RECEIVED

2008 JUN 27 AM 11:36

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

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 ("Idaho Power" or "Company") as Vice President of Corporate Planning 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. In 2008, I completed a two-part course in Decision Analysis and Decision Quality in Organizations at the Stanford Center for Professional Development. 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 assumed the position of Director of Strategic Analysis. In 2003, I was named Director of Strategic Analysis and Risk Management. In 2004, I was promoted to the position of Vice President of Finance and Chief Risk Officer. In 2008, I assumed my current position as Vice President of Corporate Planning and Chief Risk Officer.

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

A. My responsibilities include the oversight of corporate development, strategic planning, and risk management processes for Idaho Power Company. Corporate development includes acquisitions, divestitures, and joint-ventures. Strategic planning includes development of analyses, strategies, and operating plans. Risk management includes activities related to managing market, credit, and operational risk exposure from an enterprise perspective.

I am tasked with ensuring the best use of Idaho Power's resources by defining and planning the Company's strategic and long-range goals. I am also responsible for the analysis of the financial impacts of regulatory strategy to ensure successful implementation and provide meaningful insight into strategic alignment, offer return-enhancing decision support, and identify opportunities for revenue growth. I direct the development of operational forecasts and analysis both long- and short-term. In addition, I am the corporate board representative for Ida-West Energy and IDACORP Financial Services. I have subsidiary leadership responsibilities that include setting goals and defining investment criteria and performance requirements. I direct the activities related to the organization's market risk and credit exposure to protect against adverse movements in net power supply costs. Finally, I am responsible for designing, developing, and implementing an Enterprise Risk Management process for IDACORP, Inc., and Idaho Power Company.

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

A. The purpose of my testimony is three-fold. First, I will present the Company's historical actual audited financial information for the twelve-month period ended December 31, 2007. My testimony also identifies certain adjustments to operating expenses and rate base that result in an adjusted historical actual twelve-month period ended December 2007. Second, my testimony will present the methodologies used to adjust historical 2007 financial data to test year 2008 levels. Third, I will present the traditional and other ratemaking adjustments also used in the development of the Company's proposed 2008 test year. The adjusted historical actual twelve-month period ended December 31, 2007, was the basis by which the Company's proposed 2008 test year was developed and is discussed in the latter part of my testimony.

Q. Please describe the types of adjustments you have made to the 2007 actual data.

A. The adjustments to 2007 actual data to arrive at the 2007 adjusted actual data are what I describe as standard regulatory adjustments. These adjustments included removing structures and certain properties within Plant Held for Future Use for which the use is uncertain (e.g., subject to being split or possibly removed prior to the utilization of the property) as well as removal of other expenses as previously directed by the Commission. These Commission-directed adjustments include the removal of general advertising expenses, specific memberships and contributions, certain management expenses, and other exclusions that, although justified, may appear inappropriate for regulatory recovery. Also removed is the unamortized portion of the Electric Plant Amortization Adjustment associated with the Prairie Power Rural Electric Cooperative purchase, plant deemed not used and useful at Bridger Coal, the operating portion of Financial Accounting

Standard 87 Pension expense, the financial impacts of the Energy Efficiency Rider revenues and expenses, and, finally, the removal of specific intervenor funding amortization that was included in the 2007 test year for recovery.

Q. Please describe the methods you developed to further adjust 2007 data to 2008 test year levels.

A. There are three primary methods that were developed and applied to adjust 2007 financial data to test year 2008 levels: compound growth rates, known and measurable adjustments, and annualizing adjustments.

Q. Please describe how compound growth rates were applied.

A. Where appropriate, methodologies to address growth were applied to the 2007 adjusted actuals. Compound growth rates were either three- or five-year compounded annual growth rates and were applied to investments less than $2 million and certain O&M expenses and annualizing. Known and measurable adjustments were made for scheduled investments of greater than $2 million. Annualizing adjustments are those adjustments that are made to certain expense and rate base items to reflect them as though they have been in existence for the entire year, or at year-end levels. These include year-end payroll, incentive pay, the

2009 salary structure adjustment, depreciation expense and reserve, plant placed in service during 2008 in excess of $2 million with the associated property taxes and insurance, and the Company-directed spending containment.

