the Company's Vice President, Chief Accounting Officer and
23 Treasurer and the Company's Investor Relations and Treasury
24 Director, my responsibilities include keeping these
25 representatives of the financial community informed of the

1 Company's financial condition, arranging and participating
2 in meetings with these individuals and IDACORP's and Idaho
3 Power's other senior executive management, and visiting
4 with financial representatives in their respective offices
5 or virtually. Some of these members of the investment
6 community have followed the electric utility industry for
7 an extended period of time and have a great deal of
8 expertise in the specific financial risks and prospects of
9 utilities.

10 Through my contact with the financial community and
11 review of investment banking analytical reports and
12 publications issued by these firms and the rating agencies,
13 I keep informed on trends, interest rates, financing costs,
14 security ratings, and other financial developments in the
15 public utility industry.

16 Q. Are you a member of any professional societies
17 or associations?

18 A. Yes. I am a current member of the Idaho State
19 Bar, the Oregon State Bar, the Arizona State Bar
20 (inactive), and the Governing Council of the Business &
21 Corporate Law Section of the Idaho State Bar, in addition
22 to serving on various non-profit boards. Further, I was
23 previously an adjunct professor of law at the University of
24 Idaho College of Law, where I taught the securities
25 regulation course.

1 I also attend numerous conferences and seminars of
2 these and other utility business, law, and finance
3 professional groups, such as the Edison Electric Institute
4 and Western Energy Institute, and an investor-owned utility
5 CFO forum, on a regular basis. Through participation in
6 these groups and events, I gain additional information and
7 insights into the financial developments affecting IDACORP
8 and Idaho Power, as well as the electric utility industry.

9 Q. What is the purpose of your testimony in this
10 proceeding?

11 A. I am sponsoring testimony discussing financial
12 risk factors generally and risk factors unique to Idaho
13 Power that justify a return on equity ("ROE") figure
14 supported in the Direct Testimony of Company Witness Mr.
15 Adrien McKenzie as the minimum acceptable ROE for Idaho
16 Power, the use of a forecasted year end 2023 capital
17 structure, the embedded cost of long-term debt, and the
18 resultant overall cost of capital used to compute the
19 Company's revenue requirement.

20 Q. What Exhibits are you sponsoring?

21 A. I am sponsoring Exhibit Nos. 19-21.

22 **I. COST OF EQUITY POINT ESTIMATE**

23 Q. What ROE is the Company requesting in this
24 proceeding?

25 A. The Company requests 10.4 percent as the point

1 estimate to be used for the cost of equity.

2 Q. Does that point estimate align with the
3 recommendations made by the Company's outside expert
4 regarding the Company's cost of capital?

5 A. No, it is lower. As the Company evaluated its
6 request and the broader economic conditions, the Company
7 decided to apply an ROE that is lower than the 10.6 percent
8 point estimate provided by our outside expert. My
9 recommendation is on the lower end of the range suggested
10 by Mr. McKenzie. The Company believes this recommendation
11 is the minimum required ROE necessary to not weaken the
12 Company's ability to attract capital at favorable and
13 customer-beneficial rates in the currently uncertain and
14 volatile financial markets.

15 Q. How did you arrive at your recommendation?

16 A. While I believe the discussion of risk factors
17 later in my testimony justifies an ROE in excess of 10.4
18 percent, as supported by Mr. McKenzie, I have taken into
19 account the economic impact of historically high inflation
20 on our customers and selected a rate below the midpoint of
21 the recommended range, while at the same time recognizing
22 that high inflation also biases toward a higher ROE. As
23 discussed in the Direct Testimony of Company Witness Ms.
24 Lisa Grow, Idaho Power has adopted a conservative approach
25 in this rate filing, utilizing several factors to mitigate

1 the overall rate impact on customers of its request. In
2 light of this conservative approach, the Company is
3 requesting a minimum level of ROE at 10.4 percent.

4 Q. Did you consider other recent decisions in
5 Idaho-jurisdiction electric utility general rate cases
6 ("GRC")?

7 A. Yes. However, I note that most of the recent
8 electric utility GRC have been settled through negotiated
9 settlement agreements, which may not fully reflect the
10 breadth of issues that a regulator might consider when
11 making an ROE determination. The two most recent electric
12 utility cases that were reviewed in regard to this filing
13 were Avista Corporation's ("Avista") GRC, which was settled
14 in August 2021, and the PacifiCorp (dba Rocky Mountain
15 Power) GRC, which was settled in December 2021. In both
16 cases settlement agreements were reached. More recently,
17 Intermountain Gas Company, a subsidiary of MDU Resources,
18 entered into a settlement in its natural gas retail rate
19 case in Idaho, but the proceedings in that case have not
20 concluded.

21 In the Avista case, the Commission's final order
22 approved a 9.4 percent ROE, as proposed in the settlement
23 agreement. Notably, the Commission's order cites testimony
24 stating, "the parties reached a compromise among differing
25 points of view, with concessions made by all Parties." To

1 that end, the Company believes the stated ROE is not
2 indicative of the result from a fully contested case. Order
3 No. 35156, Case No. AVU-E-21-01.

4 In the PacifiCorp case, the settlement agreement and
5 the Commission's final order approving the settlement were
6 silent as to PacifiCorp's authorized ROE. Order No. 35277,
7 Case No. PAC-E-21-07. Regardless, PacifiCorp is a much
8 larger, multi-jurisdictional utility with a higher credit
9 rating and ownership by a substantial utility holding
10 company, which would justify an authorized ROE lower for
11 PacifiCorp than for Idaho Power. Intermountain Gas Company
12 is similarly situated structurally to PacifiCorp, and a
13 distributor of natural gas rather than electric service.

14 Q. Have financial market conditions changed since
15 these rate cases were filed?

16 A. Yes. Interest rates have gone up in the last
17 21 months, since the date Avista's case referenced above
18 was filed, with the 10-year United States ("US") Treasury
19 rate increasing over 200 percent over that period, from
20 less than 1.2 percent to around 3.7 percent as of May 22,
21 2023 (source: Yahoo Finance). As interest rates increase,
22 investors expect a higher ROE given the higher risk
23 compared to their alternative investment in debt
24 instruments. When the interest rate was at 1.2 percent, a
25 9.4 percent to 9.6 percent ROE may have been reasonable,

1 but in today's market the ROE needs to be higher to
2 appropriately reflect the increase in debt cost and
3 prevailing interest rates, given investors' available
4 options and expectations. The number of basis points should
5 increase even further in light of volatile market
6 conditions, and other factors I discuss in this testimony.
7 Indeed, typical money market deposit account rates
8 currently exceed even the 10-year Treasury rate from 21
9 months ago, meaning investors have existing nearly risk-
10 free options with relatively high interest rates, thus
11 driving up required ROEs to attract investment.

12 Moreover, in my conversations with current and
13 prospective investors and with equity analysts, the topic
14 of authorized ROEs is frequently raised. Based on those
15 conversations, it is my impression that an ROE of the level
16 the Company has requested in this case, assuming it also
17 includes recovery of prudent expenditures and a return on
18 and of investment, would be sufficient to meet the
19 expectations of those investors and thus maintain IDACORP's
20 reasonable access to equity capital. The authorized ROE is
21 one of the primary factors participants in the equity
22 capital markets will review when assessing the adequacy of
23 the outcome of a general rate case for purposes of making
24 an investment decision, and an authorized ROE lower than
25 Idaho Power's request could increase the Company's cost of

1 equity issuances. With IDACORP anticipating an equity
2 issuance in 2024, or possibly sooner, an authorized ROE
3 that meets investor expectations will benefit customers
4 through greater value in issued equity financing. Mr.
5 McKenzie addresses this important intersection of utility
6 regulation and the investment markets in his testimony.

7 Q. Why is Idaho Power's requested 10.4 percent
8 ROE justified in this case?

9 A. Notable changes in the economy, particularly
10 inflation levels not seen since the 1980s, market
11 volatility and uncertainty, and the interest rate increases
12 noted above, have taken place in the past few years, and
13 exacerbated recently. In his testimony, Mr. McKenzie also
14 discusses these changes and their implications on capital
15 costs and ROE.

16 Q. What other risks impact your selection of a
17 10.4 percent ROE?

18 A. Over the last few years, the utility risk
19 landscape has been shifting dramatically, increasing
20 several risks that the Company must address. I highlight in
21 the next section of my testimony several of these
22 heightened risks, including power supply costs, liquidity
23 challenges, wildfires, cybersecurity, and physical
24 security. I will also discuss other specific risks Idaho
25 Power continues to face.

