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

LORI SMITH

Q. Would you please state your name, business address, and present occupation?

A. My name is Lori Smith and my business address is 1221 West Idaho Street, Boise, Idaho. I am employed by Idaho Power Company as Vice President of Finance and Chief Risk Officer.

Q. What is your educational background?

A. I graduated in 1983 from Boise State University, Boise, Idaho, receiving a Bachelor of Business Administration degree in Information Sciences. In 1999, I was awarded the designation of Chartered Financial Analyst. I have also attended numerous seminars and conferences related to utility accounting, corporate finance and risk related topics.

Q. Would you please outline your business experience?

A. From 1983 to 1986, I was employed by Idaho Power Company and assigned to the Materials Management Department. From 1986 to 1994, I served as a Financial Accountant and later as a Budget Accountant. I was promoted to Business Analyst in 1994. In 1996, I was promoted to Strategic Analysis Team Leader. In 2000, I was named Director of Strategic Analysis. In 2003, I was named Director of Strategic Analysis and Risk Management. In 2004 I was named to my current position as Vice President of

Finance and Chief Risk Officer. At the time of filing, I am the acting Chief Financial Officer.

Q. What are your duties as Vice President of Finance and Chief Risk Officer?

A. I oversee and direct five distinct areas within Idaho Power Company. First, Strategic Analysis has the responsibility to maintain ongoing financial forecasts, perform due diligence activities and develop capital raising strategies. Second, Corporate Tax is responsible for both income and property tax issues and works with numerous taxing authorities to be in compliance with the various rules and regulations. Next is Financial Accounting and Reporting, which has responsibility for the general ledger, property records, regulatory accounting and external reporting (SEC and Shareowner). Fourth, Corporate Risk Management has the responsibility of implementing risk management tools related to credit, market and operational risk along with exploring and implementing hedging strategies. Last is the Sarbanes-Oxley (SOX) Coordinator who has the primary responsibility for the Company's internal controls over financial reporting.

Q. What is the purpose of your testimony in this proceeding?

A. The purpose of my testimony is to present the test year financial information for the twelve-month period ended December 31, 2005, to present certain deductions to operating expenses, to present the adjustments which have been included to annualize certain 2005 operating expenses and rate base items, and to quantify and support certain known and measurable changes to the Company's operating statements and rate base.

Q. Will you be supporting any of the normalizing adjustments to the 2005 test year?

A. No. Ms. Schwendiman will address the normalizing adjustments to sales and revenues and Mr. Said will address the normalization of power supply costs.

Q. How was your test year financial information prepared?

A. The process was the same as the one used to prepare the Company's 2003 filing, Case No. IPC-E-03-13. For the 2005 general rate case filing, the system financial information was prepared using six months actual and six months estimated information. The 2005 Operation and Maintenance (O&M) Budget and the 2005 Construction Budget were the basis for this process. The 2005 test year combined January through June actual data with forecast information for July through December. The forecast process started with actual information through May 2005 and then forecasted all the non-normalized components for the time period June through December 2005. The additional components related to operating expenses and rate base include certain reductions to operating expenses, annualizing adjustments to operating expenses and rate base, certain known and measurable changes to operating expenses and rate base, and certain other operating expense and rate base adjustments are detailed in my exhibits.

Q. What were the forecasted components to the financial test year information that you are sponsoring?

A. The forecasted components include the following items: (1) other operating revenues, (2) other revenues and expenses, (3) operation and maintenance expenses, (4) property insurance expense, (5) regulatory expenses, (6) depreciation and amortization expense, (7) regulatory debits and credits, (8) taxes other than income taxes, (9) Idaho Energy Resources Company rate base and income statement, (10) electric plant in service and related items, (11) materials and supplies, (12) deferred conservation programs, (13) other deferred programs, (14) deferred income taxes, (15) customer advances for construction, and (16) certain deductions from operating and maintenance expenses.

