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

LORI SMITH

1 Q. Would you please state your name, business
2 address, and present occupation?
3 A. My name is Lori Smith and my business address
4 is 1221 West Idaho Street, Boise, Idaho. I am employed by
5 Idaho Power Company as Director of Strategic Analysis and
6 Risk Management.
7 Q. What is your educational background?
8 A. I graduated in 1983 from Boise State
9 University, Boise, Idaho, receiving a Bachelor of Business
10 Administration degree in Information Sciences. In 1999, I
11 was awarded the designation of Chartered Financial Analyst.
12 I have also attended numerous seminars and conferences
13 related to utility accounting, corporate finance and risk
14 related topics.
15 Q. Would you please outline your business
16 experience?
17 A. From 1983 to 1986, I was employed by Idaho
18 Power Company and assigned to the Materials Management
19 Department. From 1986 to 1994, I served as a Financial
20 Accountant and later as a Budget Accountant. I was promoted
21 to Business Analyst in 1994. In 1996, I was promoted to
22 Strategic Analysis Team Leader. In 2000, I was named
23 Director of Strategic Analysis. In 2003, I was promoted to
24 my current position as Director of Strategic Analysis and
25 Risk Management.

1 Q. What are your duties as Director of Strategic
2 Analysis and Risk Management?
3 A. I manage and conduct strategic analysis,
4 corporate budgeting and administration financial support,
5 and risk management. Strategic Analysis has the
6 responsibility to maintain ongoing financial forecasts,
7 prepare monthly subsidiary accounting, prepare annual
8 service level agreements and develop methodology, perform
9 intercompany accounting and reconciliation, prepare and
10 perform due diligence activities, and develop capital
11 raising strategies.
12 Corporate Budgeting and Reporting has the
13 responsibility to coordinate financial support for Idaho
14 Power's administrative areas, prepare monthly variance
15 reporting, and monitor corporate spending and budgets.
16 Corporate Risk Management has the responsibility of
17 implementing risk management tools related to credit risk,
18 market risk, and operational risk for the utility along with
19 exploring and implementing hedging strategies.
20 Q. What is the purpose of your testimony in this
21 proceeding?
22 A. The purpose of my testimony is to present the
23 test year financial information for the twelve-month period
24 ended December 31, 2003, to present the adjustments which
25 have been included to annualize certain 2003 operating

1 expenses and rate base items, and to quantify and support
2 certain known and measurable changes to the Company's
3 operating statement and rate base.
4 Q. Will you be supporting any of the normalizing
5 adjustments to the 2003 test year?
6 A. No. Mr. Obenchain will address the
7 normalizing adjustments to sales and revenues and Mr. Said
8 will address the normalization of power supply costs.
9 Q. How was the information for 2003 prepared?
10 A. For the 2003 general rate case filing, the
11 system financial information was prepared using six months
12 actual and six months estimated information. The 2003
13 Operations and Maintenance Budget and the 2003 Construction
14 Budget were the basis for this process. The 2003 test year
15 combined January through June actual data with forecast
16 information for July through December. The forecast process
17 started with actual information through April 2003 and then
18 rebudgeted all the non-normalized components for the time
19 period May through December 2003. The additional components
20 related to operating expenses and rate base include the
21 annualizing adjustments to operating expenses and rate base,
22 the known and measurable changes to operating expenses and
23 rate base, and the additional rate base and expense
24 adjustments are detailed in my exhibits.
25 Q. What were the forecasted components to the

1 test year?

2 A. The forecasted components include the

3 following items: (1) other operating revenues, (2) other

4 revenues and expenses, (3) operation and maintenance

5 expenses, (4) property insurance expense, (5) regulatory

6 expenses, (6) depreciation and amortization expense, (7)

7 taxes other than income, (8) Idaho Energy Resources Company

8 rate base and income statement, (9) electric plant in

9 service and related items, (10) materials and supplies, (11)

10 deferred conservation programs, (12) other deferred

11 programs, (13) deferred income taxes, (14) customer advances

12 for construction, and (15) deductions from operating and

13 maintenance expenses.

