

1 Q. Please state your name and business address
2 for the record.

3 A. My name is Joe Leckie. My business address is
4 472 West Washington Street, Boise, Idaho.

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

6 A. I am employed by the Idaho Public Utilities
7 Commission (Commission) as an auditor in the Utilities
8 Division.

9 Q. What is your educational and experience
10 background?

11 A. I graduated from Brigham Young University with a
12 Bachelors of Science degree in Accounting. I worked for
13 the accounting firm Touche Ross in its Los Angeles office
14 for approximately one year. I then attended law school
15 and graduated from the J. Rueben Clark School of Law at
16 Brigham Young University with a Juris Doctorate degree. I
17 am licensed to practice law in the State of Montana and
18 did so for approximately 25 years. I have been employed
19 by the Commission as an auditor since March 2001. I have
20 attended the annual regulatory studies program sponsored
21 by the National Association of Regulatory Utilities
22 Commissioners (NARUC) at Michigan State University in
23 August 2001.

24 Q. Would you please summarize your testimony in
25 this case?

1 A. Yes. I will present Staff adjustments totaling
2 \$4,563,686 to the Company-proposed test year revenue
3 requirement in the following areas:

4 (1) Idaho Power's annualizing adjustments for
5 the 2003 major plant additions in the last trimester of
6 the year should not be allowed. This reduces revenue
7 requirement by \$1,953,644.

8 (2) Idaho Power's known and measurable
9 adjustment for 2004 major plant additions through May 2004
10 should be averaged using the 13-month average rate base
11 methodology. This reduces revenue requirement by
12 \$1,625,579.

13 (3) Idaho Power capitalized improvements to
14 Brownlee-Woodhead Park in the amount of \$7,525,237. It is
15 Staff's position that these improvements should not be
16 included in rate base for this rate case, but rather
17 deferred with other relicensing costs for Hells Canyon.
18 This deferral decreases revenue requirement by \$866,446.

19 (4) Idaho Power capitalized \$654,740 for
20 defense of its position concerning a biological opinion
21 prepared and submitted to FERC by the National Marine
22 Fisheries Services (NMFS) in 1995. It is Staff's position
23 that these costs should have been expensed in the years
24 incurred, and should not have been capitalized and
25 included in rate base. Excluding these costs from rate

1 base reduces revenue requirement by \$68,405.

2 (5) Idaho Power included in rate base the cost
3 for a shareowners' document management system in the
4 amount of \$106,275. It is Staff's position that only one-
5 half (1/2) the cost of the document system should be
6 included in the rate base. This adjustment reduces the
7 revenue requirement by \$10,921.

8 (6) Idaho Power's investment in the Bridger
9 Coal Company is held through its subsidiary, Idaho Energy
10 Resources Company (IERCO). This investment should be
11 reduced for equipment that is not used and useful. This
12 reduces revenue requirement by \$38,691.

13 Q. How were you able to determine the revenue
14 requirement effect of each of the Staff recommendations
15 presented in your testimony?

16 A. I identified the plant accounts that would be
17 changed by each adjustment, and then Staff witness English
18 determined the effect on revenue requirement resulting
19 from these adjustments. See Staff Exhibit No. 113.

20 Q. Did you review other areas that do not have an
21 effect on the revenue requirement?

22 A. Yes, there were other aspects of rate base that
23 I reviewed which did not effect the revenue requirement.
24 These are as follows:

25 (1) Idaho Power's addition to rate base of the

1 Danskin Power facility in the amount of \$52,484,209.
2 Staff witness Sterling will discuss the addition of the
3 Danskin Power facility in greater detail in his testimony.

4 (2) Idaho Power's capitalization of additional
5 security costs in the amount of \$728,766.

6 (3) Idaho Power's adjustment for the Prairie
7 Power Acquisition.

8 (4) The addition of the Nez Perce settlement in
9 rate base.

10 (5) Idaho Power's accounting treatment in this
11 case of its asset retirement obligation.

12 **ANNUALIZATION OF 2003 MAJOR PLANT ADDITIONS**

13 Q. Please describe Idaho Power's annualization
14 adjustment for the major plant additions that the Company
15 placed into service in the last four months of 2003.