Q. Please summarize the test year adjustments.

A. After the initial 2005 test year information was compiled, the 2005 O&M expenses were reduced by certain deductions consistent with previous orders issued by the

Commission. After the O&M expense reductions, annualizing adjustments, known and measurable adjustments, and certain other adjustments were made. The additional components included in this filing for annualizing adjustments to operating expenses and rate base are adjustments for payroll, depreciation, depreciation reserve, and annualized major plant additions and their associated impacts. The additional components for known and measurable changes to operating expenses and rate base are salary structure, employee incentives, and major plant additions known to occur by May 2006 and their associated impacts. The May 2006 cutoff for major plant additions was given to me by Mr. Gale.

Q. How was the forecast method determined?

A. In preparation for the split test year methodology, the Finance Department, in consultation with various other Company departments, developed the methodology used to prepare the forecast portion of the case. Each area used the developed methodology to estimate the remaining six months of 2005 starting with the approved 2005 budgets. The Idaho Power Company business units were asked to provide updates to the original 2005 O&M and Capital Budgets as work priorities were reviewed through to the end of 2005. Additionally, the business units were requested to identify major plant additions that would close to Electric Plant in

Service - Account 101 through May of 2006. Company cost center's reviewed their expected expenditures for new positions and payroll-related items. The cost center's also reviewed project timing for O&M-related projects and construction-related projects as well as any other known changes to planned work for the remainder of the year. This information was then compiled to produce a May through December restatement of all O&M and Capital budget items.

The case is prepared with January through June actuals combined with the results from the process above to produce the 2005 results. A variety of methodologies were identified that best fit the component being forecasted including meetings with cost center managers, updated estimates for timing of projects which were reflected in our projections, comparisons to prior years actuals, analysis of historical data and inclusion of any updated expenditures that were not known during the annual budgeting process.

Q. Are you sponsoring exhibits in this general rate case filing?

A. Yes, I am sponsoring Exhibits 14 through 18. The workpapers supporting my testimony and exhibits have also been included with the Company's rate case filing.

Q. Would you please describe Exhibit No. 14?

A. Exhibit No. 14 is a compilation of the Company's supporting schedules for the test year financial information for the twelve months ended December 31, 2005. Page 1 of Exhibit No. 14 sets forth the development of the Other Operating Revenues - Accounts 451, 454, and 456. Page 2 of Exhibit 14 shows the Other Revenues - Account 415 and Expenses - Account 416. The O&M expenses, by FERC account, appear on pages 3 through 6 of Exhibit No. 14.

Q. Would you please describe pages 7 through 13 of Exhibit No. 14?

A. Page 7 reflects the detail of Property Insurance Expense - Account 924. Page 8 reflects the detail for Regulatory Commission Expenses - Account 928. Pages 9 and 10 show total depreciation and amortization expense by plant account. Page 11 shows the Prairie Power acquisition amortization adjustment. Page 12 reflects the regulatory debit for Professional Fees amortization that was created by IPUC Order 29505. Page 13 shows the detail of the Taxes Other Than Income Taxes.

Q. Would you please describe page 14 of Exhibit No. 14?

A. Page 14 of Exhibit No. 14 develops the net earnings from IERCo that are added to the booked operating income for ratemaking purposes.

Q. How does the Company treat IERCo's earnings and investment for ratemaking purposes?

A. The primary purpose of IERCo is to mine coal which provides fuel for the Jim Bridger thermal power plant in Wyoming. Consistent with prior Commission orders, the Company treats IERCo's coal operations as a part of its utility operation and accordingly adds the current year IERCo earnings to electric operating income and the investment in IERCo to the net electric rate base. Accordingly, I have deducted the interest income (line 10, page 14 of Exhibit No. 14) on notes receivable from Idaho Power Company and I have deducted notes payable (line 14, page 23 of Exhibit No. 14) to IERCo in determining the Company's net investment in IERCo to be included in the rate base.

