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-05-28

IDAHO POWER COMPANY

DIRECT TESTIMONY

OF

JOHN R. GALE

Q. Please state your name and business address.
A. My name is John R. Gale and my business address is 1221 West Idaho Street, Boise, Idaho.
Q. By whom are you employed and in what capacity?
A. I am employed by Idaho Power Company (Idaho Power or the Company) as the Vice President of Regulatory Affairs.
Q. What is your educational background and business affiliations?
A. I received a BBA in 1975 and an MBA in 1981 from Boise State University. I maintain a close affiliation with the university and serve on the College of Business and Economics' Advisory Council. I have also attended the Public Utilities Executive Course at the University of Idaho.

I am an active member of the Edison Electric Institute's Economic Regulation and Competition Committee (ERCC), which is the committee that is concerned primarily with regulatory issues and ratemaking methods. I am the current Vice Chair of the ERCC.
Q. Please describe your work experience.
A. In October 1983, I accepted a position as Rate Analyst with Idaho Power Company. In March 1990, I was assigned to the Company's Meridian District Office where I

held the position of Meridian Manager. In March 1991, I was promoted to Manager of Rates. In July 1997, I was named General Manager of Pricing and Regulatory Services. In March of 2001, I was promoted to Vice President of Regulatory Affairs. As Vice President of Regulatory Affairs, I am responsible for the overall coordination and direction of the Pricing & Regulatory Services Department, including development of jurisdictional revenue requirements and class cost-of-service studies, preparation of rate design analyses, and administration of tariffs and customer contracts. In my current position, I am responsible for policy matters related to the economic regulation of Idaho Power Company.

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

A. My role in the preparation of the general rate case was to oversee, manage, and coordinate the filing and to make the policy decisions in consultation with Mr. Keen related to regulatory matters.

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

A. I discussed the content and preparation of the witnesses' testimony and exhibits. Ms. Maggie Brilz (Director of Pricing), Mr. Greg Said (Manager of Revenue Requirement), and Mr. Barton Kline (Senior Regulatory

Attorney) assisted me in this process.

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

A. The Company opens with Mr. LaMont Keen, our President and Chief Operating Officer. Mr. Keen provides an update of the Company's operations and finances over the last two years. Mr. Keen is our primary policy witness. Our next witness is Mr. William Avera, who has been retained by the Company as our return on equity (ROE) expert. Mr. Avera also performed this function for Idaho Power in our last two general rate cases. Mr. Avera recommends an ROE range appropriate for Idaho Power. Mr. Gribble, Idaho Power's Vice President and Treasurer, then selects an ROE point estimate from the ROE range provided by Mr. Avera and includes it with the test year capital structure to derive the Company's proposed overall rate of return.

Ms. Lori Smith, the Company's Vice President of Finance and Chief Risk Officer, then testifies to the financial inputs, both actual and estimated, that become our initial starting point for the 2005 test year. Ms. Smith includes system adjustments for deductions to certain expenses not allowed in rates, annualizing adjustments to expenses and rate base, known and measurable adjustments to expenses and rate base, and other adjustments to revenues, expenses and rate base related primarily to past Idaho

Public Utilities Commission (IPUC or the Commission) orders.

In this year's filing, the Company has added two additional witnesses to support its direct case - Ms. Luci McDonald, Vice President of Human Resources, and Mr. Gene Marchioro, Corporate Tax Manager. Ms. McDonald addresses Idaho Power's compensation policy and plans. Mr. Marchioro discusses a recent pronouncement by the Internal Revenue Service that has a bearing on how taxes are treated in the current rate filing. Both compensation and corporate taxes were significant issues in the Company's last general rate case.

Mr. Said provides the normalized net power supply expenses for the test year and addresses the requisite changes needed to the Company's Power Cost Adjustment as a result of changing the normalized net power supply expenses in Idaho Power's Base Rates. Additionally, Mr. Said supports the calculation of offsetting revenues associated with the annualizing adjustments and known and measurable adjustments made to the test year. Finally, Mr. Said provides testimony concerning the appropriate ratemaking treatment for Idaho Power's cloud seeding program.

Ms. Celeste Schwendiman, a Senior Pricing Analyst, incorporates Ms. Smith's financial data, Mr. Gribble's return recommendation, Mr. Said's normalized net power supply expenses, along with other selected inputs and prepares the jurisdictional separation study (JSS). The JSS, as its name states, separates system values for rate base, revenues, and expenses for each state and federal jurisdiction by an assignment and allocation process. One result of the JSS is the Idaho retail jurisdictional revenue requirement.