16 A. During the last trimester of 2003, Idaho Power
17 placed into service major plant additions with a total
18 value of \$23,161,303. Idaho Power indicated in
19 discussions with Staff that the basis for determining what
20 would be a major plant addition are those projects that
21 will close in the last four months of 2003 and the cost of
22 which will equal or exceed two million dollars. The major
23 plant additions included the Bridger rewind project for a
24 total cost of \$8,661,463 and the Brownlee-Oxbow
25 transmission line for a total cost of \$14,499,840. These

1 plant additions are included in the month-end Electrical
2 Plant in Service (EPIS) account balances for the months
3 when they are placed in service, and are included in the
4 13-month averaging process. The annualizing adjustment of
5 \$19,779,389 is the difference between the total costs of
6 the plant additions treated as if they were in service the
7 full 13 months and the amount of the plant additions
8 actually included in the average rate base calculation.

9 Q. Does Staff accept this annualizing adjustment?

10 A. No, Staff objects to this adjustment to rate
11 base because the annualizing adjustment as proposed by
12 Idaho Power is not consistent with Commission-approved
13 methodology for calculating an average-year rate base.
14 The annualizing adjustment proposed by Idaho Power would
15 treat these plant additions for averaging purposes as if
16 they were in service for the whole 13 months and not just
17 a portion of the year. This adjustment has the same
18 effect as if Idaho Power were using the year-end balance
19 for these additions to plant in determining rate base.

20 Q. Why should these year-end values for major plant
21 additions not be included in rate base?

22 A. Because the Commission has consistently ordered
23 the use of an average rate base in Idaho Power's last two
24 rate proceedings, Case Nos. U-1006-265 and IPC-E-94-5. In
25 the 1984 rate case (U-1006-265), the Commission stated:

1 "(T)he company calculated an average test-year 1984 rate
2 base from ending monthly balances beginning December 1983
3 through December 1984..." Order No. 20610 at 49. In the
4 1994 rate case (IPC-E-94-5), the Commission again adopted
5 a 13-month average rate base by stating:

6 IPCo proposed a 1993 test year and a rate
7 base comprised of the average of 13-monthly
8 balances for the period ending December 31,
9 1993, rather than a year-end rate base. No
10 party objected to the use of a 1993 test year
and an average rate base. Accordingly, we
find the use of a 1993 test year and an
average rate base to be reasonable and
appropriate in this case.

11 Order No. 25880 at 3.

12 In this present case Idaho Power again asks to
13 have rates determined using an average rate base. Yet if
14 Idaho Power is allowed to annualize these plant additions,
15 the average rate base will be skewed toward an end-of-year
16 rate base without reflecting any customer benefits from
17 the investment. This would create a mismatch between
18 investment and test year expenses/benefits that the
19 average-year rate base methodology is designed to prevent.

20 Q. Has the Commission previously addressed the
21 issue of the average rate base as opposed to an
22 end-of-year rate base?

23 A. Yes, the Commission previously addressed this
24 issue in a Washington Water Power Company (WWP) rate case,
25 Case No. U-1008-234, and again in a Boise Water

1 Corporation (BWC) rate case, Case No. U-1025-51. In the
2 WWP case, the Commission stated:

3
4 The average rate base provides a better
5 matching of revenues and expenses with
6 fewer chances for error or omissions.
7 Therefore, we find it is fair, just and
8 reasonable to require Water Power to utilize
9 an average rate base the same as every other
10 major utility that we regulate in Idaho.

11 Order No. 20267 at 10.

12
13 In Order No. 20592 issued in the 1986 Boise
14 Water rate case (U-1025-51), the Company proposed to use
15 an average rate base only if some of the additions to
16 plant were included at year-end levels. The Company
17 maintained that the additions included at year-end levels
18 were non-revenue producing or expense saving. In denying
19 Boise Water's request to add specific additions to plant
20 at year-end levels, the Commission stated:

21 The Company's "technically correct"
22 calculation of average rate base is an
23 aberration. Not only does it appear to be
24 theoretically incorrect, but it is
25 impractical to administer. In terms of cash
flow all depreciable investments are revenue
producing. In addition, the difficulty and
subjective decision-making process in
determining what classes of property are or
are not "revenue producing" or "expense
saving" presents a quagmire into which we
decline to step.

We again adopt Staff's recommended average
year rate base.

Order No. 20592 at 12-13.

1 The treatment Boise Water requested to determine
2 rate base is essentially the same treatment Idaho Power is
3 asking for in this case when it proposes adding to rate
4 base the annualized cost of the additions to plant.

5 Q. Has the Commission cited any other reasons for
6 limiting exceptions to using average-year rate base?

7 A. Yes. In both cases cited above the Commission
8 identified low inflation and the size of plant additions
9 as factors further limiting deviation from an average-year
10 rate base. The Commission stated that "additions must be
11 so large as to unreasonably distort the matching of its
12 revenues, expenses and rate base." Order No. 20592 at 13.

