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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 INTERIM AND BASE RATES AND CHARGES FOR ELECTRIC SERVICE.	)	CASE NO. IPC-E-03-13

IDAHO POWER COMPANY

DIRECT REBUTTAL TESTIMONY

OF

DANIEL B. MINOR

1 Q. Please state your name and business address.
2 A. My name is Daniel B. Minor and my business
3 address is 1221 West Idaho Street, Boise, Idaho 83702.
4 Q. What is your position at Idaho Power Company?
5 A. I am the Vice President of Administrative
6 Services and Human Resources.
7 Q. What is your educational background?
8 A. I graduated from Idaho State University in
9 Pocatello, Idaho in 1981 receiving a Bachelor of Business
10 Administration in Accounting. In 1984, I passed the
11 Certified Public Accounting exam and was licensed as a CPA
12 in the state of Idaho. In 1996 I attended the University of
13 Idaho Public Utility Executive's Course.
14 Q. Please outline your business experience.
15 A. I began my career as a staff accountant with
16 Alexander Grant & Company (later known as Grant Thornton
17 International) in August 1981. In April 1983 I began my
18 employment with Idaho Power Company in the property
19 accounting department. I advanced through several
20 accounting positions and in October 1990, I was promoted to
21 Manager of Employment & Compensation in the Human Resources
22 Department. In October 1995 I was appointed to Senior
23 Manager of Human Resources and served in that capacity until
24 September 1998 when I left the Company. I returned to the
25 Company in July of 2001 as the Director of Audit Services

1 and served in that capacity until May of 2003 when I was
2 appointed to Vice President of Corporate Services and in
3 November 2003 I was also given responsibility for the Human
4 Resources and Information Security departments as the Vice
5 President of Administrative Services and Human Resources.
6 Q. What are your duties as the Vice President of
7 Administrative Services and Human Resources?
8 A. I am responsible for general oversight of the
9 Human Resources, Corporate Services and Information Security
10 Departments.
11 Q. What is the purpose of your testimony?
12 A. As the Company's Vice President responsible
13 for Human Resources, I am responding to the issues regarding
14 the Company's total cash compensation comprised of base pay
15 and annual pay-at-risk incentives raised by Staff Witness
16 Holm.
17 Q. Please describe the Company's cash and
18 benefit compensation philosophy.
19 A. Idaho Power's compensation philosophy is
20 generally based on achieving four goals: (1) facilitating
21 the achievement of Idaho Power's vision, mission and goals,
22 (2) attracting, retaining and motivating employees with the
23 skills and performance level to achieve the goals of the
24 Company, (3) providing opportunities for employee
25 development and advancement, and (4) maintaining our non-

1 union status. Successful execution of that philosophy
2 requires that cash compensation and benefits be competitive
3 in the labor markets where the Company competes for
4 employees.
5 Q. Has the Company's compensation philosophy
6 evolved over time?
7 A. Yes. Prior to 1991, the Company's
8 compensation goal was focused on providing a wage and
9 benefit package that was sufficiently competitive for the
10 Company to remain a non-union employer. To assure
11 compliance with that goal, the Company annually conducted a
12 survey of Pacific Northwest utilities focusing on the
13 Lineman position. Based on that survey, management would
14 recommend to the Board a Salary Structure Adjustment ("SSA")
15 that would maintain the compensation for the Company's
16 Linemen and other skill/craft positions at a level that was
17 at or near the top of the market in the northwest.
18 Q. Were changes to the compensation program
19 implemented in 1991?
20 A. Yes. In 1991, the Company adopted a number
21 of structural changes to its cash compensation program. At
22 that time the compensation market was expanded beyond the
23 Pacific Northwest to encompass the intermountain west
24 utility industry and the competitive level for cash
25 compensation was set at the 60th percentile of that market.