14 Q. Please summarize the test year adjustments.

15 A. After the initial 2003 test year information

16 was compiled, the 2003 operating and maintenance expenses

17 were reduced by standard ratemaking adjustments, followed by

18 annualizing adjustments, known and measurable adjustments,

19 and other adjustments. The additional components included

20 in this filing for annualizing adjustments to operating

21 expenses and rate base are adjustments for payroll, property

22 and liability insurance, depreciation, depreciation reserve,

23 and annualized major plant additions and their associated

24 impacts. The additional components for known and measurable

25 changes to operating expenses and rate base are salary

1 structure, employee incentives, pension service cost,
2 property and liability insurance, depreciation, depreciation
3 reserve, American Falls interest, major plant additions
4 known to occur through May 2004 and their associated
5 impacts, and a reduction to operating expense for non-
6 reoccurring prescription expenses related to 2002. The May
7 2004 cutoff for major plant additions was given to me by Mr.
8 Gale.
9 Q. How was the forecast method determined?
10 A. In preparation for the split test year
11 methodology, the Finance Department, in consultation with
12 various other Company departments, developed the methodology
13 used to prepare the forecast portion of the case. Each area
14 developed the methodology to estimate the remaining six
15 months of 2003 starting with the approved 2003 budgets. A
16 rebudget process was begun to reflect the projected
17 expenditures for both Operating and Maintenance (O&M) and
18 Capital project spending from April through December. The
19 Idaho Power Company business units were asked to provide
20 updates to the original 2003 O&M and Capital Budgets as we
21 reviewed our work priorities through to the end of 2003.
22 Additionally, the business units were requested to identify
23 major plant additions that would close to plant Account 101
24 through May of 2004. Each Company cost center reviewed
25 their expected expenditures for new positions and payroll-

1 related items including benefit expense. Each cost center
2 also reviewed project timing for both O&M-related projects
3 and construction- related projects, and any other known
4 changes to planned work for the remainder of the year. This
5 information was then compiled to produce a May through
6 December restatement of all O&M and Capital budget items.
7 The case is prepared with January through June
8 actuals combined with the results from the process above to
9 produce the 2003 results. A variety of methodologies were
10 identified that best fit the component being forecasted
11 including meetings with cost center managers, updated
12 estimates for timing of projects which were reflected in our
13 projections, comparisons to prior years actuals, analysis of
14 historical data including five years of history where
15 applicable, and inclusion of any updated expenditures that
16 were not known during the annual budgeting cycle.
17 Q. Would you please describe Exhibit No. 16?
18 A. Exhibit No. 16 is a compilation of the
19 Company's supporting schedules for the twelve months ended
20 December 31, 2003. Page 1 of Exhibit No. 16 sets forth the
21 development of the Other Operating Revenues (Accounts 451,
22 454, and 456) for the 2003 test year. Page 2 of Exhibit 16
23 shows the Other Revenues (Account 415) and Expenses (Account
24 416) for the year 2003. The 2003 operating and maintenance
25 expenses, by FERC accounts, appear on pages 3 through 6 of

1 Exhibit No. 16.

2 Q. Would you please describe pages 7 through 12

3 of Exhibit No. 16?

4 A. Page 7 reflects the detail of Account 924,

5 Property Insurance Expense. Page 8 reflects expense for

6 Account 928, Regulatory Commission Expense. Pages 9 and 10

7 show total depreciation and amortization expense by plant

8 account. Page 11 shows the Prairie Power acquisition

9 amortization adjustment for gains and losses. Page 12 shows

10 the detail of the Taxes Other Than Income Taxes.

11 Q. Would you please describe page 13 of Exhibit

12 No. 16?

13 A. Page 13 of Exhibit No. 16 develops the net

14 earnings from IERCo that are added to the booked operating

15 income for ratemaking purposes.

16 Q. How does the Company treat IERCo's earnings

17 and investment for ratemaking purposes?

18 A. The primary purpose of IERCo is to mine coal,

19 which provides fuel for the Jim Bridger thermal power plant

20 in Wyoming. Consistent with prior Commission orders, the

21 Company treats IERCo's coal operations as a part of its

1 receivable from Idaho Power Company (line 10, page 13 of
2 Exhibit No. 16) and I have deducted notes payable to IERCo
3 in determining the Company's net investment in IERCo to be
4 included in the rate base (Line 14, page 22 of Exhibit No.
5 16).
6 Q. Why have you made these adjustments to
7 IERCo's earnings and rate base in this proceeding?
8 A. I have made adjustments to reduce IERCo's
9 rate base for notes payable of $5,909,558 and the associated
10 interest income adjustment of $78,613 to allow IERCo's rate
11 base and earnings to reflect only the cash required to fund
12 IERCo operations for the year 2003. If IERCo were to use
13 these funds to make a distribution of earnings to the
14 Company, or if the Company were to actually fold IERCo into
15 its own operations, the result would be the same as
16 presented herein.
17 Q. Would you please describe the data contained
18 on pages 14 through 22 of Exhibit No. 16?
19 A. Pages 14 through 22 of Exhibit No. 16 reflect
20 the development of all the components applicable to the
21 combined system rate base of the Company for the year 2003.
22 Page 14 of Exhibit No. 16 reflects the balance by month and
23 the thirteen-month average of Electric Plant in Service
24 (Account 101). Page 15 of Exhibit No. 16 reflects the
25 balance by month and the thirteen-month average of

