

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION )  
OF IDAHO POWER COMPANY FOR )  
AUTHORITY TO INCREASE ITS INTERIM )  
AND BASE RATES AND CHARGES FOR )  
ELECTRIC SERVICE. )  

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CASE NO. IPC-E-05-28

IDAHO POWER COMPANY

DIRECT TESTIMONY

OF

GENE W. MARCHIORO

1 Q. Please state your name and business address.

2 A. My name is Gene W. Marchioro and my business  
3 address is 1221 West Idaho Street, Boise, Idaho 83702.

4 Q. What is your educational background?

5 A. I graduated from Boise State University in  
6 Boise, Idaho in 1989, receiving a Bachelor of Business  
7 Administration in Accounting. I became a licensed certified  
8 public accountant in the State of Idaho in 1991. I am an  
9 active member of the Taxation Committee of the Edison  
10 Electric Institute and am a board and executive committee  
11 member of the Associated Taxpayers of Idaho. I am also a  
12 member of the American Institute of Certified Public  
13 Accountants and Idaho Society of Certified Public  
14 Accountants. Since graduating I have participated in  
15 numerous training courses related to income taxation,  
16 financial reporting for taxes, and utility industry issues.  
17 Additionally, I have provided instruction on many technical  
18 business taxation topics.

19 Q. Please outline your business experience.

20 A. I have worked in public accounting and  
21 industry since graduating from college in 1989. I started  
22 my career with Deloitte & Touche LLP as Tax Associate  
23 working primarily in income tax compliance and financial  
24 statement preparation. In 1991 I joined Rogers Seed Company  
25 as a Senior Accountant and was responsible for corporate

1 financial reporting, division cost accounting, and  
2 budgeting. In 1993 I joined Universal Frozen Foods as a  
3 Financial Analyst working in corporate budgeting and  
4 forecasting. In 1995 I joined Micron Technology as a  
5 Corporate Tax Accountant. I later accepted the position of  
6 Management Accountant responsible for all finance functions  
7 for Micron Internet Services. In 1997 I rejoined Deloitte &  
8 Touche LLP as a Tax Senior with promotions to Tax Manager in  
9 1998 and Senior Tax Manager in 2000. My work with Deloitte  
10 involved all areas of income taxation, but was primarily  
11 focused in corporate taxation, research, and financial  
12 reporting for income taxes. In 2001 I joined Idaho Power  
13 Company as the Tax Research Coordinator. In 2003 I was  
14 promoted to Corporate Tax Director for the Company, the  
15 position which I hold today.

16 Q. Are you familiar with the Company's 2001  
17 income tax return filed with the Internal Revenue Service  
18 ("IRS") that contained a tax accounting method change for  
19 capitalized overhead costs?

20 A. Yes. I was employed by Idaho Power in the  
21 Company's Tax Department as the Tax Research Coordinator at  
22 the time of that filing.

23 Q. Were you personally involved in the  
24 preparation of the 2001 filing as well as filings for  
25 subsequent years?

1           A.       Yes.  When I was employed by the Company as  
2 Tax Research Coordinator, as well as when I became the  
3 Company's Corporate Tax Director, I participated in the  
4 preparation and filing of income tax returns with the IRS  
5 and state authorities.  As Corporate Tax Director I was  
6 responsible for the filing of the returns for the years 2003  
7 and 2004 and I will be responsible for the 2005 tax return  
8 filings.

9           Q.       Are you familiar with the technical details  
10 of the capitalized overhead cost tax method adopted by the  
11 Company?

12          A.       Yes.

13          Q.       Please explain the method.

14          A.       In the year 2002 Idaho Power adopted with its  
15 2001 federal income tax return the simplified service cost  
16 method for uniform capitalization.  This adoption was in  
17 accordance with Section 263A of the Internal Revenue Code  
18 and associated treasury regulations.  This method allocated  
19 "mixed service costs," also known as capitalized or indirect  
20 overhead costs, to the production of inventory property (in  
21 this instance electricity) and the self-construction of  
22 plant.  The method resulted in a current tax deduction for  
23 mixed service costs capitalized to the production of  
24 electricity.

25          Q.       What effect did this change have on the

1 Company's revenue requirement found by the Commission in  
2 Case No. IPC-E-03-13?

3           A.           Since the Idaho Public Utilities Commission  
4 has determined that Idaho will be a "flow-through"  
5 jurisdiction, the Company, for revenue requirement purposes,  
6 flowed this tax benefit through to its customers by reducing  
7 income tax expense. This caused the Company's revenue  
8 requirement to be less because the Company's income tax  
9 expense for revenue requirement purposes was less. In the  
10 Company's last revenue requirement proceeding for Idaho  
11 Power, Case No. IPC-E-03-13, the Company's 2003 test year  
12 revenue requirement was reduced by the amount of this "flow-  
13 through tax benefit".

14           Q.           Have the IRS and Treasury Department issued  
15 any recent guidance concerning the simplified service cost  
16 method for uniform capitalization?

17           A.           Yes. On August 2, 2005, the IRS issued  
18 guidance for using the uniform capitalization rules'  
19 simplified service cost and simplified production methods.  
20 The guidance includes both proposed and temporary  
21 regulations effective for taxable years ending on or after  
22 August 2, 2005, and a revenue ruling that applies for all  
23 prior open years. Both pieces of guidance take a more  
24 restrictive view of the definition of self-constructed  
25 assets produced by a taxpayer on a "routine and repetitive"

1 basis than do the current treasury regulations which were  
2 used by the Company in adopting the method. The temporary  
3 regulations are effective for the Company's 2005 tax year  
4 and preclude the Company from using the simplified service  
5 cost method for self-constructed assets for the tax year  
6 2005 and beyond.

7 Q. What effect does this have on the Company's  
8 income tax expense for the 2005 test year for revenue  
9 requirement purposes?

10 A. The Company has a higher test year income tax  
11 expense. Obviously, there is no longer a "flow-through" of  
12 the reduced income tax expense present in the Company's 2003  
13 test year. The result is an increase in the Company's 2005  
14 test year revenue requirement.

15 Q. Does this conclude your direct testimony in  
16 this case?

17 A. Yes, it does.