

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION)
OF IDAHO POWER COMPANY FOR)
AUTHORITY TO INCREASE ITS RATES)
AND CHARGES FOR ELECTRIC SERVICE)
TO ELECTRIC CUSTOMERS IN THE STATE)
OF IDAHO)
_____)

CASE NO. IPC-E-03-13

IDAHO POWER COMPANY

DIRECT TESTIMONY

OF

JOHN R. GALE

1 Q. Please state your name and business address.

2 A. My name is John R. Gale and my business
3 address is 1221 West Idaho Street, Boise, Idaho.

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

6 A. I am employed by Idaho Power Company (Idaho
7 Power or the Company) as the Vice President of Regulatory
8 Affairs.

9 Q. Please describe your work experience.

10 A. In October 1983, I accepted a position as
11 Rate Analyst with Idaho Power Company. In March 1990, I was
12 assigned to the Company's Meridian District Office for one
13 year where I held the position of Meridian Manager. In
14 March 1991, I was promoted to Manager of Rates. In July
15 1997, I was named General Manager of Pricing and Regulatory
16 Services. In March of 2001, I was promoted to Vice
17 President of Regulatory Affairs. As Vice President of
18 Regulatory Affairs, I am responsible for the overall
19 coordination and direction of the Pricing & Regulatory
20 Department, including development of jurisdictional revenue
21 requirements and class cost-of-service studies, preparation
22 of rate design analyses, and administration of tariffs and
23 customer contracts. In my current position, I am
24 responsible for policy matters related to the economic
25 regulation of Idaho Power Company.

1 Q. What role did you play in the preparation of
2 the general rate case?

3 A. My role in the preparation of the general
4 rate case was to oversee, manage, and coordinate the filing
5 and to make the policy decisions related to regulatory
6 matters.

7 Q. What was your interaction with the other
8 Company witnesses?

9 A. I discussed the content and preparation of
10 the witnesses' testimony and exhibits. I was assisted in
11 this effort by Ms. Maggie Brilz and Mr. Greg Said, along
12 with the Company's regulatory attorneys directed by Mr.
13 Barton Kline.

14 Q. Please provide an overview of the Company's
15 general rate case filing.

16 A. The Company leads with Mr. LaMont Keen, our
17 President and COO. Mr. Keen speaks to the Company's
18 financial condition and its management performance in recent
19 years. Mr. Keen is our primary policy witness. Our next
20 witness is Mr. William Avera, who has been retained by the
21 Company as our return on equity (ROE) expert. Mr. Avera
22 also performed this function for Idaho Power in our last
23 general rate case. Mr. Avera's recommended ROE range
24 becomes an input to Mr. Dennis Gribble's considerations.
25 Mr. Gribble selects an ROE point estimate and includes that

1 with the test year capital structure to derive the proposed
2 overall rate of return.

3 Ms. Lori Smith then testifies to the financial
4 inputs, both actual and estimated, that become our initial
5 starting point for the system data for the 2003 test year.
6 Ms. Smith includes system adjustments for deductions to
7 certain expenses not allowed in rates, annualizing
8 adjustments to expenses and rate base, known and measurable
9 adjustments to expenses and rate base, and other adjustments
10 to revenues, expenses and rate base related primarily to
11 past Idaho Public Utilities Commission (IPUC or the
12 Commission) orders. Mr. Obenchain takes Ms. Smith's data,
13 Mr. Gribble's return recommendation, Mr. Said's normalized
14 net power supply expenses, along with other selected inputs
15 and prepares the jurisdictional separation study (JSS). The
16 JSS, as its name states, separates system values for rate
17 base, revenues, and expenses for each state and federal
18 jurisdiction by an assignment and allocation process. One
19 result of the JSS is the Idaho retail jurisdictional revenue
20 requirement.

21 As stated before, Mr. Said provides the normalized
22 net power supply expenses for the test year. Mr. Said also
23 addresses the requisite changes needed to the Company's
24 Power Cost Adjustment as a result of changing the normalized
25 net power supply expenses in Idaho Power's Base Rates.

1 Ms. Brilz takes the Idaho retail jurisdictional
2 output from Mr. Obenchain and further separates costs by
3 customer class and special contract through a class cost of
4 service (CCOS) study. Additionally, Ms. Brilz proposes
5 price changes to the customer classes that are consistent
6 with the Company's ratemaking objectives and recover the
7 Company's Idaho revenue requirement. Ms. Theresa Drake
8 addresses additional changes to Idaho Power's tariffs and
9 non-recurring charges.

10 Ms. Susan Fullen provides information regarding a
11 variety of Idaho Power's customer-related activities,
12 including the results of recent customer satisfaction
13 surveys. Finally, I finish the direct case addressing
14 regulatory policy issues.

15 Q. What was Idaho Power Company's executive
16 management involvement with the preparation of the general
17 rate case?