Ms. Brilz uses the Idaho retail jurisdictional output developed by Ms. Schwendiman and further separates costs by customer class and special contract in preparing several class-cost-of-service studies. Mr. Peter Pengilly, a Senior Pricing Analyst, proposes price changes to the customer classes that are consistent with the Company's ratemaking objectives and that recover the Company's Idaho revenue requirement. Mr. Timothy Tatum, a Pricing Analyst, addresses additional changes to Idaho Power's tariffs and non-recurring charges.

Mr. James Baggs, General Manager of Strategic Initiatives and Compliance, provides information regarding a variety of Idaho Power's customer-related activities, including the results of recent customer satisfaction surveys. Finally, I finish the direct case by addressing regulatory policy issues.

Q. What are the policy-related decisions influencing the preparation of the test year information?

A. The policy decisions related to the

preparation of the general rate case include the selection of the test year, the decision to use a split year, and the treatment and inclusion of test year adjustments.

Q. What is the Company's test year?

A. The Company's test year is the 12 months ending December 31, 2005.

Q. Why did you choose 2005 as the test year?

A. Using a test year of 2005 provides the most recent information available as to the Company's expenses and investments. The year captures increased levels of capital and O&M spending that are needed to fund Idaho Power's infrastructure.

Q. Why did the Company choose to file with a split test year by using both actual and estimated data?

A. Idaho Power chose to file a split test year, using six months actual and six months estimated data for four reasons. First the split test year offers rate recovery closer to the time that costs are incurred, thus partially addressing the regulatory lag effect between the timing of expenditures and their inclusion in rates. Second, this method allows the timing of general rate changes to be coordinated with, and potentially mitigated by, PCA changes. Third, the split test year provides the Commission an opportunity to see actual information for the whole year before issuing its final order. Finally, the split test year can provide a bridge to potential forward-looking test year filings in the future.

Q. Please describe Idaho Power's last general rate request before this Commission.

A. Idaho Power filed its last request for general rate relief on October 16, 2003 - its first request in ten years. The request was substantial in terms of overall dollars requested, the percentage increase, and the number of issues raised. The docket was designated Case No. IPC-E-03-13 (Case 03-13). After a full hearing of the case, the IPUC issued its final order (Order No. 29505) on May 25, 2004 and the new rates were implemented on June 1, 2004. Order No. 29505 is Exhibit No. 56. I have included Exhibit No. 56 as a quick reference to allow the Commission to easily compare elements of the current rate filing to Case 03-13. Two related events followed the issuance of Order No. 29505 - (1) the IPUC allowed certain adjustments associated with computational errors to be included in rates on July 28, 2004 and (2) the parties to Case 03-13 subsequently settled the disputed issue concerning the appropriate tax calculation for ratemaking purposes. The Commission approved the tax settlement on September 28, 2004 and customer rates changed on June 1, 2005 to reflect the impact of the settlement. That rate change included both an ongoing increase of $11.5 million to reflect the changed tax expense going forward and a one-year rate adjustment of an additional $11.5 million (or 2.2 percent of revenues) to recover the one year of tax expense that was not recovered in the interim between June 1, 2004 and June 1, 2005. The one-year adjustment will expire on May 31, 2006 and will act as an offset to rate relief granted by the Commission on the current request.

Q. Has Idaho Power requested any changes to base rates since Order No. 29505 other than the tax settlement you just discussed?

A. Yes. Idaho Power made a rate filing with the IPUC on March 2, 2005 to include in Idaho retail rates a return on the estimated plant investment and other expenses associated with the Bennett Mountain Power Plant (Bennett Mountain), a 164 megawatt gas-fired generating plant near Mountain Home, Idaho. The Commission approved the requested increase of approximately $9 million (1.8 percent) to be effective on June 1, 2005, along with the previously mentioned tax settlement.

Q. Is the Company's approach to preparing its 2005 test year similar to its approach in preparing the 2003 test year used in the last rate case?

A. Yes it is. Idaho Power has taken the same approach to the 2005 test year, except for certain adjustments or methods required to comply with or address a concern raised in Order No. 29505. Since the current filing comes so soon after the last general rate case and the subsequent tax settlement and Bennett Mountain rate adjustments, it is virtually a true up of the Company's expenses and investments since 2003.

Q. Which issues from Order No. 29505 does Idaho Power address in this case?

A. The Company addresses the following issues that were previously raised in Case 03-13: (1) revenue offsets for annualizing and known and measurable adjustments, (2) prepaid pension expense, (3) employee incentives, (4) the Salary Structure Adjustment, (5) cloud seeding, (6) memberships and contributions, (7) management expenses, and (8) cost-of-service methodology. Additionally, although not a part of this filing, the Company is in the process of preparing a proposal for a limited fixed cost true up mechanism - sometimes referred to as "decoupling" - in collaboration with Mr. Ralph Cavanagh of the Natural Resources Defense Council that will address some of the issues Mr. Cavanagh previously raised as a witness for the Northwest Energy Coalition in Case 03-13.