Q. Will you be supporting any of the normalizing adjustments to the 2008 forecasted 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.

HISTORICAL 2007 TEST YEAR DATA WITH ADJUSTMENTS

Q. What are the components of the historical actual financial information that you are sponsoring?

A. In referring to these components in my testimony, I will use the account names from the Commission-approved Uniform System of Accounts ("USA"). The components include the following items: (1) other operating revenues, (2) other revenues and expenses, (3) operation and maintenance expenses, (4) property insurance expenses, (5) regulatory commission expenses, (6) depreciation and amortization expenses, (7) amortizations, adjustments, gains, and losses, (8) regulatory debits, (9) taxes other than income taxes, (10) Idaho Energy Resources Company ("IERCo") Statement of Income and Rate Base Components, (11) electric plant in service and related items, (12) materials and supplies, (13) deferred conservation programs, (14) other deferred programs, (15) plant held for future use, (16) deferred income taxes, (17) customer advances for construction, and (18) certain deductions from operating and maintenance expenses.

Q. Are you sponsoring exhibits in this proceeding?

A. Yes. I am sponsoring Exhibits No. 29 through 34. The work papers supporting my testimony and exhibits have also been included with the Company's general rate case filing.

Q. Would you please describe Exhibit No. 29?

A. Exhibit No. 29 is a compilation of the Company's supporting schedules for the adjusted historical actual data for the twelve-month period ended December 2007. Page 1 of Exhibit No. 29 reflects the detail for Other Operating Revenues - Accounts 451, 454, and 456. Page 2 reflects the detail of Other Revenues - Account 415 and Expenses 416. Pages 3 through 6 reflect the Operations and Maintenance Expenses ("O&M") by USA account.

Q. Please describe the adjustment you have made to operations and maintenance expense on Exhibit No. 29, page 6, lines 16 and 20.

A. Account 926 - Employee Pension and Benefits on line 20 is where FAS 87 Pension expense is recorded. It is then offset in Account 922 - Administrative Expenses Transferred-Credit on line 16 and then spread among all accounts in which labor is charged. The temporary effect of this adjustment is to remove FAS 87 Pension expense from these accounts so that when escalated for 2008 the FAS 87 Pension expenses are not escalated as well. The net effect of this adjustment results in a zero impact to the revenue requirement. I discuss the complete removal of the FAS 87 Pension expense, in accordance with Commission Order No. 29505, included in operations and maintenance expenses later in my testimony.

Q. Would you please describe pages 7 through 13 of Exhibit No. 29?

A. Page 7 of Exhibit No. 29 reflects the detail of Property Insurance Expense - Account 924. Page 8 shows the detail of Regulatory Commission Expenses - Account 928. Pages 9 and 10 include Depreciation and Amortization Expense by plant account. Page 11 of Exhibit No. 29 presents the Prairie Power acquisition amortization adjustment. Page 12 reflects Regulatory Debits - Account 407.3 for Professional Fees amortization that was created by Order No. 29505. Page 13 shows the detail of Taxes

Other Than Income Taxes.

Q. Please explain the adjustments you have made to page 13 of Exhibit No. 29, Taxes Other Than Income, to arrive at the adjusted 2007 actuals.

A. The sum of lines 1, 2, and 20 on page 13, column 1, of Exhibit No. 29 for Federal Unemployment, Social Security, and State Unemployment taxes respectively are eliminated by line 23, column 1, the State and Federal payroll loading. The payroll loading effectively removes these amounts from Taxes Other Than Income and spreads them over all accounts that receive labor charges. Therefore, the adjustment on page 13, column 2, lines 1, 2, 20, and 23 eliminates these expenses in their entirety from this schedule as they have no impact to the revenue requirement.

Q. Would you please describe page 14 of Exhibit No. 29?

A. Page 14 of Exhibit No. 29 develops the net earnings from IERCo that are added to the booked operating income for rate making purposes.