1 The Company also moved away from a single competitive
2 benchmark position (lineman) comparison in the market to a
3 salary benchmarking process that included approximately
4 seventy union, professional, supervisory and administrative
5 positions that were reviewed annually to determine the
6 amount of adjustment necessary to maintain the overall
7 competitiveness of the compensation structure.
8 Q. How has the general compensation program
9 evolved since 1991?
10 A. In 1995, the Company made several major
11 changes to its compensation program to meet new, more
12 competitive labor markets. The biggest change was the
13 decision by the Board to put a portion of employees'
14 compensation at risk based on pre-determined goals. This
15 pay-at-risk program is generally referred to as the annual
16 incentive program. At implementation, the control point for
17 base pay was adjusted to the 50th percentile of the
18 competitive market with the target for total cash
19 compensation (base pay + at-risk pay) remaining at the 60th
20 percentile.
21 Q. Why do you refer to the annual incentive
22 program as pay at-risk?
23 A. Unlike base pay, which is guaranteed,
24 incentive pay may not be paid unless the Company's
25 performance meets or exceeds predetermined goals. For

1 example, in 2003 no incentive payout was made to Company
2 employees.
3 Q. Staff Witness Holm has recommended that the
4 Commission remove all incentive pay expense from the
5 Company's 2003 test year. Do you believe the Commission
6 should accept Mr. Holm's recommendation.
7 A. No. Mr. Holm's recommendation should be
8 rejected for several reasons. First, Mr. Holm erroneously
9 concludes that including the pay-at-risk component of the
10 Company's compensation package will result in Idaho Power
11 employees being overpaid. Second, Mr. Holm does not
12 understand the labor markets in which the Company competes
13 for skilled employees. Finally, Mr. Holm erroneously
14 concludes that the Company's pay-at-risk compensation
15 structure does not benefit Idaho Power's customers.
16 Q. Staff Witness Holm is critical of the
17 Company's use of national market data for setting employee
18 compensation. Why did the Company change its competitive
19 compensation market from intermountain west utilities to a
20 national utility market?
21 A. Utility associations such as National
22 Electric Power Association (NELPA) and Edison Electric
23 Institute (EEI), in conjunction with human resource
24 consulting firms such as Towers Perrin, have conducted
25 compensation surveys for their members for many years. With

1 the onset of deregulation, and the ensuing competition for
2 experienced professionals between companies, utilities
3 became extremely protective of this data. With fewer
4 companies participating in the Northwest Utility Salary
5 Survey, the data became less reliable and was increasingly
6 vulnerable to high salary/high cost of living areas such as
7 Portland and Seattle. The national utility market offered
8 the Company a broader based, more reliable data pool on
9 which compensation decisions could be made. Further, the
10 Company felt the data was more relevant to our market
11 because it wasn't as heavily influenced by the high
12 salary/high cost of living cities as the Northwest Utility
13 Salary Survey. Because many Idaho Power Company jobs are
14 only found in other electric utilities, we must survey
15 compensation levels outside the state and local markets and,
16 in our opinion, the national market provides the most
17 reliable and relevant database available.
18 Q. Why does the Company align its pay with the
19 60th percentile of the relevant marketplace?
20 A. We believe compensation is an important
21 strategic tool and a key part of how a successful company is
22 run. We keep our fixed costs at a reasonable level by paying
23 salaries at the middle of the market (50th percentile), and
24 reward superior performance results through variable cost
25 incentive plans that only pay when pre-defined results that

1 benefit the Company's customers and shareholders are
2 achieved. Compensation levels reach the 60th percentile only
3 when a target incentive is earned through accomplishing
4 performance goals. By structuring our total cash
5 compensation program this way, the Company is able to vary
6 pay based on actual Company performance -- paying a 50th
7 percentile salary (and less than 60th percentile total cash
8 compensation) when performance goals are not achieved, and
9 60th percentile salary (50th percentile salary plus pay at-
10 risk) when goals are achieved. The total cash compensation
11 program is an important strategic tool because: 1) it helps
12 us manage our costs by varying total cash compensation
13 levels based on Company performance; and 2) it specifically
14 identifies and focuses all of our employees on important
15 goals for each fiscal year.
16 Q. Staff Witness Holm is critical of the
17 Company's decision not to immediately cut wages when it
18 implemented the pay-at-risk plan. Please explain why the
19 Company did not cut wages when it implemented the pay at-
20 risk plan.
21 A. The Company believed that precipitously
22 cutting compensation to implement an at-risk component of
23 compensation would have undermined the ultimate success of
24 the plan. Consistent with the approach used by many
25 companies, Idaho Power elected to transition to the 50th

