



IDAHO POWER COMPANY
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IDAHO PUBLIC UTILITIES COMMISSION

BARTON L. KLINE
Senior Attorney

March 16, 2006

Jean D. Jewell, Secretary
Idaho Public Utilities Commission
472 West Washington Street
P. O. Box 83720
Boise, Idaho 83720-0074

Re: Case No. IPC-E-05-28
Rebuttal Testimony of John R. Gale

Dear Ms. Jewell:

Please find enclosed for filing nine (9) copies of the rebuttal testimony of John R. Gale regarding the Company's General Rate Case, with one copy designated as the "Reporter's Copy." A computer disk containing Mr. Gale's rebuttal testimony is also enclosed.

I would appreciate it if you would return a stamped copy of this letter for my file in the enclosed stamped, self-addressed envelope.

Very truly yours,

Barton L. Kline

BLK:jb
Enclosures

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PUBLIC UTILITIES COMMISSION

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
TESTIMONY IN SUPPORT OF SETTLEMENT STIPULATION
AND
REBUTTAL TESTIMONY
OF
JOHN R. GALE

1 Q. Please state your name and business address.

2 A. My name is John R. Gale and my business address
3 is 1221 West Idaho Street, Boise, Idaho.

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

5 A. I am employed by Idaho Power Company (Idaho
6 Power or the Company) as the Vice President of Regulatory
7 Affairs.

8 Q. Are you the same John R. Gale that previously
9 submitted testimony in this proceeding?

10 A. Yes, I submitted direct testimony on behalf of
11 Idaho Power supporting regulatory policy matters related to
12 the Company's request for general rate relief.

13 Q. What is the purpose of your testimony?

14 A. I want to express Idaho Power's support for the
15 Stipulation that was filed by the parties to settle all issues
16 arising in this case (Proposed Settlement) and to urge the
17 Commission to adopt the Proposed Settlement without material
18 change or condition. I will also address the testimony
19 supporting the Proposed Settlement filed by Idaho Public
20 Utilities Commission Staff Witness Randy Lobb and the Idaho
21 Irrigation Pumpers Association's Witness Yankel. In the case
22 of Mr. Lobb's testimony, I want to amplify a few points from
23 the Company's perspective.

24 Q. Do you believe that the Proposed Settlement is
25 in the public interest?

1 A. Yes. I say this because all parties to the
2 case have agreed to settle all issues, thus indicating their
3 satisfaction with the outcome. I believe that the Proposed
4 Settlement is Idaho Power's first general rate case settlement
5 in its Idaho jurisdiction. From the Company's particular
6 perspective, the Proposed Settlement provides the Company with
7 the ability to update its rates to better reflect current
8 costs and the ability to economically finance new investments
9 in infrastructure for its system.

10 Q. Why was the Company willing to accept in
11 settlement a lower general rate increase than it initially
12 filed?

13 A. First of all, the Company's actual 2005
14 expenditures were less than originally expected. Idaho Power
15 had originally filed a split test year in October 2005 that
16 consisted of six months of 2005 actual information and six
17 months of forecast information. As 2005 came to a conclusion,
18 the actual expenditures for 2005 were ultimately less than
19 originally forecast.

20 Q. Other than the difference between the projected
21 2005 test year results and the actual results for 2005, were
22 there other reasons why the Company was willing to accept a
23 lower revenue requirement?

24 A. Yes. The two other major adjustments to the
25 test year were adjustments to net power supply costs and to

1 the overall rate of return. Both of these adjustments are
2 correctly described in Mr. Lobb's testimony and both are
3 acceptable to the Company.

4 Q. Please state why the Company is willing to
5 accept the adjustment to its net power supply costs contained
6 in the Proposed Settlement.

7 A. The net power supply cost issue arises out of
8 the Company's current ability to appropriately model its power
9 supply costs and the relationship between power supply costs,
10 water conditions, and gas prices. Because the Company has
11 experienced an extended period of drought, there are mixed
12 views on the impact of gas prices on normalized net power
13 supply costs and the degree to which gas prices influence
14 electric power prices in years when water is abundant. After
15 many years of drought, most parties are not very comfortable
16 in predicting what electric prices will do under better water
17 conditions. Because of this uncertainty, the parties to this
18 proceeding were willing to accept the continuing use of the
19 existing net power supply costs until such time as the
20 Company's net power supply cost model can be reviewed more
21 thoroughly after water conditions actually improve. This
22 solution was acceptable to Idaho Power as long as the
23 Company's loads were updated to 2005 levels.

24 Q. Please explain the Company's acceptance of an
25 overall rate of return that was less than originally

1 requested.

2 A. For purposes of the Settlement Proposal, Idaho
3 Power is willing to accept an overall rate of return that is
4 lower than originally requested because the agreed-upon return
5 is higher than the existing rate and because Idaho Power
6 believes that it can economically finance its new electric
7 facilities at the agreed-upon rate of return until such time
8 that either interest rates and/or risk factors change.

9 Q. Included in the settlement provisions, is a
10 statement regarding the appropriate inclusion of incentive
11 payments in a test year. Why was this provision important to
12 the Company?