Q. Why have you made these adjustments to IERCo’s earnings and rate base in this proceeding?

A. I have made adjustments to reduce IERCo's rate base for notes payable of $16,263,074 and the associated interest income adjustment of $458,865 to allow IERCo's rate base and earnings to reflect only the cash required to fund IERCo operations for the year 2005. If IERCo were to use these funds to make a distribution of earnings to the Company, or if the Company were to actually fold IERCo into its own operations, the result would be the same as presented herein.

Q. Would you please describe the data contained on pages 15 through 23 of Exhibit No. 14?

A. Pages 15 through 23 of Exhibit No. 14 reflect the development of all the components applicable to the combined system rate base of the Company for the year 2005. Page 15 reflects the balance by month and the thirteen-month average of Electric Plant in Service - Account 101. Page 16 reflects the balance by month and the thirteen-month average of Accumulated Provision for Depreciation - Account 108. Page 17 reflects the balance by month and the thirteen-month average of Accumulated Provision for Amortization - Account 111. Page 18 reflects the balance by month and the thirteen-month average of Materials and Supplies - Accounts 154 and 163. Page 19 and Page 20 reflect the balance of the Company's Conservation and Other Deferred Programs. For these programs the Company includes the December 31, 2005 ending balance in rate base consistent with prior orders of this Commission.

Q. Would you please describe in more detail Other Deferred Programs on Page 20.

A. Yes, the three previously approved programs are the American Falls Bond Refinancing costs that is a direct reduction to O&M, the 2001 through 2003 Incremental Security Costs incurred after September 11, 2001 and the final item is Professional Fees which are being amortized over a five year period.

Q. Would you please describe the remaining pages in Exhibit 14?

A. Yes, page 21 reflects the balance at the beginning and end of 2005 and the average balance for Accumulated Deferred Income Taxes - Accounts 190, 282, and 283. Page 22 reflects the balance by month and the thirteen-month average of Customer Advances for Construction - Account 252. Page 23 reflects the balance by month and the thirteen-month average of the rate base components for IERCo, consistent with prior orders of this Commission.

Q. Would you please describe Exhibit No. 15?

A. Exhibit No. 15 reflects the detailed support of deductions from the O&M expense of the Company for certain general advertising, memberships and contributions, senior management expenses and miscellaneous other expenses. These adjustments have been made by the Company consistent with prior orders of this Commission and responsive to concerns brought during the last general rate case, Case No. IPC-E-03-13. They are reflected on pages one through six.

In light of some of the concerns expressed in the last rate case, the Company has put processes in place to review accounting for memberships and contributions in an effort to properly identify, account for and share the costs of each. I have removed one hundred percent of contributions and one-third of memberships consistent with the last general rate case. I have reviewed senior management expenses removing one-hundred percent of charges for the Arid Club, removing one-third of EEI travel expenses and allocating the balance of charges between Idaho Power and IDACORP on the basis of how their payroll is charged which is also consistent with the last general rate case order. Three officers were excluded from the allocation because their expenses are scrutinized monthly, not requiring a further allocation. Lastly on several levels we have reviewed all expenses charged to O&M in an effort to identify charges that, even though justified, because of establishment name it may appear as an inappropriate customer charge. This effort was put in place to be responsive to concerns identified in the last general rate case.

Q. Would you please describe Exhibit No. 16?

A. Exhibit No. 16, consisting of five pages, reflects the detailed support for annualizing adjustments to the 2005 operating expenses and the rate base of the Company. These adjustments reflect changes to certain operating expense and rate base items as if they had been in existence for a full year, or to year-end 2005 levels, whichever is applicable. Page 1, line 2 reflects an adjustment to year-end levels resulting in an increase in operating payroll of $3,585,460. The computation is reflected on page 2. Page 3 shows the annualized impacts of major plant additions for transmission and distribution assets during 2005. The net annualizing adjustment to rate base is $19,079,615. The related changes to Property Tax and Insurance Expense are shown on page 3, line 30. Pages 4 and 5, details by plant account the related change to Depreciation Expense - Account 403 and Depreciation Reserve - Account 108.