18 A. Idaho Power's Office of the Chief Operating
19 Officer, consisting of the Company's President, Senior Vice
20 President of Delivery, Vice President of Power Supply, Vice
21 President of Corporate Services, and myself along with the
22 Chief Financial Officer, served as the oversight group.

23 Q. What are the policy issues related to the
24 preparation of the test year financial information?

25 A. The policy decisions related to the

1 preparation of the general rate case include the selection
2 of the test year, the decision to use a split year, the
3 treatment of annualizing adjustments, and the treatment of
4 known and measurable adjustments.

5 Q. What is the Company's test year?

6 A. The Company's test year is the 12 months
7 ending December 31, 2003.

8 Q. Why did you choose 2003 as the test year?

9 A. Using a test year of 2003 provides the most
10 recent information available as to the Company's expenses
11 and investments. The year captures increased levels of
12 capital and O&M spending that are needed to fund our utility
13 infrastructure. The year also provides a clear break with
14 our past affiliate transactions with IDACORP Energy (IE).

15 Q. Why did the Company choose to file with a
16 split test year that used both actual and estimated data?

17 A. The split test year using six months actual
18 and six months estimated data offers rate recovery closer to
19 the time that costs are incurred, allows the timing of
20 general rate changes to be coordinated with and potentially
21 mitigated by PCA changes, and provides the Commission an
22 opportunity to see actual information for the whole year
23 before issuing its final order.

24 Q. What was the basis for making annualizing
25 adjustments to rate base for 2003?

1 market place, but in general the market changes are not
2 large enough to cause significant change.

3 Q. Why did you make a known and measurable
4 adjustment related to salary structure?

5 A. The known and measurable expense related to
6 salary structure adjusts payroll expense to account for an
7 employee general wage adjustment (GWA) at year-end 2003.
8 The adjustment for the GWA was 3 percent.

9 Q. What was the basis for the Company known and
10 measurable for pension costs?

11 A. There are three options which reflect the
12 cost of providing pension benefits to our employees: (1) Pay
13 As You Go, (2) Service Cost, and (3) Pension Expense. The
14 Pay As You Go reflects the actual benefits paid to employees
15 receiving pension benefits during the relevant time period.
16 The Service Cost benefit amount reflects the cost to provide
17 a new year of benefits to employees. The Pension Expense
18 method reflects the cost to provide the benefits including
19 the volatility of market movements that impact the pension
20 plan assets and the impact of interest rate movements.
21 Using the Service Cost method for ratemaking purposes
22 removes the market volatility and interest rate volatility,
23 while quantifying the annual cost of providing a new year of
24 benefits to employees. The test year information was
25 adjusted to reflect service costs for 2003, which the

1 Company believes to be more representative of our pension
2 costs going forward.

3 Q. How have the Operating Revenues of the
4 Company been adjusted?

5 A. The Operating Revenues are primarily adjusted
6 through the normalizing adjustments to the Company's net
7 power supply expenses as a result of multiple water
8 conditions discussed by Mr. Said. Other known changes to
9 tariffs or contracts were also included either in the test
10 year revenues or adjustments to the test year. Sales
11 revenues for the test year 2003 were based on weather
12 normalized retail sales for the first six months and
13 estimated normalized sales for the later six months.

14 Q. What are the policy issues related to the
15 rate spread and rate design proposed by the Company?

16 A. The policy issues related to rate spread and
17 rate design are that rates should be primarily cost-based,
18 adjustments to the rate spread, an emphasis on fixed cost
19 recovery, and the introduction of time-of-use pricing (both
20 seasonal and diurnal).

21 Q. What is the Company's philosophy on setting
22 rates?

23 A. In the last several general rate cases, the
24 Company's primary approach to ratemaking has been to reflect
25 costs as accurately as possible in setting its tariff rates.

1 Accordingly, the Company's ratemaking proposals usually
2 advocate movement toward cost-of-service results which
3 assign costs to those customers that cause the Company to
4 incur the costs. The Company realizes that there are other
5 ratemaking objectives, such as ability to pay, that the
6 Commission may consider in making its determination.
7 However, the Company believes that the best starting point
8 for Commission deliberations is an economic one.
9 Nevertheless, some ratemaking situations cause such abrupt
10 change, the Company has proposed some limits to the movement
11 toward cost-of-service.