1 Idaho Power must remain prepared to respond to
2 unforeseen events that may materialize in the future, some
3 of which are outlined in my discussion below. Recent
4 economic challenges and financial market disruption and
5 uncertainty highlight the importance of maintaining Idaho
6 Power's financial strength in attracting the capital needed
7 to ensure reliable service to customers at a lower cost,
8 and to weather continued volatile and uncertain economic
9 conditions and circumstances.

10 Q. You mentioned the impact of interest rate
11 increases. How do interest rates affect the required ROE?

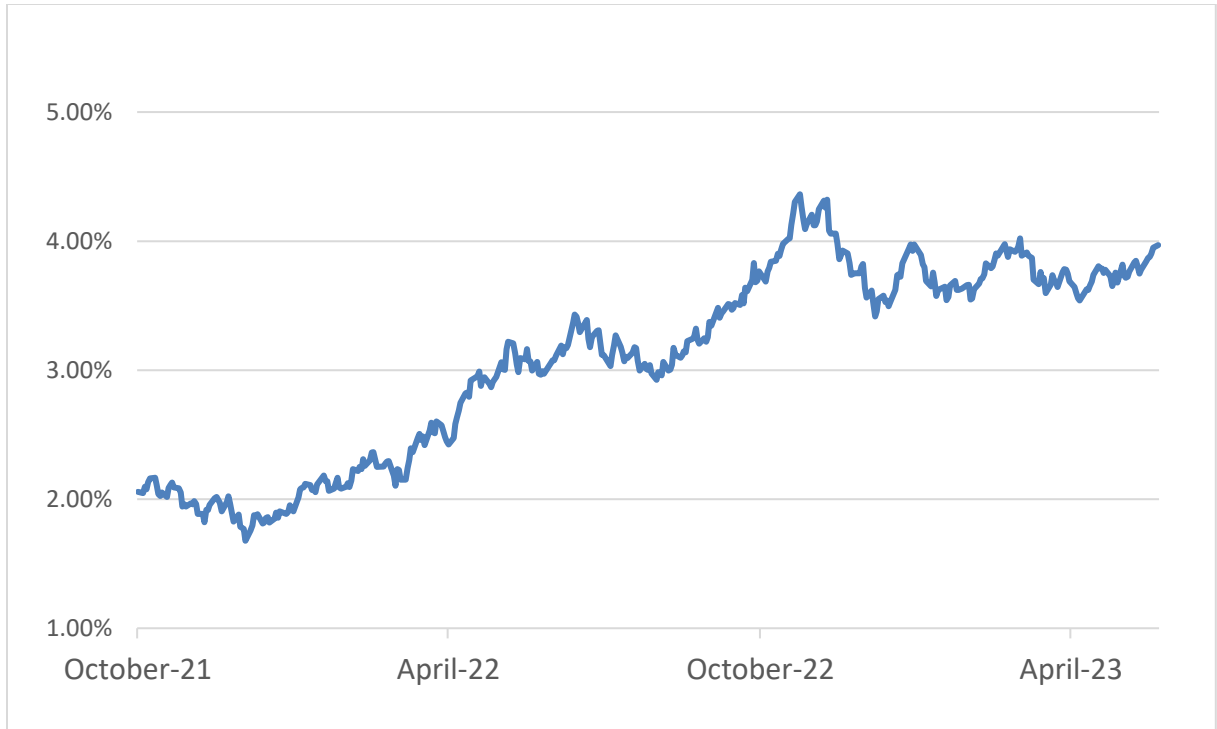
12 A. As Idaho Power competes with other investments
13 (both stocks and bonds) in the capital markets, to attract
14 capital at reasonable costs the Company must provide a
15 return that adequately compensates its investors relative
16 to the risk of other investments. With rising interest
17 rates, investors can obtain relatively higher returns on
18 debt instruments while retaining a much lower risk profile
19 relative to stocks. To compete as an investment, utilities
20 must then provide the opportunity for a higher return
21 commensurate with their higher relative risk level.

22 Q. Can you quantify the recent increases in
23 interest rates?

24 A. Certainly. As seen in the chart below (based
25 on data from Yahoo Finance as of May 22, 2023), 30-year US

1 Treasury bond yields have risen from around 1.8 percent
2 near the start of 2022 to as high as 4.36 percent in late
3 2022, and have recently been between 3.6 to 4.0 percent, a
4 100 percent increase over that period.

5 **FIGURE 1**
6 30-Year Treasury Bond



7

8 Q. How do higher levels of inflation impact ROE?

9 A. As noted in Mr. McKenzie's testimony, an
10 investor's required return is intended to compensate the
11 investor for the loss of purchasing power due to rising
12 prices. An investor adds an inflation premium to the real
13 rate of return (pure risk-free rate plus risk premium) to
14 determine the investor's nominal required return. As a
15 result, higher inflation expectations lead to an increase
16 in the cost of equity capital. The expectations for the

1 required return, and thus the cost of equity capital,
2 increase during inflationary periods when there is
3 regulatory lag in the recovery of those increasing costs,
4 which occurs where a historic test year is applied in the
5 ratemaking process.

6 **II. RISK FACTORS**

7 Q. Could you briefly outline the risks
8 confronting the Company that form the basis for your
9 recommendation of a 10.4 percent ROE as the minimum
10 acceptable authorized return?

11 A. Yes. I will summarize them here and discuss
12 each in greater detail later in my testimony. I believe
13 that, at a minimum, a 10.4 percent ROE is required to
14 properly account for the risks confronting Idaho Power for
15 the following reasons:

16 (1) The general decline in the Company's credit
17 quality, in conjunction with the growing need for
18 access to debt and equity capital to fund the
19 Company's growing capital expenditures in
20 response to recent and expected future economic
21 growth in its service territory. The Company
22 forecasts capital expenditures of approximately
23 \$3.1 billion from 2023 to 2027 to reliably serve
24 customer needs.

- 1 (2) Energy market volatility and liquidity
2 challenges.
- 3 (3) Large and growing Public Utility Regulatory
4 Policies Act of 1978 ("PURPA") project and Power
5 Purchase Agreement ("PPA") expenditures, and more
6 recently, energy storage agreement expenditures.
- 7 (4) Risks related to wildfires from a financial,
8 reliability, insurability, and operational
9 standpoint.
- 10 (5) The renewal of federal licenses for the Company's
11 hydroelectric projects, primarily the Hells
12 Canyon Complex, which provides 36 percent of the
13 Company's total generating nameplate capacity,
14 and particularly the costs associated with the
15 relicensing of that project.
- 16 (6) Increased risks related to power reliability, as
17 well as execution risk associated with
18 infrastructure projects intended to maintain
19 reliability.
- 20 (7) Environmental risks and uncertainties related to
21 new or proposed legislation and requirements and
22 impacts on the Company's operations.
- 23 (8) The increasing risks of cyber and physical
24 security attacks on Idaho Power's and other
25 utilities' infrastructure.

1 (9) The impacts of climate change on the Company,
2 including the perceived risk in the financial
3 community associated with the variability of the
4 Company's hydroelectric generating base,
5 variances in sales, impacts on operations,
6 reputational concerns, application of investment
7 policies, and other factors associated with
8 changes in the climate.

9 (10) The Company's small size in terms of market
10 capitalization and concentrated geographic and
11 associated regulatory risk (i.e., 95 percent of
12 the Company's business is in Idaho).

13 (11) The financial impact of a lag in the recovery of
14 costs associated with higher capital
15 expenditures, including the higher costs of
16 financing those capital expenditures.

17 (12) Heightened scrutiny by equity investors and
18 analysts of authorized ROEs and regulatory
19 outcomes, and the disproportionate impact it has
20 on the success of equity financing, particularly
21 as the Company approaches the need for equity
22 issuances.

23 I address several of those risks below in my
24 testimony.

25 Q. Are there other risks, less specific to Idaho

1 Power, that also impact your recommendation?

2 A. Yes. There are general financial risks such as
3 increased volatility in the financial markets and what I
4 view as a heightened sensitivity to risk exposure. Other
5 risks are industry-wide, such as unknown costs relative to
6 carbon emissions, a need for infrastructure improvements,
7 and increased capital investment, as well as inflationary
8 pressures that increase costs of both operating expenses
9 and capital outlays. Interest rate uncertainty fuels the
10 fear that future borrowing costs could rise dramatically.
11 Recently, the Federal Reserve has been attempting to
12 control inflation by raising interest rates, which creates
13 expectations for continued rising debt costs in the near
14 future. These factors combine to make a challenging
15 environment in which the Company must compete with others
16 in the electric utility industry, as well as all other
17 industries, for both resources and capital, to serve the
18 needs of its customers. While I do not intend to elaborate
19 further on more general risks, they are factors worthy of
20 note that point to increased risks for the Company.