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

A. The primary purpose of IERCo is to mine the coal that fuels 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, the interest expense (line 13, page 14 of Exhibit No. 29) on notes payable to Idaho Power Company has been added back to IERCo's Net Income from Operations. Additionally, the notes payable (column 3, line 14, page 24 of Exhibit No. 29) to Idaho Power Company have been added to IERCo's rate base in determining the Company's net investment in IERCo to be included in total system rate base.

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

A. These adjustments were made to increase IERCo's rate base for notes payable to Idaho Power in the amount of $14,794,368 and the associated interest expense adjustment net of income tax of $545,915 to allow IERCo's rate base and earnings to reflect only the cash required to fund IERCo operations for the year 2007. 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 24 of Exhibit No. 29?

A. Pages 15 through 24 of Exhibit No. 29 reflect the development of all the components applicable to the combined system rate base of the Company for the year 2007. 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 of Exhibit No. 29 reflect the balance of the Company's Conservation and Other Deferred Programs. For these programs the Company includes the December 31, 2007, ending balance in rate base consistent with prior orders of this Commission. Page 21 reflects the year-end balance of Plant Held for Future Use - Account 105.

Q. Would you please describe in more detail Other Deferred Programs on Page 20 of Exhibit No. 29?

A. Yes. Previous Commission-approved programs included on page 20 of Exhibit No. 29 are the American

Falls Bond Refinancing costs, the 2003 Incremental Security Costs and Intervenor Funding costs that resulted from the following Idaho cases: (1) the 2005 general rate case (IPC-E-05-28), (2) the load growth adjustment case (IPC-E-06-08), and (3) the fixed cost adjustment case (IPC-E-04-15). The American Falls Bond Refinancing is being amortized over the life of the American Falls bond and will be fully amortized in 2025. The 2003 Incremental Security Costs that were incurred as a result of concerns relating to the September 11, 2001, attacks are being amortized over 5 years and will be fully amortized in 2008. The Intervenor Funding cost is being amortized over one year and will be fully amortized in 2009.

Also, included on this exhibit are Oregon's and the FERC's jurisdictional portion of unrecovered costs of the Grid West Loans.

Q. Could you also describe in more detail Plant Held for Future Use - Account 105 on page 21 of Exhibit No. 29?

A. Yes. As it did in its 2007 general rate case (IPC-E-07-08), the Company has included Plant Held for Future Use as part of its 2007 actual costs. Idaho Code Section 61-502A allows the Commission to set rates for utilities that include a rate of return on property held for future use if the Commission makes an explicit finding that such a return is in the public interest. In preparing this case, the Company performed a review and identified those parcels of land included in Account 105, Plant Held for Future Use, that are anticipated to be used in their entirety for operating property in the future. As a result of this review, $1,642,753 in this account has been moved to rate base and the 2007 year-end balance of $3,365,527 has been reduced by $1,642,753 in column 2, line 33 to arrive at an adjusted year-end balance of $1,722,774.

Q. Why is the acquisition of these properties in the public's interest?

A. Purchasing land for substations and other facilities prior to the time the facilities are constructed benefits the Company and ultimately the customer. With the increased growth in Idaho Power's service territory, it has become increasingly difficult and expensive to compete with developers to acquire strategically located properties. In addition to the financial benefits, early acquisition of these properties reduces opposition and assists local planners by identifying where Idaho Power's infrastructure will be located.

Q. Would you please describe the remaining pages in Exhibit No. 29?

A. Page 22 of Exhibit No. 29 reflects the balance at the beginning and end of 2007 and the average balance for Accumulated Deferred Income Taxes - Accounts 190, 282, and 283. Page 23 reflects the balance by month and the thirteen-month average balance of Customer Advances for Construction - Account 252. Page 24 reflects the balance by month and thirteen-month average of the rate base components for IERCo consistent with prior Commission orders.