Q. What was the basis for making annualizing adjustments to rate base for 2005?

A. The annualizing adjustments to rate base for 2005 are related to electric plant-in-service items closing to book during the last half of 2005. These items and their related impacts (such as depreciation and property tax) were treated as if they were in place for a full twelve months.

Q. What was the Company's basis for including known and measurable additions to its rate base?

A. The Company included only assets of a material size that were planned to close to the books before June 1, 2006. These assets are major projects related to transmission and transmission substations. The Company chose June 1, 2006 as the cutoff for known and measurable plant adjustments because that is the date that the proposed rates would likely become effective if the Commission uses all of the allowed procedural time to issue its order.

Q. How have the operating revenues of the Company been adjusted in this filing to reflect the proposed annualizing and known and measurable plant additions?

A. The Company has made its standard adjustments to the test year operating revenues consistent with previous filings before this Commission. First, the operating revenues are primarily restated through the normalizing adjustments to the Company's net power supply expenses as a result of multiple water conditions discussed by Mr. Said. Other known revenue changes related to tariffs or contracts were also included either in the test year revenues or adjustments to the test year. Sales revenues for the test year 2005 were based on weather-normalized retail sales for the first six months and estimated normalized sales for the later six months.

However in addition to the standard revenue adjustments just discussed, the 2005 test year contains new revenue adjustments to answer concerns raised in Case 03-13. On page 8 of Order No. 29505 the IPUC directed the Company to - among other things - better identify - the increased revenues associated with annualized plant investment. The Commission expressed a similar concern for known and measurable plant additions. In response to the Commission's direction, the Company is proposing a specific methodology to compute offsetting revenues in its 2005 test year for both annualized plant items and known and measurable plant items. A description of the methodology for computing offsetting revenues is contained in Mr. Said's testimony.

Q. How did Idaho Power address pension costs in its 2005 test year?

A. Order No. 29505 reduced Idaho Power pension plan expenses to zero and stated that the issue could be reevaluated in the next general rate proceeding (page 21). Because circumstances have not materially changed in the last two years, the Company has not made an adjustment to include a normalized level of pension costs in the 2005 test year. Ms. Smith's testimony discusses the test year treatment of pensions in more detail, including her concern regarding the effect of this ratemaking treatment when the current circumstances change. I share her concern and urge the Commission to retain the reevaluation offer going forward.

Q. Please describe the rationale for including a known and measurable adjustment to operating expense for employee incentives.

A. Order No. 29505 states on page 26 that "Idaho Power's incentive is not properly aligned with the interests of its customers." The Company has taken this statement to heart and has moved to resolve the situation. As discussed in Ms. McDonald's testimony, Idaho Power has changed its approach to employee incentives since the last rate filing. Incentives that can be construed as shareholder-oriented have been removed and only the target level of customer-oriented incentives has been included in this rate filing. The test year adjustment for the employee incentive is actually a negative $1,186,593 because, as Ms. Smith explains in her testimony, the normalized target incentive is less than the forecasted incentive expense in the test year.

Q. Why did the Company make a known and measurable adjustment related to salary structure?

A. The known and measurable expense related to salary structure adjusts payroll expense to account for an employee structured salary adjustment (SSA) at year-end 2005. The adjustment to the 2005 test year for the SSA is 3 percent, which is the increase the Company expects to pay at the end of the test year. Although, the IPUC has traditionally supported an SSA in the past, the Commission did not allow this adjustment in Case 03-13 because the SSA was not ultimately paid to the employees in 2003.

Q. Cloud seeding costs were removed from rates in Case 03-13. Why is the Company proposing to include them in its 2005 costs?

A. Subsequent to Case 03-13, the Company requested and was granted one-year funding to measure the benefits of cloud seeding. As Mr. Said has stated in his testimony, the three-year benefit-to-cost ratio has been 1.7 to 1. Idaho Power believes that the demonstrated benefits of cloud seeding warrant inclusion of the program's expenses in the Company's revenue requirement.

Q. Order No. 29505 directed some criticism towards and disallowed rate recovery for some smaller dollar issues such as memberships and contributions, as well as certain management expenses. How are these items approached in the 2005 test year?

A. Memberships and contributions expenses in the test year should conform to the Commission's directives in

Order 29505. The Company has made a concerted effort to include in its 2005 test year only those expenses that are consistent with Order No. 29505. This effort involved educating those charging expenses on appropriate business uses, creating awareness with individuals involved with the cost accounting transactions, and running extensive edits on expense transactions.

Q. Do you believe the split test year is representative of the Company's investments, revenues, and expenses and appropriate for ratemaking purposes?

