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IDAHO 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) CASE NO. IPC-E-08-10
AND CHARGES FOR ELECTRIC SERVICE.)

IDAHO POWER COMPANY

DIRECT TESTIMONY

OF

J. LAMONT KEEN

1 Q. Please state your name and business address.

2 A. My name is J. LaMont Keen and my business
3 address is 1221 West Idaho Street, Boise, Idaho 83702.

4 Q. What is your position at Idaho Power Company
5 (the "Company")?

6 A. I am the President and Chief Executive
7 Officer of the Company.

8 Q. What is your educational background?

9 A. I graduated magna cum laude in 1974 from the
10 College of Idaho in Caldwell, receiving a Bachelor of
11 Business Administration degree in Accounting. In 1994, I
12 completed the Advanced Management Program at the Harvard
13 Graduate School of Business. I have also attended many
14 utility management-training programs, including the Stone &
15 Webster Utility Management Development Program, the
16 University of Idaho Public Utilities Executive's Course,
17 and the Edison Electric Institute Executive Leadership
18 Program.

19 Q. Please outline your business experience.

20 A. I have worked in the electric utility
21 industry at Idaho Power Company for over 34 years, the last
22 20 years as an officer of the Company. I joined the
23 Company in 1974 and advanced through several accounting,
24 analyst, and management positions. In July 1988, I was

1 promoted to Controller. In November 1991, I was appointed
2 Vice President of Finance and Chief Financial Officer and
3 served in that capacity until March of 1999 when I was also
4 given responsibility for all of the administrative areas of
5 the Company as Senior Vice President of Administration and
6 Chief Financial Officer. In March of 2002, I was appointed
7 President and Chief Operating Officer where I had
8 responsibility for the Company's operating units. In July
9 of 2004, I was elected to the Board of Directors of
10 IDACORP, Inc., and Idaho Power Company and on November 17,
11 2005, was appointed President and Chief Executive Officer
12 of Idaho Power Company. On July 1, 2006, I also became
13 President and Chief Executive Officer of IDACORP in
14 addition to my duties with Idaho Power Company. I am also
15 a Board Member of the Edison Electric Institute, a Board
16 Member and Chairman the Western Energy Institute, and a
17 Board Member and past Chairman of the Idaho Association of
18 Commerce and Industry.

19 Q. What are your duties as President and Chief
20 Executive Officer of Idaho Power Company?

21 A. I am responsible for policy and strategic
22 oversight of all utility operations, including power
23 supply, delivery, administration, finance, legal,
24 regulatory, and compliance activities.

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

3 A. My testimony will provide a general overview
4 of our operating and financial status. I will explain the
5 challenges faced by the Company due to insufficient
6 recovery of our costs. I will explain how these
7 challenges, left unaddressed, are not in the best interests
8 of our owners, our communities, or our customers. I will
9 speak to the importance of having a regulatory framework
10 providing opportunity for us to earn our allowed rate of
11 return. Finally, I will respond to any policy-related
12 questions the Commission may have.

13 Q. What are the challenges facing the Company?

14 A. Decisions about energy are some of the most
15 important choices facing our nation and our Company today.
16 Rising prices and costs, constrained capacity, and the
17 uncertain impacts of climate change legislation are
18 challenges facing utilities across the nation, and our
19 company is no different. Despite considerable investment
20 and expansion in recent years, much of our system today is
21 fully utilized. We continue to experience growth in demand
22 for electricity due to increased customer numbers and per-
23 capita usage. To provide safe, reliable service to all
24 customers we must make major investments in both new and

1 existing infrastructure. Worldwide demand for the
2 materials and services required to build needed
3 infrastructure has driven up prices dramatically over the
4 last several years. Climate change concerns require
5 selection of lower-emission but often more costly
6 generating resources. Also, we must operate under
7 increasingly stringent reliability standards.

8 Utilities across the nation and world face
9 constrained capacity and are looking to make significant
10 capital expenditures in infrastructure, increasing
11 competition for funding. The capital markets are
12 unsettled, driving up the cost and risk of being able to
13 finance required investments.

14 Idaho Power's credit quality as measured by the
15 national credit rating agencies declined over the last
16 several years, increasing our cost to access capital and
17 therefore the cost to our customers. Our stock price
18 languishes at the same level it was a decade or two ago
19 despite general rate cases, Power Cost Adjustments ("PCA"),
20 and other rate activities over the last several years.
21 Rates in effect today do not provide the rate of return
22 necessary to assure access to the capital markets under
23 reasonable terms to finance needed investments. Any delay
24 in or lack of recovery of prudent operating or financing

1 costs is seen as unnecessary risk by the financial
2 community, including the credit rating agencies, during
3 this time of plant expansion. These pressures combine to
4 present a formidable challenge to sustaining the financial
5 health, operational excellence, and ultimately the
6 independence of the Company.