1 percentile over a three year period by implementing a less
2 than competitive annual salary structure adjustment each
3 year. The Company continued to conduct annual salary
4 structure reviews and as the base salary structure moved
5 closer to the 50th percentile, the Company increased the
6 target incentive award opportunity at levels necessary to
7 maintain total cash compensation (base pay + at-risk pay) at
8 the 60th percentile.
9 Q. Mr. Holm compares Idaho Power's wages to the
10 wages of all employees in the state in general and
11 specifically to employees of the State of Idaho. Are
12 average pay levels within the state and for State of Idaho
13 employees relevant for assessing Idaho Power wages?
14 A. No. Mr. Holm's comparisons overly simplify a
15 complex business issue. First, an overall average is a
16 meaningless statistic unless you are comparing like-jobs in
17 both organizations. Since such comparisons are only
18 possible with a small number of jobs, an overall average is
19 not representative of the entire organization and doesn't
20 demonstrate whether compensation is high, low or in-between.
21 Second, competitive markets for compensation comparisons
22 should be those job markets where the Company recruits and
23 where the Company loses employees. Given the very
24 specialized types of jobs needed to run a successful
25 electric utility, the national electric utility employee

1 market is far more important than the general state employee
2 market for compensation comparisons. A more meaningful and
3 appropriate comparison would be the average Company wage of
4 $59,173 as compared to the average wage at the Bonneville
5 Power Administration of $73,380 or the average wage at Grant
6 County PUD in 2002 of $72,429 as reported in the
7 February 23, 2004 issue of *Clearing Up* (Exhibit 71).
8 Q. In his testimony Mr. Holm compares employee
9 turnover rates between Idaho Power and the employees of the
10 state of Idaho. What conclusions can be drawn from the
11 comparison of employee turnover at Idaho Power to the
12 employee turnover experience by the State of Idaho?
13 A. None. There are many variables that impact
14 turnover in both workforce populations including culture,
15 work environment, morale, satisfaction with pay and
16 benefits, promotional opportunities, personal choice,
17 travel, work shift, permanent vs. temporary or seasonal
18 labor. We believe there are many benefits to the customer
19 from having low turnover. Low turnover means higher levels
20 of institutional knowledge among our employees, less
21 investment in retraining and employee development, improved
22 safety records, lower worker compensation costs, and better
23 customer service. Each not only benefits the customer, but
24 the Company and its shareholders as well.
25 Q. How does using an IDACORP earnings goal in

1 the at-risk incentive plan benefit the customers of Idaho
2 Power?
3 A. In addition to being the variable component
4 of compensation, the real benefit of any at-risk pay plan is
5 the collective employee focus on key Company goals. In the
6 first few years of the plan the Company established goals
7 based on controlling O&M costs, customer satisfaction and
8 safety. However, as the Company gained experience with pay-
9 at-risk the plan evolved to support the strategic direction
10 of the Company. Beginning in 1997, the Company moved to
11 focus employees on continuous process improvement with the
12 goal of each employee contributing towards the "Operational
13 Excellence" of each area of the Company. As the Company
14 considered how the plan should evolve in support of this new
15 direction, it was decided that the original goals while
16 extremely important to all stakeholders, limited the power
17 of the pay-at-risk plan. Upon further review it became
18 apparent that the impact of achieving each of the original
19 goals as well as the results of continuous process
20 improvement could be best measured in the earnings of the
21 Company. Additionally, an earnings goal provided an
22 objective, auditable metric for performance under the plan.
23 In 1997, the Company made the decision to change the plan to
24 a single goal of earnings on common shares of Idaho Power
25 Company (Later IDACORP) with the performance level being set