13 Q. What has the inflation rate been over the last
14 three years?

15 A. The inflation rate, measured by the percent
16 change in the consumer price index, over the past three
17 years has averaged 1.9% (1.6% in 2001; 2.4% in 2002, and
18 1.9% in 2003). This is relatively low compared to
19 historical levels. See Staff witness Carlock's Exhibit
20 No. 144.

21 Q. Is it Staff's position that the last trimester
22 major plant additions are large enough to unreasonably
23 distort the matching of Idaho Power's revenues, expenses
24 and rate base?

25 A. On a cumulative basis, Staff believes the plant

1 additions do represent a significant mismatch between
2 Idaho Power's revenues, expenses and rate base. That is
3 why we propose in this case, and why the Commission has
4 approved in previous cases, use of an average-year rate
5 base.

6 While the Commission has identified large plant
7 additions as one factor to consider in allowing deviation
8 from average-year, it has also noted that all plant
9 investment has some "revenue producing" and "expense
10 saving" effects that are difficult if not impossible to
11 identify. Order No. 20592 at 12-13. In its deviation
12 from average-year rate base, Idaho Power proposes only
13 increases in depreciation, taxes and insurance as its
14 adjustments to reflect the effect of these rate base
15 additions. Staff believes that Idaho Power has failed to
16 show the benefits it will receive for making these
17 investments; instead it has shown only the increase in
18 expenses. To the extent the benefits are unknown or
19 cannot be properly measured as has been indicated in prior
20 commission orders, the investment and the costs should not
21 be included in rates at year-end levels.

22 Q. How does the annualizing adjustment proposed by
23 Idaho Power change the average-year rate base?

24 A. By allowing Idaho Power to add the annualizing
25 adjustment to the average rate base, Idaho Power has

1 effectively weighted the average to reflect the plant
2 additions at the end-of-year value. To stay true to the
3 averaging methodology, there is no need to make any
4 adjustment to the average result. The last trimester
5 major plant additions should be included in the average
6 rate base without distortion.

7 Q. In what way does the annualizing adjustment
8 distort the average rate base?

9 A. It distorts the average rate base by reflecting
10 plant as if it were in service the entire year when in
11 fact the plant is only in service four (4) months or less
12 of the year.

13 Q. Why should Idaho Power not be allowed to earn a
14 rate of return on these plant additions as if they were in
15 rate base for the entire year?

16 A. The Company's earnings should be based on test
17 year plant additions when they occur because Staff
18 believes, and the Commission has previously determined,
19 that an average-year rate base is a better measure for
20 matching rate base to test year revenues and expenses. If
21 additional specific plant additions are treated as year-
22 end rate base, as is done with the annualizing adjustment,
23 then the test year revenues and expenses will not match
24 average rate base adjusted for the year-end additions.

25 Q. What is the best method to match the test year

1 revenues and expenses to the rate base in this case?

2 A. The best way to match the rate base and revenues
3 and expenses is to allow Idaho Power a true 13-month
4 average rate base without allowing any annualizing
5 adjustment.

6 Q. What other changes to Idaho Power's adjustments
7 would be necessary if the Commission accepted Staff's
8 recommendation and denied the annualizing adjustments?

9 A. Idaho Power has increased its test year expenses
10 for this annualizing adjustment through an increase to
11 annual depreciation expense by \$498,427, property tax
12 expense by \$120,654, annual insurance expense by \$4,834,
13 and accumulated depreciation by \$249,214. Each of these
14 respective expense amounts increased by Idaho Power would
15 need to be reduced to reflect the appropriate test year
16 expense. The accumulated depreciation amount would also
17 need to be reduced by \$249,214.

18
19 **2004 MAJOR PLANT ADDITIONS KNOWN AND MEASUREABLE
ADJUSTMENTS**

20 Q. Please describe Idaho Power's known and
21 measurable adjustment for the 2004 major plant additions.

22 A. Idaho Power evaluated current construction
23 projects in 2004 and determined that there were some major
24 plant projects that would close before the end of May
25 2004. Idaho Power determined that "major" projects would

1 be those with a cost of approximately \$2,000,000 or more.
2 These projects included upgrades to the Brownlee-Oxbow
3 transmission line and the Star, Vallivue, Midrose and
4 Goshen transmission stations. Idaho Power's proposed
5 adjustment is an increase to rate base of \$18,388,690. As
6 part of the known and measurable adjustment, Idaho Power
7 also includes increases in test year expenses of \$447,375
8 for depreciation, \$112,171 for property taxes, and \$8,199
9 for insurance. Additionally, accumulated depreciation is
10 increased by \$223,688.