21 Many of the risks associated with the Company, and
22 that factor into its equity and debt valuations, are
23 included in the Annual Report on Form 10-K that the Company
24 files with the US Securities and Exchange Commission, under
25 the heading "Risk Factors." For the Form 10-K filed in

1 February 2023, that section of the document was
2 approximately 13 pages in length.¹

3 **Credit Ratings and Capital Market Expectations**

4 Q. What is the status of Idaho Power's credit
5 ratings?

6 A. Idaho Power's credit ratings as of May 31,
7 2023, are as follows:

8 **TABLE 1**
9 Idaho Power Credit Ratings as of May 31, 2023

	Standard and Poor's Rating Services (S&P)	Moody's Investors Service (Moody's)
Corporate Credit Rating	BBB	Baa 1
Senior Secured Debt	A-	A2
Senior Unsecured Debt	BBB	Baa 1
Commercial Paper	A-2	P-2
Rating Outlook	Stable	Stable

10
11 Q. Have there been any recent changes in the
12 Company's credit ratings?

13 A. Yes. In July 2022, Moody's long-term issuer
14 rating for Idaho Power was downgraded from A3 to Baa1. In
15 addition, Moody's ratings for First Mortgage Bonds and
16 Senior Secured Debt were downgraded to A2 from A1. Also, in
17 February 2023, S&P downgraded its liquidity assessment of
18 the Company from "strong" to "adequate." The downgrades
19 occurred despite the expectation by the rating agencies

¹ The Company's 10-K is available at:
<https://d18rn0p25nwr6d.cloudfront.net/CIK-0000049648/e858bcab-7dd5-4c28-b5ba-56d347339652.pdf>

1 that the Company planned to file this rate case and that by
2 2024 the Company expected to have an increase in cash flow
3 from collections from customers.

4 Q. What is the Company's assessment of the impact
5 of these downgrades?

6 A. Following the recent Moody's credit ratings
7 changes, the Company's credit ratings remained investment
8 grade. However, Moody's new rates move the Company closer
9 to being below investment grade, referred to as "junk bond"
10 status.

11 The Company's first opportunity to test the bond
12 market after the 2022 downgrade was in December 2022. While
13 Idaho Power was able to issue some long-term debt, buyer
14 interest in the transaction was less than we anticipated,
15 the buyers were limited, and we were not able to issue the
16 volume of debt that we had originally intended to issue. We
17 believe that fixed-income investors that had not been
18 actively following the Company previous to our marketing of
19 the debt instruments likely were concerned when they
20 noticed the recent downgrade. This softened demand likely
21 led to a higher cost of debt associated with these
22 instruments than would have occurred with a backdrop of a
23 more stable credit rating outcome.

24 Further ratings downgrades would cause additional
25 harm to the risk perception of the Company in the debt

1 markets. If, for example, Idaho Power's credit ratings were
2 to fall below investment grade, which would be below Baa3
3 for Moody's and below BBB- for S&P, Idaho Power's cost of
4 borrowing would increase substantially. A change below
5 investment grade will also trigger significant increases in
6 collateral-related deposits as well as significant cost
7 increases for the Company's credit facility, which will
8 increase costs to customers. That downgrade would also
9 negatively impact IDACORP's stock price, decreasing the
10 value the Company would receive for issuances in the equity
11 markets.

12 A downgrade in the short-term debt rating could make
13 it difficult for the Company to issue commercial paper
14 under reasonable terms, if at all, which is the instrument
15 Idaho Power relied upon recently during volatile power and
16 fuel markets for its liquidity and to meet margin
17 requirements. Additionally in tight markets such as a
18 recession, liquidity for companies that are below
19 investment grade becomes extremely limited, resulting in
20 lack of cash on reasonable terms to finance the business,
21 which could result in the inability of the Company to fund
22 needed capital projects to reliably serve customers.

23 Q. How did Moody's describe the reasons for its
24 downgrade?

1 A. In July 2022, Moody's noted financial metrics
2 and need for more timely rate relief as reasons:

3 Idaho Power Company's (IPC) credit profile
4 reflects lower financial metrics over the
5 last several years that are no longer
6 supportive of an A3 rating, the major driver
7 for the utility's recent downgrade to Baal.
8 These metrics include a ratio of cash flow
9 from operations before changes in working
10 capital (CFO pre-WC) to debt of between 12%
11 and 13% over the last two years. We expect
12 the ratio to be around 13% over the medium-
13 term, which is weak for its new Baal rating.

14
15 and

16 ... without the benefit of more incremental
17 and timelier rate relief through riders or
18 cost tracking mechanisms, more frequent
19 base rate increases and lower imputed debt
20 from pension obligations, IPC's credit
21 metrics will not improve materially and the
22 utility will have limited financial cushion
23 at its current rating level to manage
24 unforeseen events.

25
26 Q. How did S&P characterize its February 2023
27 change?

28 A. S&P cited Idaho Power's reliability and
29 economic growth-driven capital spending needs as reflecting
30 its liquidity downgrade, as it perceived "elevated capital
31 spending that will result in modest weakening of the
32 Company's liquidity throughout the forecast period."

33 Q. Do you believe that the current credit ratings
34 of Idaho Power are adequate?

1 A. Stronger credit ratings would be beneficial,
2 but Idaho Power is still able to raise capital in today's
3 markets with its current ratings. However, new debt/bond
4 issues are at a higher cost than if Idaho Power's credit
5 ratings were higher (i.e., the higher the credit rating,
6 the lower the debt financing cost). Stronger credit ratings
7 also result in more liquidity in all market conditions.

8 Q. How else can credit ratings impact the
9 Company?

10 A. Idaho Power maintains margin agreements
11 relating to its wholesale commodity contracts that allow
12 performance assurance collateral to be requested of and/or
13 posted with certain counterparties. If Idaho Power
14 experiences a reduction in its credit rating on its
15 unsecured debt to below investment grade, Idaho Power could
16 be subject to requests by its wholesale counterparties to
17 post additional performance assurance collateral. Likewise,
18 counterparties to derivative instruments and other forward
19 contracts could request immediate payment or demand
20 immediate ongoing full daily collateralization on
21 derivative instruments and contracts in net liability
22 positions. For example, on March 31, 2023, the amount of
23 collateral that could be requested by counterparties upon a
24 downgrade to below investment grade was \$44.6 million. The

1 costs to finance the cash needed to meet these margin
2 requirements would increase costs to customers.

3 Q. What factors could lead to a credit rating
4 upgrade or downgrade?

5 A. Per Moody's in July 2022, factors that could
6 lead to an upgrade include:

7 The rating of IPC could be upgraded if key
8 credit metrics improve such that the CFO
9 pre-WC to debt ratio increases to 16% or
10 above on a sustained basis. An upgrade could
11 also occur if the utility's regulatory
12 construct improves materially, including
13 authorization of trackers and rider
14 mechanisms that would result in faster cost
15 recovery, reducing regulatory lag.

16

17 Factors that could lead to a downgrade include:

18 IPC's rating could be downgraded if
19 financial metrics weaken further including
20 a CFO pre-WC to debt ratio of 13% or below
21 on a sustained basis. The rating could also
22 come under pressure if the utility were to
23 experience a decline in the credit
24 supportiveness of its regulator including
25 either higher cost recovery risks or lower
26 returns.

27

28 Per S&P in May 2022, factors that could lead to an upgrade
29 include:

30 We could raise ratings if the company's
31 business risk profile strengthened through
32 a more robust management of regulatory
33 relationships and improved operating
34 efficiency, combined with stronger cash
35 flow measures, including FFO [funds from
36 operations] to debt consistently exceeding
37 20%.

38

39 Factors that could lead to a downgrade include:

1 We could lower ratings if business risk
2 increased because of unsupported recovery
3 of operating expenses, including higher-
4 than-average reliance on purchased power or
5 unsupported capital investments through the
6 regulatory process or if the company
7 materially expanded its nonregulated
8 segments, which are currently negligible.
9 We could also lower ratings if financial
10 measures consistently underperformed our
11 base case forecast, leading to an FFO-to-
12 debt measure that is consistently less than
13 14%.

14
15 Q. Are there any other considerations mentioned
16 by the rating agencies that could point to future downgrade
17 risks?