A. Yes. Although the Commission updated the Company's test year data to actuals in the last proceeding and will have the information necessary to do so again in this proceeding, I believe the test year is suitable for ratemaking purposes as filed.

Q. In Order No. 29505 the Commission opened Case No. IPC-E-04-23 for the purpose of evaluating cost-of-service issues raised during the Company's last general rate proceeding. Please describe the process undertaken to evaluate the issues and the changes Idaho Power committed to make as a result.

A. Three "cost-of-service" workshops were held with interested parties between November 2004 and February 2005. Although consensus was not reached among the parties on most of the issues discussed, Idaho Power committed to make several changes related to its cost-of-service methodology. As discussed in Ms. Brilz's testimony, these changes make the Company's class cost-of-service model more user-friendly, improve the process of determining coincident peak demand responsibility, and incorporate a surrogate demand normalization methodology as part of the coincident peak demand responsibility determination. In addition, Idaho Power agreed to make the detailed load research data available to parties in future general rate case proceedings.

Q. What policy is the Company following with regard to the rate spread and rate design proposals in this case?

A. For over 20 years, Idaho Power has been an advocate of a cost-based approach to rate spread among the customer groups and for component pricing within the customer groups. In this filing the Company is deviating slightly from its past position as it applies to rate spread and is advocating, with two small exceptions, a uniform percentage increase to each customer class and special contract. The specifics of the proposed rate spread and an exhibit delineating the target revenue requirements are contained in Ms. Brilz's testimony.

Q. Why is the Company changing its position now?

A. Ms. Brilz describes the class cost of service results for the 2005 test year and a reluctance to move class revenue requirements disproportionately at this time. I concur and endorse this approach for the current case for two reasons. First, I would like to see if future class-cost-of-service studies would show similar results as 2005 to determine if a new cost pattern is emerging or if 2005 is an anomaly. Second, because the Company is in the middle of several frequent general rate actions, I believe that moving most groups uniformly now makes sense and may remove some unnecessary controversy from this case. In short, if the cost patterns persist, we will have other opportunities to address them.

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

A. Yes, the cost-based approach has led to rate design proposals that better align fixed costs with fixed prices and variable costs with variable prices. We continue to be advocates of this approach, but appreciate that the IPUC has not necessarily warmed to the Company’s position. Ideally an energy rate that corresponds to our energy costs would help address a number of rate-related issues, including net metering and customer conservation decisions. The emphasis on moving fixed and variable prices to be more reflective of fixed and variable costs is encompassed throughout the rate design proposals in this filing and specifically led to the Company's proposals to increase the monthly service charge for residential and small general service customers. Since these customers are not demand metered, the service charge is the only fixed rate component available to adjust and thus becomes more important as a tool for fixed cost recovery. The increases to the service charges as proposed by Mr. Pengilly are a moderate step toward better alignment of costs and prices.

Q. Previously, you alluded to the fact that the Company is in the middle of what may be a series of general rate actions. Why is this the case?

A. The Company has to address the rising capital and O&M costs associated with its service territory growth and aging infrastructure described by Mr. Keen and other Company witnesses. The Company also will be faced with the relicensing costs related to the Hells Canyon Complex. Going forward Idaho Power faces additional cost pressure from two new areas -- compliance and an aging workforce, also described by Mr. Keen.

Compliance costs are going up for Idaho Power and other utilities, as they must conform to the legal requirements of Sarbanes-Oxley Act of 2002 (pertaining primarily to financial reporting) and the Federal Energy Regulatory Commission's Standards of Conduct Rules (pertaining to interactions between a utility's energy affiliate business function and its transmission business function). Both these new requirements increase costs through additional monitoring, auditing, and reporting, as well as the separation - and sometimes duplication - of business functions.

Costs are also anticipated to increase as Idaho Power plans to maintain and improve its service to customers during a time when much of its workforce is reaching retirement age. To a large extent we do not know now how these costs will manifest themselves - increasing competitive bidding for essential jobs, more extensive use of apprentice-type arrangements, dual filling of key positions, retention incentives (the reverse of early retirement programs), etc.

Q. What is the Company's rate strategy during this time of increasing costs?

A. Idaho Power plans to file for rate relief more frequently and in smaller percentage increments than has been our custom in recent decades. One reason is the Company needs to have revenues keep pace with increasing costs. Another reason is that customers oppose double-digit increases even if the Company has not had a general rate increase for a number of years. Finally, from my standpoint, I would like to see some of the controversy removed from general rate cases through improved familiarity and understanding of the issues and the ability to reach some sustained resolution when possible.

Q. Is it your opinion that the granting of the rate relief proposed by the Company in this proceeding is in the public interest?

A. Yes.

Q. Does this conclude your testimony?

A. Yes, it does.