Q. Would you please describe Exhibit No. 30?

A. Exhibit No. 30 reflects the detailed support of deductions from the O&M expense of the Company for general advertising expenses, certain memberships and contributions, senior management expenses, and miscellaneous other expenses. These adjustments have been made by the Company consistent with prior orders of the Commission and are responsive to concerns raised during the 2003 general rate case, Case No. IPC-E-03-13.

Q. Would you please describe in more detail pages 2 through 9 of Exhibit No. 30?

A. In light of some of the concerns expressed in the 2003 rate case, the Company has put processes in place to review and screen its accounting records to identify memberships and contributions in an effort to properly identify, account for, and share the costs of each. All contributions and one-third to one hundred percent of certain memberships have been removed. This screening process is consistent with Idaho Power's last two general rate case filings. Additionally, senior management expenses have been reviewed and adjusted by (1) removing one hundred percent of charges to the Arid Club and Oregon jurisdiction direct charges, (2) removing one-third of Edison Electric Institute ("EEI") expenses, and (3) allocating the balance of expense account charges of senior management between Idaho Power and IDACORP on the basis of how their payroll is charged. Seven officers had no further allocation based on payroll as their expenses are reviewed monthly for proper allocation between IDACORP and Idaho Power, thus not requiring further allocation. Lastly, the Company has reviewed all expense account charges to O&M in an effort to identify and exclude charges from regulatory recovery based on prior concerns expressed in other filings based solely on the name of the business establishment. While many of these expense account charges are legitimate business expenses, out of an abundance of caution, they were removed. These reductions are consistent with the Commission Order No. 29505 in Case No. IPC-03-13.

Q. Would you please describe Exhibit No. 32?

A. Exhibit No. 32, lines 1 through 3 reflect the unamortized portion of the Electric Plant Acquisition Adjustment associated with the Prairie Power Rural Electric Cooperative purchase in July 1992.

Line 4 of Exhibit No. 32 reflects a decrease to Investment in Associated Companies (IERCo) - Account 123, for a portion of plant deemed not used and useful at the Bridger Coal per Commission Order No. 29505.

Lines 5 through 9 of Exhibit 32 reflect FAS 87 Pension Expense to be removed from Administrative Expenses Transferred-Credit - Account 922, which removal is consistent with Commission Order No. 29505.

Lines 10 and 11 of Exhibit No. 32 remove the income statement impact of the Energy Efficiency Rider (formerly DSM Rider) accounting effecting Other Electric Revenues – Account 456 and Customer Assistance Expenses Account 908 in accordance with Commission Order No. 30189.

Lines 12 through 14 of Exhibit 32 record the decrease of amortization expense included in Regulatory Commission Expenses – Account 928, for amounts included in the 2007 test year that resulted from Commission Order Nos. 30035, 30215, and 30267.

Lines 15 and 16 of Exhibit No. 32 are adjustments to the 2008 test year and are discussed later in my testimony.

Q. Would you please describe in more detail the adjustment to Exhibit No. 32 related to pension expense removal?

A. Yes. Exhibit No. 32, line 5 shows $4,238,191 total FAS 87 Net Periodic Pension Cost that the Company reported in the Company's financial statements prior to receiving Commission Order No. 30333 allowing for the deferral of this cost as a regulatory asset. The operating expense percentage of 64.89 percent is then applied to the total FAS 87 cost less the premium expense to arrive at the operating expense portion of $2,683,699 on line 9 of Exhibit No. 32 to be removed from this case. In accordance with Generally Accepted Accounting Principles ("GAAP"), the Company capitalized the remaining period cost of $1,452,068 related to pension.

2008 TEST YEAR METHODOLOGIES

Q. In your above testimony, you describe the various adjustments that were made to the 2007 historical actuals to arrive at the 2007 adjusted actuals. Do these same adjustments need to be made in 2008?

A. No. These adjustments are standard rate making adjustments based on prior Commission orders and are adjustments to charges included in the 2007 actuals. By removing them from 2007 actuals prior to applying the various methodologies to arrive at the Company's proposed 2008 test year data, the same adjustments are already accounted for.

Q. Do you have an exhibit that identifies the methodologies that were applied to actual adjusted historical 2007 results to arrive at the proposed test year 2008 levels?