18 A. Yes. Moody's pointed to regulatory lag on
19 material investments that, in its view, overshadows
20 regulatory mechanisms that are in place in Idaho.
21 Specifically, Moody's stated in July 2022 that:

22 ... the utility's financial profile has
23 historically lagged peers due to certain
24 regulatory constructs, such as flow-
25 through tax accounting and long-lived
26 depreciation due to its hydro asset base.
27 Since Idaho lacks the suite of investment
28 and operating cost recovery mechanisms seen
29 in other states, Idaho Power's cash flow
30 growth is primarily dependent on general
31 rate case filings, which it has not
32 benefited from for several years.

33
34 IPC's last general rate increase was in 2011
35 and the company carries approximately \$709
36 million in regulatory assets on its balance
37 sheet, net of regulatory liabilities, as of
38 31 March 2022. Some of the most sizable
39 unrecovered asset balances are associated
40 with Idaho Power's Hells Canyon Complex

1 hydro-fueled generation facility, the
2 relicensing of which has been repeatedly
3 delayed in a lengthy permitting and
4 approval process since originally filed in
5 2003. The lack of rate cases and delayed
6 cash recovery of these investments has
7 eroded the timeliness of rate relief for
8 the company.

9
10 Q. What are Idaho Power's expected near-term
11 capital needs?

12 A. Over the five-year period from 2023-2027,
13 Idaho Power anticipates spending between \$2.95 and \$3.2
14 billion, and approximately \$1.5 billion in 2023-2024, on
15 new property, plant, and equipment to serve customers. For
16 comparison, Idaho Power's annual capital expenditures have
17 averaged about \$325 million over the five-year period from
18 2018-2022. This significant increase in capital
19 expenditures will increase the Company's need for debt and
20 equity financing.

21 Q. Do you believe the relief requested in this
22 case will serve to stabilize or improve the Company's
23 credit ratings going forward?

24 A. I believe it will stabilize the current credit
25 ratings but not improve them, particularly with the decline
26 in Idaho Power's debt-to-equity ratio from 55 percent in
27 2022 to what the Company expects to be 51 percent by the
28 end of 2023. The credit rating agencies have built their
29 models and assumptions, in part, based on forecasts Idaho

1 Power has discussed with them over the past few years.
2 Those forecasts have contemplated the rate relief requested
3 in this case. In addition, this case requests additional
4 return of and return on rate base that has been placed into
5 service since the last general rate case, and that
6 substantial investment has carried regulatory lag from a
7 cash flow perspective over several years. Finally, the
8 credit rating agencies will view as positive the Company's
9 requests in this case to begin to address needed cash
10 collections related to regulatory deferrals, such as those
11 related to wildfire mitigation and pension expenses, though
12 those collections have also been assumptions included in
13 their modeling.

14 Q. Aside from credit ratings, have equity
15 analysts changed their ratings on IDACORP recently, and for
16 what reasons?

17 A. Yes. IDACORP's equity ratings by two of its
18 equity analysts declined relatively recently. Mizuho
19 Securities USA LLC downgraded IDACORP from a "Buy" to a
20 "Neutral" rating on April 4, 2023, generally citing risks
21 associated with higher capital expenditures and the impact
22 on financial results, along with regulatory uncertainty.
23 BofA Securities downgraded IDACORP from a "Buy" to a
24 "Neutral" rating on November 7, 2022, citing regulatory
25 uncertainty, growing O&M, and broad inflationary pressures

1 and their impact on small- and mid-capitalization
2 utilities, and a growing trepidation toward smaller
3 companies due to heightened risks.

4 ***Energy Market Volatility and Liquidity Challenges***

5 Q. How have recent events in the energy markets
6 impacted the Company?

7 A. Higher and more volatile prices in the
8 electricity and natural gas markets have created additional
9 risks for the Company in two particular ways. First, by
10 increasing power supply costs. The power cost adjustment
11 mechanism ("PCA") partially mitigates the effects of energy
12 market price volatility on financial results, but the
13 volatility levels can result in the Company absorbing
14 significant amounts of power supply costs. For example, for
15 the Company's April 2022-March 2023 PCA year, total actual
16 power supply costs were \$721.8 million, compared to base
17 power supply costs of \$305.7 million. After
18 jurisdictionalization, the PCA mechanism's 95 percent/5
19 percent sharing applied to most of the variance resulted in
20 \$14.6 million of increased power supply costs being
21 absorbed by the Company. While this GRC will establish new
22 base power supply costs that will help mitigate some of
23 this impact, continued volatility will likely continue to
24 negatively impact the Company, and thus the return expected
25 by investors.

1 Second, the higher prices and volatility of power
2 and fuel impact the Company's liquidity. While the PCA
3 mechanism mitigates in-part the potential adverse earnings
4 impacts to Idaho Power of fluctuations in power supply
5 costs, collection from customers of most of the difference
6 between actual power supply costs compared with those
7 included in retail rates is deferred to a subsequent
8 period, which can affect Idaho Power's operating cash flow
9 and liquidity until those costs are recovered from
10 customers. In the Company's recent PCA filing, the total
11 power supply costs that the Company had paid pending future
12 recovery from customers was \$190 million, which was a
13 significant strain on operating cash flows. For the first
14 quarter of 2023, Idaho Power's operating cash flows were
15 negative \$93 million, reflective of Idaho Power absorbing
16 the cash flow impact of adverse lag in the PCA mechanism.
17 This negative cash flow was particularly alarming.

18 Further, wholesale commodity contracts often require
19 performance assurance collateral be posted with
20 counterparties. During recent energy market price spikes,
21 the Company was required to post very large amounts of cash
22 collateral, significantly straining its available
23 liquidity. To give an order of magnitude, as of March 31,
24 2023, Idaho Power had posted \$63 million of cash

1 performance assurance collateral related to its energy
2 market contracts.

3 ***PURPA and PPA Expenditures and Associated Credit and Equity***
4 ***Impacts***

5 Q. What is the significance of PURPA and PPA
6 expenditures?

7 A. The Company has significant amounts of
8 financial commitments related to PURPA facilities and other
9 PPAs. Idaho Power has entered into a number of PPAs and
10 PURPA contracts since 2010, the last full year before the
11 Company's last GRC. In Idaho Power's Annual Report on Form
12 10-K, it cites contractual obligations associated with
13 these contracts of over \$4.2 billion. Additional contracts
14 signed in 2023 and awaiting Commission approval push that
15 total to nearly \$4.9 billion.

16 The base rate regulatory treatment of PURPA
17 qualifying facility ("QF") contracts provides for a one-
18 for-one recovery of dollars expended, while PPA recovery is
19 generally subject to the PCA mechanism's 95/5 sharing
20 provision. Neither provides for any return to compensate
21 the Company for its long-term purchase obligation under the
22 applicable contract, despite it being a debt-like
23 obligation and long-term capital commitment. The Company
24 is, in effect, buying and selling energy (pursuant to a
25 legal mandate in the case of QFs) without any compensation

1 for providing this service. The mere dollar-for-dollar
2 recovery of QF expenditures and the significant size of the
3 obligation, with no return for the use of the Company's
4 general and administrative resources, balance sheet, and
5 liquidity in managing QF programs and PPAs, is viewed as a
6 long-term contractual and debt-like obligation, and thus a
7 risk, by the rating agencies. The rating agencies are not
8 making a judgment related to the appropriateness of QF or
9 PPA-based energy purchase programs, but merely pointing out
10 the cost of the financial risk(s) arising from a QF or PPA
11 transaction, and that this risk should be reflected in a
12 higher ROE to recognize the impact of the Company's QF and
13 PPA contracts.

14 Q. Do the rating agencies recognize the financial
15 costs of QF and PPA transactions beyond the contract price?

16 A. Yes. Like other electric utilities, when the
17 Company adds to its rate base, it must use some portion of
18 shareholder equity to fund the investment. The Company must
19 maintain its proportion of equity to debt above a certain
20 level as it continues this investment process. If it does
21 not, the debt level increases and the Company will face the
22 threat of a ratings downgrade. Conversely, when the Company
23 enters into a QF or PPA contract for purchased power, an
24 obligation is generally not reflected in the Company's
25 financial statements; however, the rating agencies add to

1 the financial statement an imputed debt for the QF or PPA
2 contract, resulting in an increase in total debt and a need
3 to increase equity in order to maintain credit quality.

4 Unless an equity component is provided to offset the
5 debt-like obligation of long-term purchased power
6 contracts, the Company faces off-balance sheet financial
7 risk that threatens a reduction in credit ratings. For
8 financial commitments that are not presented on the balance
9 sheet, rating agency analysts impute the debt and interest
10 equivalents on the financial statements of the Company to
11 achieve a more accurate picture of the risk associated with
12 the investment and the Company's related commitment. The
13 added equity needed to offset this imputed debt and
14 interest represents the effect that long-term purchased
15 power commitments have on the cost of capital. An increase
16 in the long-term obligation of a utility related to its
17 capacity and energy resources will have to be backed by an
18 appropriate amount of equity in the eyes of the ratings
19 agencies.