11 Q. Is there any legal basis for including this
12 known and measurable adjustment in rate base?

13 A. *Idaho Code* §61-502A prohibits granting a return
14 on construction work in progress in rate base with the
15 exception of short-term construction work in progress. The
16 statute states as follows:

17 Except upon its finding of an extreme
18 emergency, the commission is hereby
19 prohibited in any order issued after the
20 effective date [February 29, 1984] of this
21 act from setting rates for any utility
22 that grants a return on construction work
23 in progress (except short term
24 construction work in progress) or property
25 held for future use and which is not
currently used and useful in providing
utility service. As used in this section,
short-term construction work in progress
means construction work that has begun and
will be completed in not more than twelve
(12) months. Except as authorized by this
section, any rates granting a return on
construction work in progress (except
short-term construction work in progress)

1 or property held for future use are hereby
2 declared to be unjust, unreasonable,
3 unfair, unlawful and illegal. When
4 construction work in progress is excluded
5 from the rate base, the commission must
6 allow a just, fair and reasonable
7 allowance for funds used during
8 construction or similar account to be
9 accumulated, computed in accordance with
10 generally accepted accounting principles.

11 From the information provided by Idaho Power,
12 the 2004 major plant additions meet the definition of
13 short-term construction work in progress because the
14 projects will have begun and be completed within the
15 twelve (12) month period.

16 Q. Why is Staff questioning this adjustment?

17 A. The problem with this adjustment is not whether
18 it could be included in rate base, because the statute
19 clearly allows its inclusion. Instead, it is a question
20 of how the cost of these projects should be included in
21 computing the 13-month average rate base. *Idaho Code*
22 §61-502A does not discuss how short-term construction work
23 in progress will be included to set rates. The Commission
24 has repeatedly stressed the importance of matching
25 additions to rate base with revenues and expenses
associated with those plant additions. The additions must
also be known and measurable. If the total amount of the
plant additions is added to the average rate base, it will
be as if they were in service through out the entire 13

1 months of the average. The plant additions were not in
2 service during any of the test year and therefore the
3 revenues and expenses for the test year only reflect Idaho
4 Power's business activity as if the plant were not in
5 service. This treatment is not fair to the ratepayers.

6 One possible solution is to make all known and
7 measurable adjustments to revenues and expenses for these
8 additions. When plant investments are made, revenues
9 and/or expenses also change; some expenses increase (i.e.,
10 depreciation, insurance, and taxes) but other expenses
11 decline (i.e., maintenance or power supply). Revenues
12 often increase from transactions such as energy sales to
13 customers, off-system sales, transmission revenues (firm
14 or non-firm), or ancillary services. Staff has been
15 unable to identify any attempt by Idaho Power in its
16 testimony or exhibits to quantify customer benefits that
17 result from these additions to plant.

18 Another possible solution is to include the
19 dollar amount of the additional plant in the 13-month
20 averaging process as an addition to the last month's total
21 before dividing by thirteen (13). This would treat the
22 plant additions as if they were in service at the end of
23 the year, and then include them in the averaging
24 calculation for the average rate base. The average rate
25 base would reflect these additions to Idaho Power's plant,

1 and the revenues and expenses would more closely match the
2 rate base. Adding plant completed after the end of the
3 test year as if it were in service the entire period is
4 directly contrary to the overage rate base methodology.
5 The average rate base methodology includes plant added
6 during the test year in rate base only for the period of
7 the year it was actually in service.

8 Q. Has the Commission examined this issue in any
9 previous cases?

10 A. To Staff's knowledge, the Commission has never
11 ruled that the short-term construction work in progress
12 should be included in the sum of the months before being
13 divided by the number of months when an average rate base
14 is used. This issue does not appear to have ever been
15 addressed by the Commission. However, the rationale used
16 by the Commission in the 1986 Boise Water Corporation rate
17 case (U-1025-51) cited in the annualizing adjustment
18 discussion above would apply. The Commission has adopted
19 the general axiom that the average rate base provides a
20 better matching of revenues and expenses and necessitates
21 fewer adjustments, thereby reducing the chances for error
22 or omission. See also Washington Water Power Company rate
23 case U-1008-234, Order No. 20267 at 5. If the short-term
24 construction work in progress is reflected for the full
25 year and not included in the average, it skews the

1 matching between the average rate base and the revenues
2 and expenses. Including short-term construction work in
3 progress in the average rate base rather than for the full
4 year decreases the chance that known and measurable
5 adjustments to revenues and expenses will be missed.