A. Yes. Exhibit No. 33, pages 1 through 2, provides the actual methodologies and multipliers to the 2007 adjusted actual historical data discussed above.

Q. Have the data and the associated adjustments made to your exhibits and supporting schedules been calculated on a total system basis?

A. Yes.

Q. How was the 2008 test year selected for this proceeding?

A. In order to meet the legal requirement that rates be fair, just, reasonable, and sufficient, the Commission must establish a test year that most closely reflects the investment and expense levels that will exist at the time new rates are implemented. At this time, the Company believes that a 2008 test year best satisfies that requirement. In response to the concerns Staff expressed regarding the Company's filing of a forecasted 2007 general rate case in Case No. IPC-E-07-08 and their desire that the Company provide auditable data as the starting point for the forecasted test year, the Company explored multiple alternatives to establish methodologies to adjust auditable historic data to establish the 2008 test year that would be representative of the Company's anticipated levels of spending. As discussed in the March 12, 2008, future test year workshop, the consensus objective is the development of a test year that provides a normalized level of rate base and expenses to establish just and reasonable rates and timely rate relief. The Company's expectation is that Staff will be able to review and audit the 2007 adjusted historical actual expenditures as the basis upon which to evaluate the 2008 test year presented by the Company.

Q. What methodologies did the Company consider as appropriate candidates for developing the 2008 test year?

A. The Company considered using 2007 actuals, averaging, trending, and indexing. Ultimately, the Company determined that for auditing purposes, trending based on 2007 actual data would provide Staff with a smoother transition to the 2008 test year. The Company, in accordance with Staff's request, minimized the number of methodologies while still maintaining the validity of the data used to develop the 2008 test year.

Q. Have you provided a detailed description of the methodologies and multipliers used to adjust 2007 financial data to the 2008 test year?

A. Yes. Each methodology is included in the detailed Methodology Manual with a summary of the multipliers my department provided to Pricing and Regulatory Services (Exhibit No. 34). The methodologies are applied to the 2007 adjusted actual results included in the cost of service modeling with the exception of the methodologies applied to rate base and rate base-related items.

Q. Did you use 2007 actuals as a methodology to apply to the financial inputs?

A. Yes. The Company reviewed the individual accounts included in revenue, expense, and rate base to determine the appropriate level of spending and revenues that are anticipated for 2008 and, where appropriate, used 2007 actuals for the 2008 test year instead of a trending multiplier. The accounts and descriptions for which 2007 adjusted historical actuals were used include: (1) Account 454 - Transformer and Distribution Rentals, (2) Account 456

- Antelope Facilities Charges, (3) Account 415 - Hydro Services Revenues, Water Management Services Revenues and Joint Use Revenues for both Idaho and Oregon, (4) Account 416 - Hydro Services Expenses, Water Management Services Expenses and Joint Use Expenses for both Idaho and Oregon, (5) Account 565 - Transmission of Electricity by Others, (6) Account 924 - Property Insurance Expense, (7) Account 406 - Amortization of Electric Plant Acquisition Adjustment for Prairie Power, (8) Account 408.1-Shoshone-Bannock Licenses, (9) Account 182304 - FERC Grid West Expense, and (10) Account 105 - Plant Held for Future Use (except for the expected acquisition of the Lakeshore substation property included as a Known and Measurable Adjustment to the 2008 test year).

Q. Was the Methodology Manual reviewed by Idaho Power's management?

A. Yes. The Methodology Manual has been reviewed and approved by senior managers of Idaho Power from Pricing and Regulatory Services, Finance, Power Supply, Delivery, Administrative Support business units, and the Corporate Planning Department.

Q. Is the rationale for determining the various growth rates included in the Methodology Manual?

A. Yes.

Q. Please summarize the methodologies included in Exhibit No. 33.

A. The methodologies applied to the various accounts are listed in column 2 of Exhibit No. 33. Each of the methodologies is described in more detail within the Methodology Manual. To develop the Method Manual, the Company performed a review of each group of accounts included within the test year and based upon specific knowledge and analysis of that account grouping, either used 2007 actuals or applied another methodology to that account that represents the most appropriate level of anticipated spending.