1 independently by the Compensation Committee of the Company's
2 Board of Directors. When discussing this goal with
3 employees, representatives of Human Resources as well as
4 management continue to focus utility employees' behavior on
5 achieving operational excellence making a difference where
6 they can through excellence in customer service, working
7 efficiently, safely, and controlling utility operations and
8 maintenance expenses. With an ongoing focus on these areas
9 by employees, both Idaho Power and its utility customers
10 will continue to benefit.
11 Q. Are the capitalized incentive amounts the
12 Company included in its test year data appropriate?
13 A. Yes. The incentive payroll amounts
14 capitalized by the Company reflect the ratio of base
15 salaries and overtime charged to Capital and O&M projects in
16 each year. If the Company had not implemented an at-risk
17 pay incentive plan and had continued to maintain the salary
18 structure at the 60th percentile base pay level, base
19 compensation, including overtime would be $7-8 million
20 dollars higher per year. This additional cost would place
21 upward pressure on benefits tied to wages such as the 401k,
22 pension, vacation and sick leave. Additionally, the Company
23 and its customers would lose the benefit of the at-risk
24 incentive compensation program and its power to focus
25 employee behavior on the achievement of operational

1 excellence, and aligning the interests of the customer,
2 shareholders and the Company.
3 Q. Did the Company raise base pay wages for
4 2004?
5 A. No. The Company completed its annual
6 competitive analysis for the salary structure in November
7 2003. This competitive analysis indicated that the Company
8 needed to implement a 3% salary structure adjustment
9 effective January 1, 2004 to maintain the competitiveness of
10 the base pay structure at the 50th percentile. In November,
11 management and the Board elected to not grant the increase
12 until financial conditions of the Company improve. In
13 reaching its determination, management considered a number
14 of factors including the overall financial condition of the
15 Company, failure to receive interim rate relief, the
16 reduction in the dividend from $1.86 to $1.20 per share and
17 the potential for a fifth consecutive year of below normal
18 water conditions. This effectively deferred any upward
19 Salary Structure Adjustment until such time that the
20 Company's financial situation improves.
21 Q. How will the decision to not grant a Salary
22 Structure Adjustment in 2004 affect the Company?
23 A. The salary structure will fall below
24 competitive pay levels in the relevant market and the
25 Company will face a greater threat of losing quality

1 employees and becoming a union shop. Since early February
2 2004, representatives of the International Brotherhood of
3 Electrical Workers Union have been actively engaged in
4 efforts to organize the Company's Delivery Business Unit
5 employees. The key organizing issue raised by the union
6 representative is the Company's failure to implement the
7 January 2004 salary structure adjustment and the lack of a
8 2003 incentive payment. Unfortunately, it is true that
9 without the salary structure adjustment and with no
10 incentive payment, the compensation of many of our workers
11 is currently below the pay of their peers, particularly in
12 the Pacific Northwest. This situation cannot continue over
13 the long term or we will face ongoing organizing efforts and
14 perhaps even the unionization of our work force.
15 Q. What action will the Company be required to
16 take if recovery of the at-risk pay expense is disallowed?
17 A. As previously discussed, the Company believes
18 that in order to retain our skilled employees and maintain
19 our non-union status, total cash compensation must be at the
20 60th percentile. If the outcome of these proceedings
21 indicates that at-risk compensation expense is not favored
22 by the Commission, management will be forced to consider
23 termination of the current pay-at-risk plan and restoration
24 of base pay to the 60th percentile of the competitive market.
25 This will require a significant one-time increase in base

1 pay with a resulting increase in our fixed total

2 compensation.

3 Q. Does this conclude your direct rebuttal

4 testimony?

5 A. Yes.

BEFORE THE

IDAHO PUBLIC UTILITIES COMMISSION

CASE NO. IPC-E-03-13

IDAHO POWER COMPANY

EXHIBIT NO. 71

D. MINOR

Clearing Up
February 23, 2004

Laggardly Market Lulls Prices to Sleep

Thanks to the Presidents Day Holiday, the week got off to a slow start and prices crept downward as the week progressed, making for a largely uneventful week.

"There's nothing dramatic going on anywhere," remarked one trader about last week's electricity-market activities. Peak-power deals at Mid-Columbia sagged to a low of 38.75 mills/KWh in Thursday trading, having managed to stay between 40.75 mills and 42 mills/KWh earlier in the week. Friday trading for Monday deliveries displayed a bit more life; prices moved back up to between 41 mills and 41.50 mills/KWh. Off-peak power prices stayed in the vicinity of between 38 mills and 40.75 mills/KWh before sinking to 35.75 mills/KWh in end-of-week trading. At the California-Oregon Border hub, peak power was moving for between 42.50 mills and 44 mills/KWh on Tuesday, but also lost strength later in the week. By Thursday, the price was down to between 40 mills and 41.50 mills/KWh.