20 In reviewing its evaluation of the credit
21 implications of QF-related expenditures, in November of
22 2013, as stated below, S&P noted that it viewed such
23 agreements as creating "fixed debt-like financial
24 obligations" that must be considered in evaluating a
25 utility's credit risks.

1 We view long-term purchased power
2 agreements (PPA) as creating fixed, debt-
3 like financial obligations that represent
4 substitutes for debt-financed capital
5 investments in generation capacity. By
6 adjusting financial measures to incorporate
7 PPA fixed obligations, we achieve greater
8 comparability of utilities that finance and
9 build generation capacity and those that
10 purchase capacity to satisfy new load. PPAs
11 do benefit utilities by shifting various
12 risks to the electricity generators, such
13 as construction risk and most of the
14 operating risk. The principal risk borne by
15 a utility that relies on PPAs is recovering
16 the costs of the financial obligation in
17 rates.

18
19 ...Risk factors based on regulatory or
20 legislative cost recovery typically range
21 between 0% and 50%, but can be as high as
22 100%. A 100% risk factor would signify that
23 substantially all risk related to
24 contractual obligations rests on the
25 company, with no regulatory or legislative
26 support. A 0% risk factor indicates that
27 the burden of the contractual payments
28 rests solely with ratepayers,
29
30

31 Q. How material are QF- and PPA-related
32 expenditures?

33 A. As of the end of 2022, Idaho Power had 133
34 signed cogeneration/small power production ("CSPP")-related
35 contracts with QFs representing 1,212 megawatts ("MW") of
36 capacity, as well as 596 MW of non-QF PPAs. 129 QF projects
37 with a nameplate capacity of 1,137 MW were online at the
38 end of 2022. In 2022, the Company incurred approximately
39 \$189 million of expense related to QF projects and \$45

1 million related to PPA projects. As of December 31, 2022,
2 the Company is obligated to pay approximately \$4.2 billion
3 to QF and PPA developers over the remaining life of these
4 contracts. To provide context on how significant the \$4.2
5 billion liability is to Idaho Power, the Company's total
6 projected long-term debt obligation at year-end 2022 is
7 only \$2.2 billion. The QF and PPA obligations are over 160
8 percent of the debt financing for all assets the Company
9 owns to serve customers.

10 Q. Are QF and PPA expenses increasing?

11 A. Yes. Idaho Power has been engaged in resource
12 procurement activities that the Company expects will result
13 in several new, large PPAs and Battery Storage Agreements
14 ("BSA") to meet future resource needs. Currently, Idaho
15 Power has 340 MW of signed solar PPAs and 150 MW of BSAs in
16 development, with an additional substantial resource
17 procurement in the competitive bidding process. The 150-MW
18 BSA signed in April 2023, for example, contributes an
19 additional \$440 million on top of the total contracted
20 obligation noted above. The substantial and increasing
21 obligations of PURPA QF and PPA agreements create a
22 material risk factor for Idaho Power and increase costs to
23 customers.

24 //

25 //

1 **Wildfire Risks, Insurability, and Insurance Costs**

2 Q. Please describe the increased risks associated
3 with wildfires.

4 A. Since the 1980s, wildfire activity in the
5 United States in terms of acres burned has more than
6 tripled and, according to the National Interagency Fire
7 Center, western states account for upwards of 95 percent
8 of the acres burned in recent years. While Idaho Power has
9 not experienced catastrophic wildfires within its service
10 area at the same level experienced in other western
11 states, such as California and Oregon, millions of acres
12 of rangeland and southern Idaho forests have burned in the
13 last 30 years.

14 A variety of factors have contributed to more
15 destructive wildfires, including climate change, increased
16 human encroachment in wildland areas, historical land
17 management practices, and changes in wildland and forest
18 health, among other factors.

19 Specific to Idaho Power, wildfires have the
20 potential to damage or destroy the Company's facilities,
21 impact personnel, and cause significant harm to Idaho
22 Power's customers and the communities in which the Company
23 serves. Company Witness Mr. Mitch Colburn provides a more
24 detailed discussion of wildfire risk in his testimony.

1 Q. Have Idaho Power's overall insurance premium
2 costs increased in recent years?

3 A. Yes. While Idaho Power undertakes significant
4 efforts to manage the cost of insurance and obtain the
5 greatest insurance value possible for its customers, the
6 Company is to some degree a price-taker in the insurance
7 market. In that regard, despite annual assessment of its
8 insurance portfolio to identify the best value and the
9 retention of an experienced insurance broker, the Company
10 is subject to price increases as insurers raise premiums
11 due to losses, either pertaining to Idaho Power or to
12 insurers' overall insured base.

13 As noted in the memo from Idaho Power's insurance
14 broker that was provided with the Company's 2021 wildfire
15 mitigation cost deferral Application in Case No. IPC-E-21-
16 02 (and included as Exhibit No. 19 to my testimony), much
17 of the increases in premiums is attributable to the
18 frequency and magnitude of Western-state wildfires in
19 recent years, as well as insurance providers' perceptions
20 of Idaho Power's specific wildfire risk. The sizeable
21 increase in Idaho Power's premiums became particularly
22 prominent in 2021 due in part to a new "wildfire load"
23 charge of approximately \$1 million that is being added
24 annually to electric utilities, such as Idaho Power, that

1 insurers have determined operate in high-risk zones for
2 wildfire.

3 To help manage the costs of insurance, Idaho Power
4 has taken actions such as marketing of its programs as
5 needed, formation of a captive insurance program to access
6 the reinsurance market, reviewing and adjusting of self-
7 insured retentions, meeting regularly with insurers to
8 provide details on risk-mitigation practices, and regularly
9 assessing the adequacy of overall coverage. While these
10 efforts have resulted in benefits, costs of insurance for
11 the Company, and for the industry as a whole, have
12 increased notably in recent years.

13 Q. Does Idaho Power anticipate these premium
14 increases will continue?

15 A. Because insurance markets continue to be
16 volatile, premium increases are difficult to forecast.
17 Idaho Power anticipates that, notwithstanding its efforts
18 to negotiate favorable rates and coverage, premiums for
19 insurance will continue to increase for the foreseeable
20 future. This trend has been echoed by Idaho Power's third-
21 party insurance broker, who has explained that insurance
22 premiums will continue to increase due to prior losses
23 incurred by insurance providers and projected increased
24 risks of losses by insurers from wildfires.

1 Q. Aside from insurance premium increases, which
2 are representative of third-party assessments of Idaho
3 Power's wildfire risk, does wildfire risk impact the cost
4 of capital?

5 A. Yes, it does. In recent years, credit rating
6 agencies have inquired about Idaho Power's wildfire risk
7 and the efforts it undertakes to mitigate the risk.
8 Investment analysts and current and prospective debt and
9 equity investors also frequently inquire about wildfire
10 risk and mitigation efforts. This was elevated by the
11 Pacific Gas & Electric bankruptcy that resulted in large
12 part from wildfire liability associated with numerous
13 California wildfires ignited by the utility.

14 Credit rating agencies, analysts, and investors have
15 inquired about operating practices, financial exposure,
16 insurance coverage, and other topics relevant to wildfire
17 liability, and the exposure the Company has to wildfires
18 factors. They then incorporate this information into their
19 decision about whether to purchase debt and equity
20 securities and in credit ratings, and thus ultimately the
21 cost of capital, in much the same way that exposure
22 influences insurance premiums.

23 ***Hydroelectric Facility Relicensing Risks and Costs***

24 Q. What risks are associated with the Company's
25 relicensing efforts for its hydroelectric facilities?

1 A. Relicensing of the Company's hydroelectric
2 facilities will create additional obligations. It involves
3 large capital expenditures, increased operating costs, and
4 reduced hydropower generation, all of which can negatively
5 affect Idaho Power's results of operations and financial
6 condition. For the last several years, Idaho Power has been
7 engaged in an effort to renew its federal license for its
8 largest hydropower generation source, the Hells Canyon
9 Complex ("HCC"). Idaho Power is also in the process of
10 relicensing the American Falls hydroelectric facility.

11 Relicensing and ongoing permitting requirements
12 include an extensive public review process that involves
13 numerous natural resource issues and environmental
14 conditions. For instance, the existence of endangered and
15 threatened species in the watershed may result in major
16 operational changes to the region's hydropower projects,
17 which may be reflected in hydropower licenses, including
18 for the HCC and the American Falls facilities.