Besides 2007 actuals, other methodologies include application of the three- or five-year compounded annual growth rate, which is the average growth rate over the number of years that represents a steady level of growth from the beginning period to the ending period and smoothes out uneven amounts within these years.

Another methodology listed in the Manual is described as Known and Measurable. Known and Measurables are those in which specific knowledge of that account requires application of that knowledge to estimate the 2008 spending level. An example of Known and Measurables is Account 454 - Substation Equipment for which the Company has specific facilities agreements that specify the revenues to be received from customers.

Finally, normalization was used for all power supply cost accounts. Power supply normalization is discussed in detail in Mr. Said's testimony.

Q. Please provide an overview of the methodologies included in the Methodology Manual (Exhibit No. 34).

A. I will start with test year revenues. The test year data reflects 2008 Other Operating Revenues (Accts. 451, 454 & 456). With the exception of revenues from substation equipment rents, transformer and distribution rentals, station and line rentals, network services and other Long Term Firm ("LTF"), point-to-point transmission, and Antelope Substation revenues, all operating revenues were updated using a three-year compounded annual growth rate.

The 2008 Other Operation and Maintenance expense was based on a five-year compounded annual growth rate methodology which excluded pension expense, third party transmission, Energy Efficiency Rider, and compensation at-risk incentives in its determination. Account 565 - Transmission of Electricity by Others and Account 924 - Property Insurance used 2007 actuals. Account 908 - Energy

Efficiency Rider was removed in its entirety from the test year.

Q. Is the five-year compounded growth rate appropriate?

A. Yes. The five-year compounded growth rate is the most appropriate method to estimate the Company 2008 test year operations and maintenance expense based on continued growth in its service territory and the resulting financial needs balanced with the forecasting objectives identified by the Company, IPUC Staff, and Intervenors in the forecast test year workshop held on March 12, 2008.

Q. What is the average five-year compounded growth rate that the Company applied to determine 2008 test year O&M expenses?

A. The average rate applied is 5.82 percent.

Q. Can the use of a 5.82 percent compounded annual growth rate be supported by comparison to other growth measuring factors?

A. Yes. For example, the Consumer Price Index ("CPI") and the Company's customer growth over the last five years have grown at the combined rate of 6.27 percent. This combined 6.72 percent growth rate covers the same expenses as the average of all functional five-year compound growth rates applied to the FERC operations and maintenance accounts, which is the source of the 5.82 percent growth rate the Company used.

Q. Please describe more fully how the Company determined the 5.82 percent growth rate.

A. The Company's other operations and maintenance in 2003, excluding pension, incentive, Energy Efficiency Rider, and third party transmission expense was $208.8 million dollars compared to the 2007 amount of $261.9 million dollars. Therefore, the compounded annual five-year growth in these expenses is 5.82 percent.

Q. How did you compute the 6.27 percent amount?

A. For a similar time frame, between 2003 and 2007, and indexed to a base 2003 starting point, the combined growth of new customers and CPI is 6.27 percent.

Q. Is the use of the 5.82 percent growth rate reasonable?

A. The Company's increase in operation and maintenance expenses has been slower than the 6.27 percent combined rate of increase for new customer growth and the CPI. In my opinion, using the 5.82 percent compound annual growth rate, on average, to adjust the operating expenses, where applicable for 2007, is a reasonable multiplier to include in the 2008 test year other operations and maintenance expense and provides for just and reasonable rate relief in 2009.

Q. Please explain any other methods used to escalate other expense items.

A. The 2008 depreciation, amortization expense, and reserve were calculated on the monthly estimated plant balances based on the rates authorized by Order No. 29363 for the months of January through July 2008 calculation. For the August through December 2008 time period, the proposed depreciation rates from the currently filed depreciation case (IPC-E-08-06) were used.