Prices at the Palo Verde hub in the Southwest had trouble staying above the 40 mills/KWh mark last week. Though trading opened Tuesday at between 41 mills and 43.25 mills/KWh for peak offerings, by Thursday the price was down to 38.50 mills/KWh. Next-week deliveries were moving for 43.25 mills/KWh on Friday. Off-peak power lost a few mills as the week wore on, starting off at between 34 mills and 36 mills/KWh prior to dropping to a low of 29.75 mills/KWh on Thursday. Again, the price jumped on Friday—up to 37.25 mills/KWh.

At NP15, peak power changed hands for between 45 mills and 47 mills/KWh in early-week trading. By the end of the week, power was being bought and sold in the narrow band of 42.45 mills and 43.75 mills/KWh. Low-demand power deals were done for between 38 mills and 40 mills/KWh on Tuesday before slipping down to the 33 mills to 35 mills/KWh range on Thursday.

SP15 prices showed more strength than NP15's during the first part of the week, but just barely. Power for peak delivery traded for between 46.50 mills and 48 mills/KWh, while off-peak power moved for 35 mills to 37.50 mills/KWh. Off-peak prices perked up to a high of 39.50 mills/KWh at the end of the week.

Scheduled work in the Pacific Northwest dropped the Pacific DC Intertie down to 1086 MW north to south and 1070 MW south to north on both Tuesday and Wednesday *[Shauna O'Donnell]*.

Western Electricity Prices
February 17-20, 2004

	Peak	Off-peak
Alberta	12.68-149.27	7.83-46.32
APX California	45.25-55	38-39.25
Mid-Columbia	38.75-42	35.75-40.75
COB	40-44	35.50-41
NP15	42.40-47	33-40
SP15	41-48	34-39.50
Palo Verde	38.50-43.50	29.75-37.25

Week in Summary

Lawmakers also OK'd a bill requiring power plants to mitigate for carbon dioxide emissions, by paying into a fund or by installing CO2 mitigation equipment. ***At [14], bills face uncertain fate in this year's 60-day session.***

[5] WUTC Tells Avista to Stop Using Affiliate to Buy Gas

Avista Energy will no longer be allowed to buy gas for Avista Utilities' Washington Customers, according to a Washington Utilities and Transportation Commission ruling. In a 2-1 vote, the commission questioned whether the utility and its affiliate were at arms length and what the arrangement's benefits were to customers. ***But at [12] Avista found an ally in Chairwoman Marilyn Showalter, who called the ruling "conceptually flawed and unduly limiting."***

[6] BC Hydro's Net Profit Improving on Higher Domestic Consumption

An increase in domestic electricity consumption helped BC Hydro post a net income of C$150 million ($113 million) for the first nine months of fiscal 2004. Improved water inflows have also helped the BC government-owned utility brighten its financial picture. ***For details, turn to [11].***

Briefs

[7] Public Power Earnings: Average BPA Pay Tops $70,000

Last year, 227 Bonneville Power Administration employees earned over $100,000, according to recently released data. That's 7 percent of the total 3,230 employees. A total of 468 employees, or 14.5 percent, earned over $90,000.

Agency-wide, the average pay is $73,380.

This information comes from a freedom of information request by Louis Bloom of Camano Island, who posts salaries of government employees, most from Washington, and including several PUDs, at his Web site *www.lbloom.net*.

BPA listed 15 employees who earn the government's highest annual salary--$142,500--including 13 of 18 vice presidents, the administrator and deputy administrator.

The average salary at Grant County PUD in 2002 was $72,429; and the new Seattle City Light Superintendent came on with a starting wage of $210,000. The Snohomish County PUD general manager was reported at $194,600 in 2002, while the top job at Benton PUD received $135,000.

However it appears the highest paid public power official is Energy Northwest's CEO, Vic Parrish, who earns $486,590 *[Ben Tansey]*.

[7.1] Ninth Puts Kibosh on Challenge to DSI Contracts--Again

The 9th U.S Circuit C[illegible] of Appeals reaffirmed its denial, of challenges tc

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