12 Q. How did you approach rate spread among the
13 customer classes and special contracts?

14 A. Rate spread is a term that refers to the
15 division of the jurisdictional revenue requirement into
16 individual revenue requirements for each customer class and
17 special contract. Each special contract is essentially a
18 rate class of one customer. The CCOS results are one means
19 of performing rate spread. Please refer to Exhibit No. 61,
20 a four-page exhibit that steps through the revenue
21 requirement allocation process from the CCOS results to the
22 Company's ultimate proposal for each customer class and
23 special contract. Page 1 of Exhibit No. 61 is the proformed
24 normalized test year sales and revenues. Page 2 indicates
25 the adjustments in terms of percentages and dollars that

1 would be made to each customer class to obtain the results,
2 indicated by the CCOS. A pure CCOS rate spread would mean a
3 67.1 percent increase to the irrigation customer class.
4 Page 3 constrains the changes to the revenue allocations in
5 order to mitigate the magnitude of the rate increase to the
6 irrigation customer class. A 25 percent limit is placed on
7 the increase to irrigation, while the small unmetered
8 classes are held at zero instead of the decreases indicated
9 by the CCOS. Page 4 spreads the revenue shortfall created
10 by the mitigation back to the other customer classes, so
11 that the total Idaho jurisdictional target revenue can be
12 obtained.

13 Q. Has the Company's cost-based approach
14 influenced other rate design proposals?

15 A. Yes, the cost-based approach has led to rate
16 design proposals that better align fixed costs with fixed
17 prices and variable costs with variable prices. Ideally an
18 energy rate that corresponds to our energy costs would help
19 address a number of rate-related issues, including net
20 metering and customer conservation decisions. The emphasis
21 on moving fixed and variable prices to be more reflective of
22 fixed and variable costs led to the Company's proposals to
23 increase the monthly service charge for residential and
24 small general service customers. Since these customers are
25 not demand metered, the service charge is the only fixed

1 rate component available to adjust and thus becomes more
2 important as a tool for fixed cost recovery. The increases
3 to the service charges are a moderate step toward better
4 alignment of costs and prices. However, as described by Ms.
5 Brilz, there is still a long way to go.

6 Q. Did the Company's cost-based approach
7 influence any other ratemaking proposals?

8 A. Yes, the cost-based approach also influenced
9 our decision to propose seasonal and time-of-use rates for
10 certain customer groups. Both types of time-based rates
11 allow for the incorporation of time-based cost differences
12 into the Company's pricing.

13 Q. Should the Company's seasonal rate proposals
14 be adopted, is there a related issue concerning the
15 Company's Power Cost Adjustment (PCA)?

16 A. Yes, because the summer season is proposed to
17 begin on June 1 and the current PCA is scheduled to change
18 on May 16, the Company believes it would be best to
19 consolidate the two rate change dates into one. As Mr. Said
20 states in his testimony, we are proposing to move the start
21 date for each year's PCA to June 1. In addition, the change
22 would give the Commission the benefit in the future of an
23 extra two weeks to process the annual PCA application.

24 Q. How has depreciation expense been treated in
25 the rate filing?

1 obligation to serve our customers and keep the lights on at
2 a reasonable price. Mr. Keen's testimony describes these
3 activities and results in greater detail.

4 Q. Are there other instances of Company
5 management decisions that have been helpful to its
6 customers?

7 A. Yes. I would like to highlight two other
8 areas in which the Company has made great strides. The
9 first is our Green Power Program and the second is Idaho
10 Power's development of a comprehensive risk management
11 policy over the last two years.

12 Because of Idaho Power's hydroelectric resources,
13 our customers get most of their electricity from a resource
14 that's virtually emission-free. With the establishment of
15 our Green Power Program, customers have yet another
16 emission-free alternative -- wind power. The Green Power
17 Program is a voluntary program that allows Idaho Power
18 customers to add any dollar amount they choose to their
19 power bills to purchase resources from the Stateline Wind
20 Project. The Company has sponsored multiple campaigns aimed
21 at generating awareness and encouraging customers to enroll
22 in the program. Enrollment in the two-year-old program has
23 grown nearly 20 percent since the last campaign bringing the
24 number of participating subscribers to almost 2000.

25 The second area of Company business that I would

1 like to highlight is risk management. It became clear to
2 the Company's Risk Management Committee (RMC) during the
3 2000-2001 Energy Crisis that our risk management techniques
4 for dealing with the market and the associated drought
5 worked well in most cases but not in all. Learning from
6 this experience, the Company acquired new energy, made
7 investment to increase capacity and reliability throughout
8 the system, adopted more conservative financial policies,
9 and developed and implemented a state-of-the-art risk
10 management policy. This collaborative risk management
11 strategy protects against adverse movements in net power
12 supply costs and manages the cost of energy supply with
13 respect for the risk tolerance of stakeholders. Together,
14 these strategies will lead to more stable rates.

15 Q. Do you believe it is in the public interest
16 for the Commission to recognize these management efforts in
17 setting Idaho Power rates?

18 A. Yes. Traditionally, this is done by the
19 Commission adding basis points to the authorized rate of
20 return.

21 Q. In its general rate application, is the
22 Company requesting additional basis points in its authorized
23 rate of return on equity to recognize good management
24 performance?

25 A. No.