6 Q. Does Staff have a recommendation for the
7 treatment of the short-term construction work in progress?

8 A. Yes, Staff recommends that the closing balances
9 for the projects be included in the December 2003 plant
10 balance in the 13-month average rate base. This would
11 treat the plant additions as if they were included into
12 the rate base average as of the end of December 2003.

13 Q. Would this treatment address any other potential
14 problems?

15 A. Yes. When a true average rate base is utilized
16 that includes the closing cost balances for short-term
17 construction work in progress in the sum of the monthly
18 totals for the averaging process, Idaho Power has no
19 incentive to delay the closing of projects beyond the
20 ending month of the average rate base period. A delay
21 would allow the plant to be included at the end-of-year
22 value instead of average rate base value. It is
23 unreasonable and unfair to the ratepayers to have some
24 plant costs at average rate base values and some at
25 end-of-year rate base values.

1 Q. If the 2004 major plant additions are included
2 in the average rate base calculation before dividing by 13
3 as proposed by Staff, what would the adjustment be?

4 A. The known and measurable adjustment to rate base
5 would be decreased by \$16,974,175. See Staff Exhibit No.
6 114. The following known and measurable adjustments to
7 expense accounts would remain the same: depreciation in
8 the amount of \$447,375, property taxes in the amount of
9 \$112,171, and insurance expense in the amount of \$8,199.
10 Accumulated depreciation would increase by \$223,688 to
11 \$447,375.

12 Q. If the Commission accepts Idaho Power's proposal
13 to include 2004 major plant additions as if in service for
14 the full year as a known and measurable adjustment, does
15 Staff have recommendations specific to this methodology?

16 A. Yes, the accumulated depreciation should reflect
17 a whole year of depreciation and should be the same amount
18 as the depreciation expense in the first year that the
19 plant is included in rate base.

20 **BROWNLEE-WOODHEAD PARK**

21 Q. What is Staff's proposed adjustment for the
22 Brownlee-Woodhead Park?

23 A. Staff recommends that the cost of the park
24 improvements be deferred at this time and reviewed with
25 the relicensing costs for the Hells Canyon Complex. The

1 total cost of the park improvements is \$7,525,237, and
2 depreciation has accumulated in the amount of \$853,653.
3 Annual depreciation expense for this project in 2003 was
4 \$146,617.

5 Q. Why does Staff think the cost should be deferred
6 and reviewed in conjunction with all the Hells Canyon
7 Complex relicensing costs in the future?

8 A. This park was developed under the terms of the
9 original FERC license approved in 1955 and Exhibit R
10 (recreational use) approved in 1974. As required by the
11 terms of the original and amended license, Idaho Power was
12 responsible for providing recreational opportunities and
13 developing a recreational plan. As a condition of FERC's
14 approval of Idaho Power's plan, Idaho Power was obligated:

15 ...to cooperate with Federal, State, and
16 local agencies in providing for optimum
17 public recreational development and use
18 at the project, and reservation of lands
for such development and use as may be
needed in the future.

19 Order Approving Exhibit R, 51 F.P.C. 1327, 1974 WL 11874,
20 F.P.C., April 16, 1974, (NO. PROJ. 1971).

21 After the initial development of Woodhead Park,
22 Idaho Power in conjunction with the Idaho Department of
23 Parks and Recreation determined in 1991 that Woodhead Park
24 needed to be expanded and improved. Idaho Power developed
25 a plan to expand the park to its current status and

1 submitted that plan to FERC for approval and an amended
2 license. In its application for FERC approval dated
3 November 7, 1990, Idaho Power stated, "This expansion will
4 significantly enhance recreational opportunities at the
5 project, well in advance of the project relicensing
6 process." Staff Exhibit No. 115, page 3. The relicensing
7 process was a consideration when Idaho Power filed this
8 Application. The plan submitted was a major
9 reconstruction and enhancement to the existing facility,
10 expanding the park from 17.5 acres to 65 acres.

11 Idaho Power acknowledged that "(U)pgrading and
12 enhancing Woodhead Park will help meet recreational use
13 demands for the vicinity for many years to come and will
14 give the recreationalist a higher quality experience."

15 (See Idaho Power's Protection, Mitigation and Enhancement
16 Proposal for Woodhead Park; Staff Exhibit No. 115, page
17 18.) It is reasonable to conclude that Idaho Power is
18 hopeful that these additional improvements will facilitate
19 a smoother relicensing process.

20 Q. What was Idaho Power's preliminary original cost
21 estimate for the construction of the park's reconstruction
22 and enhancements?