19 In addition, new interpretations of existing laws
20 and regulations could be adopted or become applicable to
21 hydropower facilities, which could further increase
22 required expenditures for endangered species protection and
23 other environmental compliance obligations and reduce the
24 amount of hydropower generation available to meet Idaho
25 Power's generation requirements. Idaho Power cannot predict

1 the requirements that might be imposed during the
2 relicensing and permitting process, or the financial or
3 operational impact of those requirements.

4 Q. Are there other hydroelectric relicensing-
5 based financial risks considered by the investment
6 community?

7 A. Yes. For any particular generating facility,
8 the worst possible outcome would be the loss of the license
9 to a competing party. Along with the uncertainty as to the
10 eventual receipt of licenses and the costs involved in
11 preparing for the license applications, costs of
12 protection, mitigation and enhancement ("PM&E") related to
13 these projects are also difficult to quantify. The
14 potential financial magnitude of these PM&E costs and their
15 effect on the Company's low-cost hydro generation resources
16 threaten the financial stability of a company the size of
17 Idaho Power and the ultimate rates it must charge its
18 customers. These amounts will vary among facilities;
19 however, in all cases, they can be significant due to lost
20 generation capacity, generation at a higher cost, and the
21 decreased ability of the Company to time and control water
22 releases. If the Company cannot generate when it is most
23 advantageous for the system, then some of the economic
24 value of the generation will be lost even if the amount of
25 total generation does not change.

1 Q. What will occur when the Company receives a
2 new license for the Hells Canyon facilities?

3 A. The amounts in construction work in progress
4 ("CWIP"), net of the accrued balance in the regulatory
5 liability account for pre-collected amounts received
6 relative to the allowance for funds used during
7 construction ("AFUDC"), will be transferred to plant in
8 service and the accumulation of AFUDC will cease and the
9 amortization of the relicensing costs will start. The
10 result will be an increase in rate base with earnings of
11 the Company declining substantially until this additional
12 amount is included in rate base and reflected in rates,
13 since there will be no ongoing contribution to earnings
14 from AFUDC. This is a notable risk to the Company's
15 financial condition. Because this is a relicense of an
16 existing hydro facility, there will be no increase (and
17 potentially a decrease due to operational changes) in the
18 generation of power and thus no increase in sales revenues.

19 An investor's perspective of the risk, upon receipt
20 of the license, includes the following: (1) the Company's
21 earnings will immediately decrease (no continuing AFUDC and
22 an increase in amortization expense of the relicensing
23 costs), (2) the Company's plant in-service will increase
24 (transfer from CWIP), and (3) no additional sales revenues
25 (same plant but new license) will result. If the completion

1 of relicensing is not aligned perfectly with the allowance
2 of new effective rates that recognize the transfer of
3 previously deferred relicensing costs into rate base, the
4 Company will be financially harmed. For the period of time
5 the new rate base is under review by the Commission, the
6 Company will earn no return on over \$200 million of net
7 investment. This potential regulatory lag, combined with
8 investors' potential expectation that there could be some
9 amount of cost disallowance, is a significant risk factor
10 based upon the size of the investment the Company has made
11 in relicensing the HCC.

12 Q. What is Idaho Power's current HCC relicensing
13 cost in CWIP?

14 A. Relicensing costs of \$432 million for the HCC
15 were included in CWIP as of March 31, 2023. As of March 31,
16 2023, Idaho Power's regulatory liability for collected
17 AFUDC relating to the HCC was \$213 million.

18 Q. What other risks does the relicensing process
19 create?

20 A. As Idaho Power's largest single generating
21 resource, continued operation of the HCC and failure to
22 renew a federal license for HCC could have a dramatic
23 operational impact. Further, imposition of onerous
24 conditions in the relicensing and permitting processes
25 could result in Idaho Power incurring significant

1 additional capital expenditures, increase operating costs
2 (including power purchase costs), and reduce hydropower
3 generation, which could negatively affect the financial
4 condition of the Company and the prices its customers pay
5 for electricity.

6 ***Reliability Risk and Execution Risk on Infrastructure***

7 Q. What issues with reliability are creating
8 additional risk?

9 A. The transition to intermittent renewable
10 energy resources in the region, transmission constraints,
11 retirement of baseload fossil fuel plants, aging
12 infrastructure, demand growth, weather conditions and
13 wildfires, and other factors have all impacted the
14 Company's ability to reliably provide energy. As noted in
15 Ms. Grow's testimony, the Company is making a concerted
16 effort to maintain reliability using a variety of programs.
17 However, the aforementioned items do subject the Company to
18 greater reliability risks than existed in the past.

19 Q. Besides the risk of not being able to deliver
20 energy, what other risks does reliability entail?

21 A. Idaho Power could be subject to regulatory
22 penalties, reputational harm, legal claims, and operational
23 changes if it violates mandatory reliability and security
24 requirements. The obligation to provide reliable service
25 also entails a significant commitment of capital, both for

1 operating and maintenance expenses and for capital
2 improvements. As I noted previously, Idaho Power is in a
3 stage of significant capital investment, constructing the
4 resources needed to reliably serve customers. The capital
5 needed to maintain reliability introduces two elements of
6 risk: the ability of the Company to attract that required
7 capital, and the recovery of the investments on a deferred
8 basis and subject to the uncertainty of the regulatory
9 process.

10 There are also significant efforts at the national
11 level to reshape energy policy, and that can put upward
12 pressure on that spending and the associated need to
13 attract capital. New federal energy policies are evolving
14 and could introduce new spending requirements to meet
15 reliability standards and regulatory requirements.

16 Q. Are there other risks associated with Idaho
17 Power's build-out of infrastructure to address reliability?

18 A. Yes. There are several considerable risks.
19 These risks include, as examples:

- 20 • the ability to timely obtain labor or materials
21 at reasonable costs;
- 22 • defaults and delays by suppliers and contractors,
23 including delays for specialty equipment that require
24 significant lead times;
- 25 • increases in price and limitations on

- 1 availability of commodities, materials, and equipment;
- 2 • imposition of tariffs on commodities, materials,
- 3 and equipment sourced by foreign providers;
- 4 • equipment, engineering, and design failures;
- 5 • credit quality of counterparties and suppliers
- 6 and their ability to meet financial and operational
- 7 commitments;
- 8 • unexpected environmental and geological problems;
- 9 • the effects of adverse weather conditions;
- 10 • catastrophic events, natural disasters,
- 11 epidemics, pandemics and other public health or
- 12 disruptive events that could result in supply chain
- 13 disruptions, as well as permitting and construction
- 14 delays;
- 15 • availability of financing;
- 16 • the ability to obtain approval from local, state,
- 17 or federal regulatory and governmental bodies and to
- 18 comply with permits and land use rights, and
- 19 environmental constraints; and
- 20 • delays and costs associated with disputes and
- 21 litigation with third parties.

22 The occurrence of any of these risks could cause Idaho

23 Power to operate at reduced capacity levels, increase

1 expenses, incur penalties, and adversely affect Idaho
2 Power's financial condition.

3 ***Environmental Issues and Risks***

4 Q. Please describe the Company's increasing risks
5 related to environmental issues.

6 A. Idaho Power's operations are subject to
7 numerous federal, state, and local environmental statutes,
8 rules, and regulations relating to climate change, air and
9 water quality, natural resources, endangered species and
10 wildlife, renewable energy, and health and safety.
11 Compliance with environmental regulations can significantly
12 increase capital spending, operating costs, and plant
13 availability and can negatively affect the affordability of
14 Idaho Power's services for customers.

15 Q. What are the costs associated with
16 environmental compliance?

17 A. Idaho Power's current estimated compliance
18 expenditures for the three-year period from 2023 to 2025
19 are \$156 million of capital expenditures and \$99 million of
20 operating expenses, based on current environmental laws and
21 regulations. Idaho Power anticipates that finalization,
22 implementation, or modification of federal and state
23 rulemakings and other proceedings could result in
24 substantial changes in operating and compliance costs.
25 Idaho Power is unable to estimate the changes in costs that

1 could result, given the uncertainty associated with
2 existing and potential future regulations, but Idaho Power
3 expects the expenditures will remain substantial
4 regardless.

5 Q. What other impacts could environmental
6 compliance requirements have?

7 A. In some cases, the costs to obtain permits and
8 ensure facilities are in compliance may be prohibitively
9 expensive. In other instances, the permitting process might
10 substantially delay the Company's ability to acquire
11 resources in accordance with its resource planning process.
12 Furthermore, Idaho Power may not be able to obtain or
13 maintain all environmental regulatory approvals necessary
14 for operation of its existing infrastructure or
15 construction of new infrastructure.