The 2008 construction expenditures("Construction") were bifurcated into two separate and distinct parts, those projects in excess of $2 million and those under $2 million. This separation is explained more fully in the Methodology Manual (Exhibit No. 34). The projects in excess of $2 million were reviewed by the individual project managers who, based on actual expenditures for each project through February 2008, estimated the costs to complete and the in-service date of each project. After analyzing the under $2 million projects (excluding vehicles) closing to Electric Plant in Service as a group, it was determined that a five-year compounded annual growth rate be applied to closings under $2 million dollars.

Taxes Other Than Income were based on a three-year compounded annual growth rate with the exception of Real and Personal Property taxes, Shoshone Bannock licenses, Idaho regulatory commission fees, and Kilowatt Hour Taxes.

Finally, Materials and Supplies were based on a three-year compounded annual growth rate. All other 2008 test year amounts were either 2007 actuals, or calculated using a methodology based on specific knowledge of that account. These exceptions are discussed in more detail in the Methodology Manual (Exhibit No. 34).

Q. Please summarize how the 2008 test year methodologies were applied to the 2007 historical actual adjusted data.

A. The forecast process began with calendar year 2007 historical actuals. Adjustments were then made to expenses incurred in 2007 to arrive at an adjusted 2007 actual. These adjusted 2007 actuals were the basis upon which the methodologies (2007 actual, or three- and five-year growth rates, or known and measurable adjustments) were applied. Annualizing, intervenor funding and spending containment adjustments were made for all non-normalized components for the test year 2008.

ANNUALIZING AND OTHER ADJUSTMENTS TO THE 2008 TEST YEAR

Q. Please summarize the annualizing and other regulatory adjustments made to the 2008 test year.

A. The traditional regulatory adjustments the Company has made for the 2008 test year are included on Exhibit No. 31, pages 1 through 5, which I am also sponsoring. This exhibit details the support to the 2008 annualizing adjustments. These adjustments reflect changes to certain expense and rate base items to treat them as though they have been in existence for a full year or to year-end 2008 levels, whichever is applicable. These include the operating expense adjustments for: (1) a payroll annualizing increase of $2,593,733, (2) an incentive decrease of $3,838,832 to remove incentive above the normalized incentive target rate, (3) a 2009 salary structure adjustment increase of $3,019,804 on Exhibit No. 31, pages 1 and 2, (4) the annualized accumulated reserve adjustment of $227,404 and depreciation expense adjustment of $471,026 on Exhibit No. 31, page 3, and (5) the 2008 major plant addition annualizing adjustment of $91,267,282 with the associated property tax adjustment of $337,000 and insurance expense of $38,971 on Exhibit No. 31, pages 4 and 5.

Q. Have you made any other adjustments to the 2008 test year?

A. Yes. In addition to the annualizing adjustments, the Company has made adjustments to Regulatory Commission Expenses - Account 928 (Exhibit No. 32, lines 15 and 16) for the amortization of intervenor funding amounts that had been previously deferred as a regulatory asset as instructed by the Commission Order Nos. 30488 and 30508. These orders directed the Company to defer treatment until a future ratemaking procedure. The Company in the 2008 test year has assumed a one year amortization period.

Q. Please describe the purpose of the Known Spending Containment adjustment on page 6 of Exhibit No. 31.

A. The negative impact of seven out of eight years of below normal stream flows has continued to deteriorate the financial position of the Company, as evidenced by recent rating agency actions by Moody's and Fitch Rating Agencies on June 3, 2008, and March 24, 2008, respectively, more fully described in the testimony of Mr. Steven Keen.

To respond to this situation the Company has directed its senior management to find areas of spending that can be deferred or eliminated. This spending containment directive has identified an estimated reduction to Other Operations and Maintenance of $3,834,000 which is identified in my Exhibit No. 31, page 6. These budget reductions are in the deferral of hiring new positions throughout the Company for 2008 and the deferral of certain maintenance projects. Such deferral is not expected to degrade service or reliability in the near term. The reduction in other operations and maintenance expenses is the most controllable expense reduction that can be quickly implemented to offset the decline in earnings for 2008.

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

A. Yes, it does.