23 A. Idaho Power originally estimated the cost to be
24 between \$4 and \$5 million. (See Idaho Power's Protection,
25 Mitigation and Enhancement Proposal for Woodhead Park;

1 Staff Exhibit No. 115, page 20.)

2 Q. Is Idaho Power depreciating the park
3 improvements?

4 A. Idaho Power is depreciating the enhancements to
5 the park in the current amount of \$146,617 per year. At
6 this rate, the park will be fully depreciated in
7 approximately 50 years. The 331 Structures and
8 Improvements Account where these items are booked has a
9 life of 100 years. At the end of 2003, Idaho Power has
10 accumulated depreciation on the park in the amount of
11 \$853,653.

12 Q. At this rate of depreciation, will the park's
13 enhancements be completely depreciated at the termination
14 date of the current license?

15 A. No. The current license expires July 31, 2005.
16 At the time of the license expiration, only approximately
17 15% of the total cost of the project will have been
18 depreciated.

19 Q. Why does Staff think that the cost of the park
20 should be deferred and included with the relicensing
21 project costs?

22 A. The extent of the park reconstruction and
23 enhancements were meant to exceed the life of the current
24 license term. In Idaho Power's Depreciation Case,
25 IPC-E-03-7, Idaho Power filed its case linking

1 depreciation rates for hydro assets to the license period.
2 Staff did not agree with the linkage but this Idaho Power
3 position supports the rationale that Idaho Power invested
4 the cost of \$7,525,237 for long-term improvements to the
5 recreational facility that survive beyond the current
6 license life with the expectation that the improvements
7 would benefit the relicensing process.

8 Q. Does the use of the park generate revenues?

9 A. Yes, Idaho Power reported annual revenues in
10 2003 in the amount of \$137,236.

11 Q. What are the expenses for the operation of the
12 park?

13 A. In 2003, Idaho Power reported operating expenses
14 in the amount of \$46,751 and maintenance expenses in the
15 amount of \$141,642. The total expenses during 2003 for
16 the park were \$188,393, producing a deficit.

17 Q. Are the ratepayers being asked in this rate case
18 to pay the cost of this deficit?

19 A. Yes, in the amount of \$51,157 plus the annual
20 depreciation in the amount of \$146,616. Staff believes it
21 is reasonable for customers to pay the depreciation
22 expense in rates but believes the Company should
23 investigate raising park fees to cover annual operating
24 expenses.

25 **BIOLOGICAL OPINION**

1 Q. Please explain the nature of the biological
2 opinion prepared for the Hells Canyon Complex and what
3 Staff recommends regarding inclusion of these costs into
4 rate base?

5 A. According to Idaho Power, this expenditure was
6 the total cost Idaho Power expended to defend itself from
7 a biological opinion prepared and submitted to FERC by the
8 National Marine Fisheries Services (NMFS). In March 1995,
9 NMFS prepared and submitted to FERC a biological report
10 that concluded Idaho Power's Hells Canyon Complex
11 operation practices would impact Endangered Species Act
12 species. Idaho Power opposed NMFS's conclusions and
13 defended its operational practices. The costs reported by
14 Idaho Power for its defense in this matter totaled
15 \$654,740; most of these costs were attorney fees incurred
16 in 2000 and 2001. Idaho Power has capitalized this amount
17 and included it in its proposed rate base.

18 Staff objects to the inclusion of this amount on
19 the basis that these costs are an expense and should be
20 booked as an expense. There is no indication that these
21 costs will benefit some future period, nor is there any
22 authorization from the Commission that would allow these
23 expenses to be deferred. Because the expenditure of these
24 costs related to an immediate challenge to its mode of
25 operation in the Hells Canyon Complex on or before 2001,

1 the benefits of this expense do not carry beyond Idaho
2 Power's defense in that one matter. Without some benefit
3 that would extend into the test year and beyond, it is not
4 reasonable for Idaho Power to capitalize these expenses
5 and include them in rate base.

6 Q. What is the effect on rate base if these costs
7 are not allowed?

8 A. Idaho Power has included \$654,740 in its
9 proposed rate base amount. This amount has not been
10 depreciated and there is no accumulated depreciation in
11 Account 108. Therefore, the total book value of \$654,740
12 for the biological opinion should be removed from rate
13 base.

14 **SHAREOWNERS' DOCUMENT MANAGEMENT SYSTEM**

15 Q. What is the adjustment Staff proposes for Idaho
16 Power's addition to rate base for a project entitled
17 "Shareowners' Document Management System?"