13 A. Idaho Power believes that a pay-at-risk
14 component is important in an overall employee compensation
15 package because of its ability to positively influence
16 employee behavior and action. Whenever pay-at-risk is
17 included in a compensation package, the question of how much
18 of the pay-at-risk is appropriate to include in the test year
19 inevitably arises. After much discussion and thought, the
20 Company believes that a pay-at-risk component based on
21 customer-oriented incentives (at their base or target levels)
22 is the best way to align employee incentives with customer
23 interests. The provision included in the Settlement Proposal
24 is a recognition of the Company's perspective on that issue by
25 the other parties to the proceeding. It was important for the

1 Company to have this provision in the Settlement Proposal so
2 that Company management, on a going-forward basis, will have
3 some assurance that it is structuring employee compensation
4 appropriately.

5 Q. Do you have any observations regarding the rate
6 spread provided for in the Proposed Settlement?

7 A. Given that this case is the second in a series
8 of general rate adjustments driven by growth-related increases
9 to capital and O&M budgets and given that the Company had just
10 completed a general rate case in 2003, when the Company began
11 preparing this case it recognized that there was a distinct
12 possibility that this case might settle. In order to
13 facilitate settlement and avoid unnecessary confrontational
14 issues, the Company's original filing proposed a uniform
15 percent increase approach to rate spread to the customer
16 classes. Further, as indicated in the Company's original
17 filing, the Company's cost of service results reach some
18 different conclusions than past cost of service studies.
19 Idaho Power does not believe that these new results are
20 sufficiently conclusive at this time to make major shifts in
21 rate spread to the customer groups. Future cost of service
22 studies will help determine whether the 2005 results presented
23 in this case are an anomaly or if there has been a structural
24 change in the cost of service.

25 Q. Do you have any concluding remarks regarding

1 the Settlement Stipulation?

2 A. Yes. During this proceeding the Company
3 experienced a willingness by the Commission Staff and the
4 other parties to address the issues in this case in a
5 straight-forward manner and to approach the possibility of
6 settlement in a productive way. The Company is very
7 appreciative of these efforts by the Staff and the other
8 parties.

9 Q. Have you reviewed the testimony of IPUC Staff
10 witness Randy Lobb?

11 A. Yes.

12 Q. Would you please describe your reaction to Mr.
13 Lobb's testimony?

14 A. I agree with Mr. Lobb's characterization of the
15 filed Stipulation that proposes to settle all issues related
16 to Case No. IPC-E-05-28 (Proposed Settlement) as well as his
17 description of the Proposed Settlement process.

18 Q. Have you read Mr. Yankel's testimony filed on
19 behalf of the Idaho Irrigation Pumpers Association
20 (Irrigators) supporting the Settlement Stipulation?

21 A. Yes.

22 Q. What is your response to Mr. Yankel's
23 testimony?

24 A. Let me begin by saying that Idaho Power
25 appreciates the fact that consistent with their commitment in

1 the Settlement Stipulation, the Irrigators filed testimony
2 stating that the Proposed Settlement is reasonable and should
3 be approved by the Commission. That being said, I am
4 disappointed that the Irrigators used their testimony in
5 support of the Proposed Settlement as a vehicle to make a
6 detailed presentation of their position on several issues
7 which would have been the subject of contention if the parties
8 had not been able to reach the settlement. I am concerned
9 that the Irrigators' use of supporting testimony as a vehicle
10 to insert their side of contested positions into the record
11 may discourage future settlements of rate cases.

12 Q. Please explain why you are concerned about the
13 impact of the Irrigators' testimony on future settlement
14 negotiations.

15 A. If this case had not settled before Staff and
16 the intervenors filed their direct testimony, I am sure a
17 number of the parties to this proceeding would have presented
18 testimony refuting the testimony Mr. Yankel presented,
19 particularly in the area of the cost of serving the various
20 customer classes. All of the parties, in signing the
21 Stipulation, agreed that the settlement was a compromise of
22 conflicting positions, agreed that the settlement does not set
23 a precedent on particular issues, and each of the parties
24 essentially agreed to forego presenting its individual
25 positions on contested issues in order to achieve a settlement

1 that was fair, just and reasonable. A settlement like this
2 one is something like a "black box" in which it is the mutual
3 understanding of the parties that they are all agreeing to
4 forego the opportunity to advocate their individual positions
5 in order to achieve a fair, just and reasonable overall
6 settlement. Some portions of the Irrigators' testimony in
7 support of the settlement goes beyond that mutual
8 understanding and, in my opinion, those portions of the
9 testimony border on bad faith on the part of the Irrigators.

10 Q. How do you think the Commission should treat
11 the Irrigators' testimony in support of the Stipulation?

12 A. I hope the Commission will acknowledge those
13 portions of the testimony that support the reasonableness of
14 the settlement embodied in the Stipulation and ignore those
15 parts of the testimony that I believe are inappropriate for
16 inclusion in testimony filed to support a "black box"
17 settlement.

18 Q. Does this conclude your testimony?

19 A. Yes, it does.

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that on this 16th day of March, 2006, I served a true and correct copy of the within and foregoing TESTIMONY IN SUPPORT OF SETTLEMENT STIPULATION AND REBUTTAL TESTIMONY OF JOHN R. GALE upon the following named parties by the method indicated below, and addressed to the following:

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