Q. Would you please describe Exhibit No. 17?

A. Exhibit No. 17, consisting of three pages, reflects the detailed support for certain known and measurable adjustments to expenses and rate base that will occur subsequent to year-end 2005.

Q. Would you please describe the known and measurable adjustments that were made to the annualized 2005 results of operations?

A. Line 1, page 1 of Exhibit No. 17 shows the normalized annual employee incentive expense adjustment of ($1,186,593). This reduction to expense is a result of using the normalized incentive target rate for customer satisfaction and operational excellence of 3.50%, which is less than forecasted incentive expense included in Employee Pensions and Benefits - Account 920. The target rate was provided to me by Ms. Luci McDonald and is described in more detail in her testimony.

Line 2, page 1 shows the operating payroll adjustment of $2,545,556 to estimate the Company's salary structure adjustment for 2006.

The computation and detail supporting the amounts shown on page 1 of Exhibit No. 17 are shown on page 2.

Page 3 of Exhibit No. 17 shows the known and measurable impacts of major plant additions for transmission assets that will be in service by May 2006. The known and measurable adjustment to rate base is $15,421,000. The related changes to Depreciation Expense, Depreciation Reserve, Property Tax and Insurance Expense are shown on line 20, page 3.

Q. Would you please explain Exhibit No. 18?

A. Exhibit No. 18 consisting of one page reflects additional adjustments to rate base or operating expense resulting from charges to Electric Plant Acquisition Adjustments - Account 114, Accumulated Provision for Amortization of Electric Plant Acquisition Adjustments - Account 115, Investment in Associated Companies - Account 123, and Employee Pension and Benefits - Account 926.

Q. Would you please describe the adjustments to rate base, operating revenues and operating expenses on Exhibit No. 18?

A. Exhibit No. 18, lines 1 through 3 reflects the unamortized portion of the Electric Plant Acquisition Adjustment associated with the Prairie Power Rural Electric

Cooperative purchase in July 1992. Line 4 reflects a decrease to Investment in Associated Companies (IERCO) - Account 123,for a portion of plant deemed not used and useful at Bridger Coal. This adjustment was as a result of the IPUC Order No. 29505. Lines 5 through 7 show the FAS 87 Pension Expense removed from Employee Pension and Benefits - Account 926 that is also a result of IPUC Order No. 29505.

Q. Please describe the adjustment to Exhibit No. 18 related to pension expense removal.

A. Exhibit No. 18 line 5 shows the $5,209,569 total FAS 87 Net Periodic Pension Cost the Company estimates it will report in the Company's financial statements. The operating expense percentage of 67.33% is then applied to the total FAS 87 cost to arrive at the operating expense portion of $3,507,603. In accordance with GAAP, the Company continues to capitalize the remaining period cost of $1,703,966 related to pension.

Q. What is the impact of adjusting the operating expense by the exclusion of 67.33% of the Net Periodic Pension Cost?

A. The negative impact of removing 67.33% of the pension cost reflects approximately a 50 basis point decline in the allowed return on common equity granted by the Commission in the 2003 general rate case. This negative impact on earnings is one more reason why timely rate relief is essential to retain the continued favorable support of the Company's shareholders and its bondholders during this time of rapid system growth.

Q. Is the Company concerned about the impact of this adjustment to pension cost?

A. The pension benefit is a valid expense to attract the skilled labor and resources Idaho Power needs. The positive performance of the Company's pension plan instruments continues to delay the potential of cash contribution into the plan. However, the expense accrual annually has a large impact on the Company's ability to earn its allowed rate of return. Idaho Power will monitor its pension cost situation carefully and may seek alternate ratemaking treatment as the situation changes.

Q. Are all the data and their adjustments made to your exhibits and supporting schedules calculated on a total system basis?

A. Yes.

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

A. Yes, it does.