18 A. Idaho Power is seeking to add \$106,275 to rate
19 base for the total cost of a "Shareowners' Document
20 Management System." Because IDACORP is the only entity
21 with enough shareowners to require a shareowners' document
22 management system (Idaho Power Company's only shareholder
23 is IDACORP), the benefits of this asset flow mostly to
24 IDACORP. Therefore, it is not reasonable to assign all of
25 the cost of this system to the ratepayers. Staff is

1 recommending that the cost of this system be shared
2 equally between the ratepayers and the shareowners. This
3 is the same treatment as that used to allocate Board of
4 Directors' fees. (See Idaho Power's Response to IPUC
5 Audit Request # 30; Staff Exhibit No. 116.)

6 Idaho Power closed the work order on this
7 project in 2000 and booked accumulated depreciation on
8 this asset through December 31, 2003, in the amount of
9 \$33,332. The net book value of the asset is \$72,943.
10 One-half of the original cost, or \$53,137, should be
11 removed from Idaho Power's proposed rate base.
12 Additionally, the full depreciation booked on Idaho
13 Power's books should remain with Idaho Power as
14 accumulated depreciation.

15 Q. Are there other adjustments that should be made
16 if one-half of the net book value of this asset is
17 excluded from Idaho Power's proposed rate base?

18 A. Idaho Power has determined that the annual
19 depreciation for this asset in 2003 is \$14,949 and has
20 included this amount in its annual depreciation expense.
21 Staff has recalculated the annual depreciation expense for
22 this asset over the remaining life of five (5) years in
23 the amount of \$14,589. Idaho Power's annual depreciation
24 expense should be reduced by \$7,295 for IDACORP's one-half
25 share of the depreciated expense.

1 **IERCO INVESTMENT**

2 Q. What is Idaho Power's involvement and interest
3 in the IERCO investment?

4 A. The IERCO investment represents Idaho Power's
5 one-third interest in the Bridger Coal Mine. The Bridger
6 Coal Mine is jointly owned with PacifiCorp, which owns the
7 other two-thirds interest. The IERCO account balance
8 represents Idaho Power's net investment in the one
9 balance.

10 Q. Please explain the adjustment Staff proposes to
11 Idaho Power's IERCO investment.

12 A. Staff is proposing that the Company's interest
13 in the IERCO investment be reduced by \$280,937. In
14 October 2003, Staff conducted an audit of the property in
15 service records at the Bridger Coal Mine. That audit
16 consisted of verifying and comparing a sampling of the
17 personal property on the books of the Bridger Coal Mine
18 with the property on site and in service. During the
19 course of that property in service audit, Staff found
20 specific assets that were not used and useful at the time
21 of the audit.

22 This adjustment represents the plant in service
23 and accumulated depreciation (or net book value) of
24 specific assets as of November 30, 2003, divided by one-
25 third to represent Idaho Power's share of net book value.

1 The total book value for the mine as of November 30, 2003,
2 is \$842,810. This represents a combination of \$4,111,232
3 in plant with \$3,268,421 in accumulated depreciation.

4 (See Staff Exhibit No. 117.)

5 Q. What specific assets did Staff find that were
6 not used and useful?

7 A. The following assets were not being used in the
8 mining operation: The dragline #100 and the bulk lube
9 system, dragline monitoring, and inergin fire system for
10 the dragline #100; two (2) 62 yard buckets, #163 and #164;
11 a Hitachi shovel, #202; a lowboy tractor, #791; and a 1995
12 Ford Truck, #1792.

13 Q. What caused Staff to believe the property was
14 not used and useful?

15 A. The dragline was sitting idle on mine property
16 and mine employees indicated to Staff that the dragline
17 was for sale. The two buckets were also sitting idle on
18 the mine property and mine employees indicated to Staff
19 that the buckets were not being used anymore. When asked,
20 mine employees informed Staff that the Hitachi shovel was
21 retired. The Lowboy tractor and the 1995 Ford Anfo Truck
22 were in the mine's "junk yard" area used to store damaged,
23 non-functioning, and obsolete equipment and materials.

24 Q. Are there any other Staff adjustments related to
25 this plant in service adjustment?

1 A. Yes, the mining company is currently expensing
2 annual depreciation for these assets in the amount of
3 \$400,661. Idaho Power records one-third of this annual
4 depreciation expense as an element of its annual expenses.
5 If the assets are deemed to be not used and useful and
6 therefore subtracted from the Company's IERCO investment,
7 the annual depreciation on these assets in the amount of
8 \$133,554 should also be excluded from the Company's annual
9 expenses.

10 **DANSKIN POWER FACILITY**

11 Q. You indicated that Staff also reviewed the rate
12 base costs for the construction of the Danskin Power
13 facility. What were the results of Staff's review?