1 Accumulated Provision for Depreciation (Account 108). Page
2 16 of Exhibit No. 16 reflects the balance by month and the
3 thirteen-month average of Accumulated Provision for
4 Amortization (Account 111). Page 17 of Exhibit No. 16
5 reflects the balance by month and the thirteen-month average
6 of Materials and Supplies (Accounts 154 and 163). Page 18
7 and Page 19 of Exhibit No. 16 reflect the balance of the
8 Company's Conservation and Other Deferred Programs. For
9 these programs the Company includes the December 31, 2003
10 ending balance in rate base consistent with prior orders of
11 this Commission. Page 20 of Exhibit No. 16 reflects the
12 balance at the beginning and end of 2003 and the average
13 balance for Accumulated Deferred Income Taxes (Accounts 190,
14 282, and 283). Page 21 of Exhibit No. 16 reflects the
15 balance by month and the thirteen-month average of Customer
16 Advances for Construction (Account 252). Page 22 of Exhibit
17 No. 16 reflects the balance by month and the thirteen-month
18 average of the rate base components for IERCo, consistent
19 with prior orders of this Commission.
20 Q. What adjustments have you made to the 2003
21 information for ratemaking purposes?
22 A. After the initial 2003 test year information
23 was compiled, the 2003 operating and maintenance expenses
24 were reduced by standard ratemaking adjustments, followed by
25 annualizing adjustments, known and measurable adjustments,

1 and other adjustments. The additional components included
2 in this filing for annualizing adjustments to operating
3 expenses and rate base are adjustments for payroll, property
4 and liability insurance, depreciation, depreciation reserve,
5 and annualized major plant additions and their associated
6 impacts. The additional components for known and measurable
7 adjustments to operating expenses and rate base are salary
8 structure, employee incentives, pension service cost,
9 property and liability insurance, depreciation, depreciation
10 reserve, American Falls interest, major plant additions
11 known to occur through May 2004 and their associated
12 impacts, and a reduction to operating expense for non-
13 reoccurring prescription expenses related to 2002. The May
14 2004 cutoff for major plant additions was given to me by Mr.
15 Gale. Lastly, I have made certain other adjustments to
16 operating expense and rate base that are primarily related
17 to specific regulatory treatment of these items.
18 Q. Have you prepared or supervised the
19 preparation of exhibits detailing these adjustments to the
20 books and records of the Company for the year 2003?
21 A. Yes. I have supervised the preparation of
22 Exhibit Nos. 17 through 20, which reflect certain
23 adjustments to the 2003 results of operation and rate base.
24 Q. Would you please describe Exhibit No. 17?
25 A. Exhibit No. 17 reflects the detailed support

1 of deductions from the operation and maintenance expense of
2 the Company for certain general advertising, memberships,
3 and contributions. This adjustment has been made by the
4 Company to comply with prior orders of this Commission. The
5 adjustments shown on Exhibit No. 17 are reflected on page 1
6 and page 2 of Exhibit No. 17.
7 Q. Would you please describe Exhibit No. 18?
8 A. Exhibit No. 18, consisting of 4 pages,
9 reflects the detailed support for annualizing adjustments to
10 the 2003 operating expenses and the rate base of the
11 Company. These adjustments reflect changes to certain
12 expense and rate base items as if they had been in existence
13 for a full year or to year-end 2003 levels, whichever is
14 applicable. Items adjusted to year-end levels include an
15 increase in operating payroll of $2,913,244 and property and
16 liability insurance expense of $384,583.
17 The total annualizing adjustment shown on page 1 of
18 Exhibit No. 18, line 3 amounts to an increase to operating
19 expense of $3,297,826. The computations for the amounts are
20 shown on page 2 of Exhibit No. 18. Page 3 shows the
21 annualized impacts of major plant additions for production
22 and transmission assets. The net annualizing adjustment to
23 rate base is $19,779,389. The related changes to
24 Depreciation Expenses, Depreciation Reserve, Property Tax,
25 and Insurance Expense are shown on line 7 of Exhibit No. 18.