16 Q. What would be the impact of prohibitively
17 expensive compliance costs or inability to acquire
18 regulatory approval to operate facilities?

19 A. If new regulations render generating
20 facilities uneconomical or impossible to maintain or
21 operate, Idaho Power would need to identify alternative
22 resources for power, potentially in the form of new
23 generation and transmission facilities, market power
24 purchases, demand-side management programs, or a
25 combination of these and other methods.

1 Q. What impact do lengthy permitting processes
2 have on the ability to operate facilities and the Company's
3 financial condition?

4 A. Idaho Power's resource procurement and
5 planning process, its Integrated Resource Plan ("IRP"),
6 assumes the ability of the Company to timely plan and
7 procure the necessary resources to serve load. Lengthy
8 permitting processes impact the Company's ability to
9 execute on its lowest-cost, least-risk resource portfolios.

10 For example, the Boardman to Hemingway ("B2H")
11 transmission project was first identified in the preferred
12 portfolio of the Company's 2009 IRP, with an estimated in-
13 service date of 2015. Since that time, B2H has remained in
14 subsequent IRP preferred portfolios, and the Company has
15 continued to work to obtain the permits and approvals
16 necessary for construction of B2H, but the process has
17 significantly delayed construction and commercial operation
18 of the project. As of March 31, 2023, the Company has \$58
19 million in CWIP for future recovery. Similar to the HCC
20 relicensing, the prolonged B2H permitting process
21 negatively impacts liquidity and recovery of the costs is
22 subject to regulatory lag.

23 ***Physical Security and Cyber Security Risks***

24 Q. What risks do physical security and
25 cybersecurity pose?

1 A. Idaho Power operates in an industry that
2 requires the continuous use and operation of sophisticated
3 information technology and increasingly complex operational
4 technology systems and network infrastructure. In addition
5 to those cyber assets, Idaho Power's generation and
6 transmission facilities and its grid operations are
7 potential targets for terrorist acts and threats, acts of
8 war, social unrest, cyber and physical security attacks,
9 and other disruptive activities of individuals or groups,
10 including by nation states or nation state-sponsored
11 groups.

12 Q. Have there been recent examples of such
13 attacks?

14 A. Yes. There have been recent cyber and physical
15 attacks within the energy industry on infrastructure such
16 as electric substations and fuel pipelines, with notable
17 reports in the media of electric industry infrastructure
18 specifically being targeted for and impacted by physical
19 attacks more recently. Unfortunately, there will be
20 additional attacks in the future. Idaho Power and its
21 vendors have been subject to, and will likely continue to
22 be subject to, continuous attempts to gain unauthorized
23 access to systems and confidential information, and efforts
24 to disrupt operations.

1 Q. Besides attempts to damage utility
2 infrastructure, are there other cybersecurity risks?

3 A. Yes. In the normal course of business, Idaho
4 Power or its vendors collect and store sensitive and
5 confidential customer and employee information and
6 proprietary information of Idaho Power. Idaho Power's
7 technology systems are dependent upon connectivity to the
8 internet and third-party vendors to host, maintain, modify,
9 and update its systems, which may experience significant
10 system failures or cyberattacks that could compromise the
11 security of Idaho Power's assets and information. All
12 information technology systems are vulnerable to
13 disability, unauthorized access, unintentional defects,
14 user error, errors in system changes, and cybersecurity
15 incidents.

16 Idaho Power is in the process of pursuing complex
17 business system upgrades, and these significant changes
18 increase the risk of system interruption. Any data security
19 breaches, such as misappropriation, misuse, leakage,
20 falsification, or accidental release or loss of information
21 maintained in Idaho Power's information technology systems
22 or on third-party systems, including customer or employee
23 data, could result in violations of privacy and other laws
24 and associated litigation and liability for damages, fines,
25 and penalties; financial loss to Idaho Power or to its

1 customers; customer dissatisfaction or diminished customer
2 confidence; and damage to Idaho Power's reputation, all of
3 which could materially affect Idaho Power's financial
4 condition and results of operations.

5 No security measures can completely shield Idaho
6 Power's systems, infrastructure, and data from
7 vulnerabilities to cyberattacks, human error, intrusions,
8 or other events that could result in their failure or
9 reduced functionality, and ultimately the potential loss of
10 sensitive information or the loss of Idaho Power's ability
11 to fulfill critical business functions and provide reliable
12 electric power to customers. Despite the steps Idaho Power
13 may take to detect, mitigate, or eliminate threats and
14 respond to security incidents, the techniques used by those
15 who seek to obtain unauthorized access, and possibly
16 disable or sabotage systems or abscond with information and
17 data, change frequently and Idaho Power may not be able to
18 protect against all such actions.

19 Although Idaho Power continues to make investments
20 in its cyber and physical security programs, including
21 personnel, technologies, and training of personnel, there
22 can be no assurance that these systems or their expected
23 functionality will be implemented, maintained, or expanded
24 effectively; nor can security measures completely eliminate
25 the possibility of a cyber or physical security breach or

1 incident. Further, the implementation of security
2 guidelines and measures has resulted in, and Idaho Power
3 expects to continue to result in, increased costs.

4 ***Climate Change Risks***

5 Q. Are changes in weather conditions and climate
6 concerns creating increased risk for the Company?

7 A. Yes, in a number of ways, including the
8 following:

9 • Due to regulations and associated costs
10 originating from climate change concerns, Idaho Power
11 is retiring fossil fuel generating units that have
12 provided reliable and affordable generation and
13 replacing it with intermittent resources and utility-
14 scale batteries that fit within the confines of
15 federal regulation and infrastructure development
16 risks. This transition creates reliability issues, as
17 discussed above, and additional uncertainty regarding
18 resource costs and impacts on wholesale energy
19 markets, particularly as other utilities make the same
20 transition away from fossil fuel generating plants and
21 baseload energy sources. If new greenhouse gas ("GHG")
22 emissions reduction rules were to become effective,
23 they could result in significant additional compliance
24 costs that could negatively impact Idaho Power's
25 future financial position, results of operations, and

1 cash flows if such costs are not timely recovered
2 through regulated rates. Moreover, the possibility
3 exists that stricter laws, regulations, or enforcement
4 policies could significantly increase compliance costs
5 and the cost of any remediation that may become
6 necessary.

7 • The price of power in the wholesale energy
8 markets tends to be higher during periods of high
9 regional demand that often occur with weather
10 extremes, which may cause Idaho Power to purchase
11 power in the wholesale market during peak price
12 periods, increasing power supply costs. The PCA helps
13 mitigate the effects of energy market price
14 volatility, but the volatility levels can result in
15 the Company absorbing significant amounts of power
16 supply costs. As described above, the Company's April
17 2022-March 2023 PCA year, total actual power supply
18 costs were \$721.8 million, compared to base power
19 supply costs of \$305.7 million, and a large part of
20 this variance resulted from high market prices.

21 • The Company's hydroelectric generating base
22 depends on water conditions in the Snake River Basin.
23 Warmer temperatures and changes in precipitation
24 levels and sustained drought conditions can adversely
25 affect the amount of energy generated by its

1 hydroelectric generation facilities. Low water
2 conditions in the Snake River Basin, as well as in
3 other areas, can increase wholesale market prices due
4 to a lack of hydroelectric generation in the region
5 and a reliance on more costly energy sources. This can
6 result in power supply cost variances that are
7 absorbed by the Company, as noted previously in my
8 testimony.

9 • The increased frequency and severity of storms,
10 lightning, high winds, icing events, droughts, heat
11 waves, fires, floods, snow loading, and other extreme
12 weather events can damage transmission, distribution,
13 and generation facilities, causing service
14 interruptions and extended or mass outages, which
15 increases costs and impairs Idaho Power's ability to
16 meet customer energy demand.

17 • The costs of repairing and replacing
18 infrastructure or any costs related to Idaho Power's
19 liability for personal injury, loss of life, and
20 property damage from utility equipment that fails,
21 including as a result of significant weather and
22 weather-related events and fires, is not covered in
23 full by insurance.

24 • Customers' energy use could increase or decrease
25 based on variable weather conditions, impacting the

1 predictability of revenues and earnings.