14 A. Idaho Power is asking that the total
15 construction costs of the Danskin Power Facility in the
16 amount of \$52,484,209 be included in its rate base. My
17 review of work orders indicates that this amount was
18 properly booked and should not be adjusted. Staff witness
19 Sterling further discusses Danskin Power Facility in his
20 testimony.

21 **SECURITY COSTS**

22 Q. Staff also reviewed Idaho Power's request to
23 include its additional security costs. Does Staff have a
24 recommendation concerning those costs?

25 A. Idaho Power is asking for additional security

1 costs in the amount of \$728,766 to be an addition to rate
2 base. These costs were incurred by Idaho Power for
3 increased security at the Company's facilities following
4 the September 11, 2001 terrorist attacks. The Commission
5 approved the deferral of extraordinary security costs in
6 its Order No. 28975. It appears that these costs are an
7 appropriate and reasonable addition to rate base, and
8 therefore Staff has no objection to their inclusion in
9 rate base.

10 **PRAIRIE POWER ACQUISITION AND NEZ PERCE SETTLEMENT**

11 Q. Did you look at any other adjustments and
12 additions to the rate base?

13 A. Yes, I reviewed the Prairie Power Acquisition
14 adjustment and the Nez Perce Settlement additions to rate
15 base. Idaho Power purchased Prairie Power in 1992. As
16 part of that purchase, rate base was reduced by \$422,264
17 for unamortized credits. The Nez Perce settlement was
18 reviewed and approved by the Commission in 1996. It
19 appears that each adjustment is being properly treated and
20 accounted for, and is an appropriate and reasonable
21 adjustment to rate base.

22 **IDAHO POWER'S ASSET RETIREMENT OBLIGATION (ARO)**

23 Q. Did Staff review Idaho Power's asset retirement
24 obligation?

25 A. Yes, Staff reviewed Idaho Power's treatment of

1 its asset retirement obligation (ARO) in this rate case
2 application. In doing this I relied upon the work of
3 fellow Staff auditor Patricia Harms, who worked
4 specifically on the accounting treatment of the ARO in
5 Case No. IPC-E-03-1 and its presentation in Idaho Power's
6 books.

7 Q. What is the asset retirement obligation?

8 A. Under Statement of Financial Accounting
9 Standards 143, entitled "Accounting for Asset Retirement
10 Obligations" (SFAS 143), entities are required to
11 recognize and account for certain AROs in a manner
12 different from the way that Idaho Power and other public
13 utilities have traditionally recognized and accounted for
14 such costs. Under the accounting method historically used
15 by Idaho Power, the reasonable cost of removing a tangible
16 long-lived asset at retirement is included in the
17 calculation of depreciation rates and recovered over the
18 useful life of the asset. This is the method used for
19 ratemaking purposes.

20 However, under SFAS 143, if a legally
21 enforceable ARO as defined by the Statement is deemed to
22 exist, an entity must separately account and report the
23 liability for the ARO (ARO Liability) on its books. This
24 recognizes the entire cost of removal up-front while in
25 ratemaking the cost of removal is included in depreciation

1 expense over the life of the asset. Under SFAS 143, at
2 the same time the ARO Liability is recorded, a
3 corresponding and equivalent asset is also recorded on the
4 entity's books as part of the cost of the associated
5 tangible asset. The ARO Asset is then depreciated over
6 the life of the associated tangible asset. As part of
7 implementing SFAS 143, Idaho Power eliminated all removal
8 costs from accumulated depreciation.

9 Q. What adjustments associated with SFAS 143 did
10 Idaho Power make to its books for the rate case?

11 A. Idaho Power adjusted its financial statements by
12 reducing plant in service (Account 101) by \$1,577,314 and
13 increasing Accumulated Depreciation (Account 108) by
14 \$106,204,710. The \$1,577,314 reduction to the plant
15 account reverses the 13-month average of the amount it
16 posted to Account 101 for the ARO Asset. The \$106,204,710
17 increase in accumulated depreciation reverses the 13-month
18 average of the removal costs that Idaho Power eliminated
19 from accumulated depreciation (\$107,236,162) and the
20 accumulated depreciation (\$1,031,452) on the ARO Asset.
21 Both the plant and accumulated depreciation adjustments
22 are necessary to appropriately reflect rate base for
23 ratemaking purposes.

24 Q. Does Staff agree with Idaho Power that this is
25 the appropriate method to adjust for ARO?

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A. Yes, it does.

Q. Does this conclude your direct testimony in this proceeding?

A. Yes, it does.