7 Q. In a prior response you mentioned increasing
8 demand for electricity. How much is the demand for
9 electricity increasing?

10 A. In 2007, our average customer count
11 increased by 12,126, a 2.6 percent increase. We
12 experienced an increase in average annual usage by
13 residential customers during four of the last five years.
14 Peak demand levels also continue to increase. During the
15 summer of 2007, customer demand for electricity surpassed
16 the previous summer peak demand record five times. A new
17 record peak of 3,193 megawatts was set on July 13.

18 Q. What actions is the Company taking to
19 address these trends?

20 A. Our legal obligation to serve and sense of
21 responsibility to our customers provide no other options to
22 serving these increasing demand levels. We are addressing
23 them on both the supply-side and demand-side of the
24 equation. In addition to expanding our production and

1 delivery systems, we are aggressively promoting demand-side
2 management programs and services. These energy efficiency
3 efforts serve to slow the pace of growth in a cost-
4 effective manner by delaying the need for additional
5 generating resources. Additionally, these efforts educate
6 our customers on wise, responsible use of our precious
7 resource.

8 Q. What kind of progress has the Company made
9 in these areas?

10 A. From 2005 through 2007, exclusive of
11 depreciation, our electric plant investment increased
12 \$578.2 million. This included capacity expansions and new
13 construction at 13 substation sites, addition of 1,157
14 pole-miles of distribution line, and capacity expansion or
15 new construction affecting 190 pole-miles of transmission
16 line. During the same three-year period, our contractual
17 obligations to purchase power from others has grown from
18 \$876 million to \$2.05 billion. Today our generation
19 system's nameplate capacity is 3,267 megawatts compared to
20 3,087 megawatts at the start of 2005.

21 From 2004 through 2007, we more than quadrupled the
22 annual energy savings realized through our demand-side
23 management efforts.

1 Q. Are these actions alone sufficient to ensure
2 a reliable and safe supply of electricity for your
3 customers?

4 A. No. The need to expand infrastructure and
5 obtain new energy supplies continues to grow. Our recently
6 filed update of our Commission-accepted Integrated Resource
7 Plan, or "IRP", forecasts the addition of between 12,500
8 and 13,000 new customers per year over the 20-year planning
9 period. Energy demand is forecast to grow about 30 average
10 megawatts per year with a 70 megawatt-per-year increase in
11 peak demand levels -- a growth rate that would be greater
12 if not for our demand-side management efforts during the
13 period. These trends will require continuing expansion of
14 generation and delivery systems and energy efficiency
15 programs. The IRP details our need to add 650 megawatts of
16 supply-side capacity and 225 megawatts of transmission
17 capacity from 2008 through 2012. During the 20-year
18 planning period, we also have targeted 123 average annual
19 megawatts of energy efficiency program savings and 82
20 megawatts of peak demand reductions from demand response
21 programs.

22 Q. What is required of the Company to be
23 successful with these projects?

1 A. Infrastructure expansion or improvement
2 projects must proceed through the traditional phases of
3 design, permitting, and construction. Depending on the
4 project, either our engineering and construction crews will
5 build the necessary components of the system or we will
6 work directly with third-party developers and contractors
7 chosen through a competitive bidding process. Permitting
8 and siting processes for many of the projects are extensive
9 and expensive. This is especially true of our planned 500-
10 kilovolt ("kV") transmission project. Upcoming expansion
11 and improvement of our infrastructure will require some of
12 the largest capital expenditure levels in Company history.
13 This era already has begun. In 2008, we added a \$65
14 million, 170-megawatt natural gas-fired peaking plant at
15 the Evander Andrews complex near Mountain Home. This is
16 only one piece of the \$900 million investment in plant
17 required from 2008 through 2010, not including costs
18 associated with the 500-kV transmission projects or the new
19 baseload resource.

20 Q. How would you describe the environment that
21 Idaho Power encounters when seeking financing for capital
22 projects?

23 A. Today's capital financing environment is
24 very challenging. The international credit crisis has

1 driven up borrowing costs. The supply of available capital
2 has tightened and lenders expect higher returns in what is
3 perceived as a riskier lending environment. This is
4 certainly true for the capital-intensive electric utility
5 industry that is now seen as riskier than it had been
6 historically. Credit ratings have declined across the
7 industry, our Company included. The resulting higher
8 capitalization costs are compounded by dramatic increases
9 in the prices for such construction materials as metals and
10 concrete and higher equipment costs due to industry-wide
11 demand for combined cycle combustion turbines. Our
12 objective is to strike a balance between borrowing and
13 issuing equity. The heightened risk profile for the
14 utility industry has created a more competitive equity
15 market as investors expect greater returns than utilities
16 traditionally have offered. In short, it is harder for
17 utilities to attract investment and what is available has
18 become more costly.