2 • Stakeholder actions and increased regulatory
3 activity related to climate change and reducing GHG
4 emissions, could negatively impact the Company in
5 capital markets transactions. Idaho Power has seen a
6 rise in certain stakeholders, including investors and
7 lenders, placing increasing importance on the impact
8 and social cost associated with climate change. GHG
9 emissions, including, most significantly carbon
10 dioxide, could be further restricted in the future in
11 response to stakeholder expectations with respect to
12 environmental and climate change issues. The
13 increasing focus on climate change and associated
14 stricter regulatory and legal requirements may result
15 in Idaho Power facing adverse reputational risks
16 associated with certain of its operations that produce
17 GHG emissions or that mine coal. If Idaho Power is
18 unable to satisfy the increasing climate-related
19 expectations of certain stakeholders, IDACORP and
20 Idaho Power may suffer reputational harm. This could
21 cause IDACORP's stock price to decrease or cause
22 certain investors and financial institutions not to
23 purchase the companies' debt securities or otherwise
24 provide the companies with capital or credit on
25 favorable terms, which may cause IDACORP's and Idaho

1 Power's cost of capital to increase.

2 **Company Size and Geographic Concentration**

3 Q. Does IDACORP's size have an impact on
4 investors' perceived level of risk?

5 A. Yes, IDACORP's relatively small market
6 capitalization compared to its peers is a factor that makes
7 IDACORP riskier than the average electric utility holding
8 company. IDACORP's \$5.7 billion market capitalization is
9 much smaller than the \$22.8 billion average market cap of
10 the electric utilities used by Mr. McKenzie to estimate the
11 range of acceptable ROEs. There is well-documented evidence
12 that investors in smaller companies expect higher rates of
13 return than larger companies but also face higher risk.
14 Idaho Power does not have a corporate parent with a large
15 balance sheet and strong credit ratings to rely on during
16 times of financial stress given the fact that Idaho Power
17 is the primary subsidiary of IDACORP.

18 Also, the Company faces a concentrated regulatory
19 risk compared to many of its peers because 95 percent of
20 its retail revenues come from one jurisdiction. Both equity
21 analysts and the credit agencies consistently identify
22 regulatory risk as one of the chief risk factors for the
23 Company. This risk from lack of diversification, combined
24 with the relatively small size, gravitates toward a higher
25 required return from investors compared to many of Idaho

1 Power's peers.

2 ***Growth and Regulatory Lag***

3 Q. What will prevent the Company from earning
4 its authorized or allowed ROE, absent approval of this rate
5 request?

6 A. In light of the substantial infrastructure
7 development Idaho Power is undertaking, and will be
8 undertaking for the foreseeable future, in my opinion, the
9 reliance on historical test year information is a primary
10 reason the Company may have difficulty earning its
11 authorized or allowed ROE going forward. Idaho Power is in
12 a position of applying to recover its costs on a historical
13 basis when its costs are constantly increasing on a
14 prospective basis. As a result, there is and will continue
15 to be a consistent recovery lag.

16 Q. What effect does growth have on the use of
17 historical data?

18 A. Growth inherently worsens the effects.
19 Separate from rising operation & maintenance costs that
20 must accommodate that growth, the allowed rate of return is
21 applied to a rate base from a prior historical period, and
22 thus new plant additions suffer some period of 0 percent
23 return awaiting eventual rate base treatment.

1 ratio. The equity portion of the projected capital
2 structure is lower than the 55 percent year-end equity
3 average over the past six years because of new debt
4 issuances in 2023 to support increased capital spending.

5 Q. Has the higher equity ratio over the past six
6 years help the Company's credit rating?

7 A. Yes. The Company began increasing the equity
8 ratio immediately following the last GRC. In fact, the
9 year-end 2012 equity ratio was 53 percent and it grew from
10 that level to 55 percent at year-end 2022. The increased
11 equity ratio has had a significant positive impact to the
12 Company's credit ratings, partially offsetting some of the
13 lower ratios the rating agencies use for calculating
14 applicable ratings.

15 Another factor to consider in the capital structure
16 is the amount of imputed debt due to QF and PPA contractual
17 obligations the rating agencies consider when evaluating
18 the creditworthiness of the Company, as I have discussed
19 previously in my testimony. Although neither Moody's nor
20 S&P currently publish a specific amount of imputed debt for
21 Idaho Power, S&P published a white paper detailing how they
22 calculate imputed debt for PPAs.² Using that methodology, a
23 conservative estimate would be almost \$600 million of

² *Standard & Poor's Methodology For Imputing Debt For U.S. Utilities' Power Purchase Agreements.* Attached as Exhibit No. 20.

1 imputed debt, which is not reflected in the Company's
2 financial reporting of debt and is not included in the
3 Company's cost of capital exhibit. After incorporating even
4 that conservative imputation of debt, the ratio biases more
5 heavily to debt.

6 Q. What is the Company's proposed cost of debt?

7 A. As shown on page 2 of Exhibit No. 21, which
8 details the calculation of the cost of debt used in the
9 estimated year-end 2023 capital structure, the Company's
10 proposed cost of debt is 4.895 percent.

11 Q. What was the Company's cost of debt in its GRC
12 filed in 2011?

13 A. In that case, the Company filed a cost of debt
14 of 5.728 percent.

15 Q. Has there been any significant refinancing
16 since the last GRC?

17 A. Yes. Idaho Power has taken advantage of the
18 low interest rate environment since the last GRC to lower
19 the overall cost of debt by approximately 83 basis points.
20 At the same time, Idaho Power was able to lengthen its
21 weighted average maturity on the debt portfolio from 15.3
22 years at the end of 2011 to 19.3 years at the end of 2023.
23 The Company's efforts over the past decade provide a
24 significant savings to customers.

1 Q. What method did the Company use for
2 calculating its cost of debt in this case?

3 A. Idaho Power applied a debt calculation method
4 to fully consider the effect of discounts, premiums, and
5 expense of issue on the annual cost of each bond, adopting
6 the bond yield to maturity method.

7 Q. Please explain the cost of debt calculation on
8 page 2 of Exhibit No. 21.

9 A. The calculation takes the settlement date,
10 maturity date, coupon rate, and net proceeds at the
11 issuance date for each debt issue to produce a bond yield
12 to maturity. The bond yield was then multiplied by the
13 principal amount outstanding for each debt issue, resulting
14 in an annualized cost of each debt issuance in column 12.
15 The total in column 12 for all the debt issuances produces
16 a total annual effective cost of debt in line 32. This
17 total was divided by the total in column 6, line 32 to
18 produce the weighted average cost for all long-term debt in
19 column 11, line 32. This method is appropriate because the
20 expense of issuance associated with a bond is essentially
21 prepaid interest, and the net proceeds, not the principal
22 amount of the bond, are all that is available to be
23 invested in property, plant, and equipment (rate base).

24 Q. Does the Company use variable rate securities
25 in its long-term capitalization?

1 A. No. The Company retired its only variable rate
2 security, the Port of Morrow (Boardman) Pollution Control
3 Revenue Bonds, in 2022 upon the demolition of the Boardman
4 plant and its pollution control equipment, and previously
5 repaid in full its variable-rate term loan entered into in
6 March 2022.

7 **IV. OVERALL COST OF CAPITAL**

8 Q. What is the overall cost of capital for Idaho
9 Power?

10 A. As shown on page 1 of Exhibit No. 21, using
11 the Company's projected year-end 2023 capital structure,
12 the Company's cost of debt as presented in my testimony,
13 and incorporating the recommended 10.4 percent cost of
14 equity, the resulting overall cost of capital for Idaho
15 Power is 7.702 percent. This is an appropriate rate of
16 return to be utilized by the Commission when deriving the
17 Company's revenue requirement.

18 Q. How does that compare to the cost of capital
19 approved in Idaho Power's 2011 GRC request?

20 A. It represents a decrease. The overall cost of
21 capital for Idaho Power approved in the prior GRC was 7.86
22 percent.

23 Q. Does this conclude your direct testimony in
24 this case?

25 A. Yes, it does.

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DECLARATION OF BRIAN BUCKHAM

I, Brian Buckham, declare under penalty of perjury under the laws of the state of Idaho:


1. My name is Brian Buckham. I am employed by Idaho Power Company as Senior Vice President and Chief Financial Officer.

2. On behalf of Idaho Power, I present this pre-filed direct testimony and Exhibit Nos. 19 through 21 in this matter.

3. To the best of my knowledge, my pre-filed direct testimony and exhibits are true and accurate.

I hereby declare that the above statement is true to the best of my knowledge and belief, and that I understand it is made for use as evidence before the Idaho Public Utilities Commission and is subject to penalty for perjury.

SIGNED this 1st day of June 2023, at Boise, Idaho.

Signed: 

Brian R. Buckham