1 Page 4, lines 3 and 4, details by major asset group the
2 change to Depreciation Expense (Account 403) and
3 Depreciation Reserve (Account 108).
4 Q. Would you please describe Exhibit No. 19?
5 A. Exhibit No. 19, consisting of 5 pages,
6 reflects the detailed support for certain known and
7 measurable adjustments to expenses and rate base that have
8 occurred subsequent to year-end 2003. A summary of the
9 various adjustments is shown on page 1 of Exhibit No. 19.
10 Q. Would you please describe the known and
11 measurable adjustments that were made to the annualized 2003
12 results of operations?
13 A. Line 1, page 1 of Exhibit No. 19 is the
14 normalized annual employee incentive expense of $5,114,821.
15 Line 2, page 1 is an increase to Operating Pension Expense
16 of $2,170,163 to reflect service costs for 2003, which is
17 more representative of pension costs going forward. Line 3,
18 page 1 is a $280,107 reduction related to 2002 Prescription
19 Expenses booked in 2003. Line 4, page 1 shows the operating
20 payroll adjustment of $2,241,595 to estimate the Company's
21 general wage adjustment for 2004. Line 5, page 1 reflects
22 the increased costs associated with American Falls Falling
23 Water payments. Line 6, page 1 reflects an increase to
24 operating expense for premium increases for 2004.
25 The computation and detail supporting the amount

1 shown on page 1 of Exhibit No. 19 are shown on pages 2
2 through 3 of Exhibit No. 19.
3 Page 4 of Exhibit No. 19 shows the known and
4 measurable impacts of major plant additions for transmission
5 assets that will be in service through May 2004. The known
6 and measurable adjustment to rate base is $18,388,690. The
7 changes to Depreciation Expense, Depreciation Reserve,
8 Property Tax, and Insurance Expense are shown on line 5,
9 page 4 of Exhibit No. 19 (Account 403). Page 5 details by
10 major asset group the change to Depreciation Expense
11 (Account 403) and Depreciation Revenue (Account 108).
12 Q. Would you please explain Exhibit No. 20?
13 A. Exhibit No. 20 consisting of one page
14 reflects additional adjustments to rate base or operating
15 expense resulting from charges to Account 101, Electric
16 Plant in Service, Account 108, Accumulated Provision for
17 Depreciation, Account 114, Electric Plant Acquisition
18 Adjustments, Account 115, Accumulated Provision for
19 Amortization of Electric Plant Acquisition Adjustments,
20 Account 182.3, Other Regulatory Assets, Account 165,
21 Prepayments, Account 454, Other Operating Revenue and
22 Account 928, Regulatory Commission Expense.
23 Q. Would you please describe the adjustments to
24 rate base, operating revenues and operating expenses on
25 Exhibit No. 20?

1 A. Exhibit No. 20, line 1 details the
2 unamortized portion of extraordinary costs associated with
3 increased security measures implemented on company property
4 since September 11, 2001. The amortization is included in
5 2003 operating expense and will be amortized over the next
6 five years per IPUC Order No. 28975. Line 2 details an
7 increase to operating expense to recover intervenor funding
8 paid to the Land and Water Fund of the Rockies per IPUC
9 Order 28927. Lines 3 through 5 show the unamortized portion
10 of the Electric Plant Acquisition Adjustment associated with
11 the Prairie Power Rural Electric Cooperative purchase in
12 July 1992. Line 6 reflects an increase to Other Operating
13 Revenue for pole attachment revenues to be received in
14 January 2004 that applies to service to be provided in
15 December 2003. Lines 7 and 8 reflect rate base adjustments
16 directly offsetting prior entries to Account 101, Electric
17 Plant in Service and Account 108, Accumulated Provision for
18 Depreciation made during 2003. Statement of Financial
19 Accounting Standard 143 (SFAS 143) implemented in January
20 2003 requires specific accounting for Asset Retirement
21 Obligations. SFAS 143 has no revenue requirement impact in
22 this case. Line 10 reflects the balance of Account 165320
23 Prepaid Pension Expense after deducting service costs for
24 2003.
25 Q. Are all the data and their adjustments made

1 to your exhibits and supporting schedules calculated on a

2 total system basis?

3 A. Yes.

4 Q. Does this conclude your direct testimony in

5 this case?

6 A. Yes, it does.