19 Q. Is Idaho Power's return on investment
20 sufficient to attract the needed investment?

21 A. We retain the ability to attract capital,
22 but our credit quality has declined and it has become
23 increasingly expensive because we are not earning to our
24 potential. As shown in Exhibit No. 1, entitled *Idaho Power*

1 *Return on Equity*, the Company failed to earn its authorized
2 rate of return over each of the last five years. This
3 contributed to five negative actions by credit rating
4 agency Standard & Poore's since 2000 and three negative
5 actions by Moody's during the same period as shown by
6 Exhibit No. 2, entitled *Idaho Power Credit Rating History*.
7 This has increased our costs of borrowing, adding to the
8 cost pressures created by low stream flows and accompanying
9 higher-than-normal power supply costs.

10 As a result, our cumulative total return over the
11 past four years lagged behind those of the Edison Electric
12 Institute Electric Utilities Index and our stock price
13 declined, driving down the value of our equity.

14 Q. Why is that a concern?

15 A. When a company's market value is only
16 slightly above or even lower than its book value, more
17 shares must be issued to raise needed capital and that
18 company becomes a more attractive acquisition target. This
19 occurs because under such circumstances, the premium above
20 book value an acquirer must pay is reduced.

21 I strongly believe a locally managed Idaho Power is
22 in the best interest of our customers, our communities, our
23 employees, our shareholders, and the State of Idaho.

1 Q. What is Idaho Power doing to improve its
2 rate of return in light of rising costs?

3 A. We must operate and maintain our system to
4 provide reliable and safe service to existing customers and
5 expand our power supply and delivery systems to meet
6 growing demand. Holding back on system expansion and
7 infrastructure and operations and maintenance improvements
8 is not an acceptable option. We pursue a balanced approach
9 to meeting customers' needs. This approach includes
10 aggressive promotion of energy efficiency programs and
11 services, preservation of the efficiency of our existing
12 generating resources, expanding the use of renewable energy
13 sources, responsible development of conventional resources,
14 and strategic expansion of our transmission system to
15 increase capacity and optimize access to regional
16 resources. We refer to this as our Resource Cornerstones
17 strategy.

18 Q. Will your Resource Cornerstones strategy
19 enable the Company to earn its authorized rate of return?

20 A. No. Although the net benefit of our
21 strategy diminishes demand for capital, major investment
22 still is required to execute this strategy. To lower the
23 cost of financing this investment, it's necessary to
24 increase general rates to a level that enables us to earn

1 our allowed rate of return in a fair and timely manner.
2 This strengthens our financial position resulting in a
3 stronger stock price and improving our ability to finance
4 capital investment through the equity markets.
5 Additionally, our debt financing costs will decrease should
6 this rate action result in improved credit ratings. The
7 Company and our customers can ill afford to have our credit
8 ratings drop any lower. We must maintain assured access to
9 the debt capital markets.

10 Q. Do you feel a general rate increase will
11 address all of the Company's cost-recovery concerns?

12 A. Not by itself. We are taking several
13 actions in addition to our proposal for a general rate
14 increase. We eagerly anticipate the PCA-related workshops
15 as an opportunity to make improvements in our primary power
16 supply cost recovery mechanism. The Company also is
17 seeking updates to charges for new customer connections so
18 they better reflect costs. We are seeking changes to
19 pricing of service for new customers with load requirements
20 greater than 25 megawatts. And we continue to support the
21 use of a forecast test year in general rate case
22 proceedings to mitigate the financial pressures caused by
23 regulatory lag.

1 Q. Are there other actions being taken by Idaho
2 Power?

3 A. Yes. We have reviewed our budgets and have
4 taken action to responsibly reduce our operations and
5 maintenance expenses. We continuously pursue efficiencies
6 in our operations.

7 Q. Can you quantify the benefits?

8 A. Yes. We expect them to be \$3.8 million in
9 2008. In her testimony, Ms. Smith provides greater detail
10 about these benefits, why they are only temporary, and how
11 they are reflected in our case filing.

12 Q. Can you summarize why this rate increase is
13 important to Idaho Power?

14 A. This increase in rates is important for our
15 Company to achieve fair and timely recovery of our
16 investment in our electrical system, which today's rates do
17 not fully provide. Growing demand for electricity is
18 driving the need to invest large amounts of capital to
19 expand and improve electricity supply and reliability.
20 This increases our need to access both the debt and equity
21 markets to fund large amounts of capital investment in our
22 system. This is occurring when financing costs and the
23 costs of materials and supplies are increasing. In this
24 environment, timely and fair recovery of our investment is

1 critically important to helping us reduce these financing
2 costs. A low cost of capital ultimately has a beneficial
3 impact on customers' rates. By providing for fair and
4 timely recovery of our Company's investment the systems and
5 activities that serve our customers, this rate increase is
6 in the best interests of our Company, our shareholders, and
7 the people and communities we serve.

8 Q. Does this conclude your testimony?

9 A. Yes.