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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 REBUTTAL TESTIMONY

OF

JOHN R. GALE

Q. Please state your name and whom you are representing.

A. My name is John R. Gale, commonly addressed as Ric Gale, testifying on behalf of Idaho Power Company ("Idaho Power" or "the Company").

Q. Are you the same Ric Gale that presented direct testimony before the Idaho Public Utilities Commission ("the Commission") in this docket?

A. Yes.

Q. What was your role in developing the Company's rebuttal testimony in this case?

A. My role in the development of the Company's rebuttal testimony was to oversee, manage, and coordinate the Company's rebuttal.

Q. Have you read the direct testimony submitted by the Idaho Public Utilities Commission Staff and other Intervenors in this case?

A. Yes, I have. As a result of that review, there are five major issues that I wish to respond to: (1) the proper test year to be used in this proceeding, (2) the proposed labor expense disallowances to the cost of service determination, (3) the inclusion of Construction Work in Progress ("CWIP") as a policy matter in the Company's revenue requirement, (4) Staff's proposal regarding an energy efficiency prudency review, and (5) the Company's position on energy affordability as it relates to this proceeding.

THE TEST YEAR

Q. Staff Witness Randy Lobb's testimony references Idaho Power "continually" changing test year methodology, which he attributes to the Company's effort to reduce the impact of regulatory lag. Is this conclusion correct?

A. I take a small exception to the "continually" changing label, but understand why it was used. While methods have changed starting with the 2003 test year, they have changed purposefully and with the intent to make a transition from historical to forward test year at a pace that was acceptable to the Commission and our customers. The assertion that the Company's focus on a more current test year to reduce regulatory lag is correct. I have testified a number of times, including my direct testimony in this case, as to why this is important.

Q. Please define your use of the term regulatory lag.

A. I define regulatory lag as the difference between the time period when test-year costs are incurred and the time period when rates are implemented to recover those costs. As I stated in my direct testimony in this case, the impact of regulatory lag is dependent upon the situation. As I also stated in my direct testimony, Idaho Power is *not* currently experiencing the circumstances where regulatory lag is beneficial.

Q. Mr. Lobb's testimony discusses the Staff's approach to the test year and references the workshops that occurred following the conclusion of the Company's last general rate case. Please respond to his assessment.

A. I am encouraged with the conceptual progress that has been accomplished since our last rate case. Mr. Lobb indicates on page 11 of his testimony that "Staff generally accepts the Company proposed 2008 test year that begins with actual 2007 calendar year costs updated through December 31, 2008." He also states on pages 11 and 12 that the "Staff supports some but not all of the Company's proposed escalation of expense and capital accounts on the basis of a CAGR." Additionally, on page 12, "Staff agrees that the methodology used by the Company in this case, an escalator applied to historic account totals, is superior to the fully budgeted future test year proposed by the Company in its last general rate case." These statements by the leader of the technical Staff signify progress on acceptance of the concept of using a more current test year and are consistent with the workshop outcomes.

The primary disagreement between Staff and the Company in this case arises out of the respective methods used to escalate 2007 accounts into 2008. The disagreement surfaces in several major areas, including normalized net power supply expenses, operating expense escalation, and test year labor expense. Mr. Said, Ms. Smith, and I provide the Company rebuttal to these areas respectively. The other significant difference between Staff and Idaho Power related to revenue requirement has to do with the appropriate return on equity, where Mr. Steven Keen and Dr. William Avera provide Idaho Power's rebuttal, and the method and amount of CWIP to be included in test year costs, which Ms. Catherine Miller addresses from a technical perspective.

Q. If all the adjustments proposed by the Staff and Intervenors are adopted by the Commission, will Idaho Power have a reasonable opportunity to earn its authorized return?

A. Unfortunately no. Putting aside whether the return on equity is 11.25 percent, 10.25 percent, or points in between; to constitute just and reasonable rates, the application of the approved rates to the customer loads during the time period when the rates are in effect must give the Company a reasonable opportunity to earn whatever return is authorized. My concern with the totality of the Staff case is that Idaho Power will not have that opportunity under the current and near-term circumstances to earn whatever the Commission determines as the authorized return in this case.

Q. On page 9 of Micron Witness Dennis Peseau's testimony in support of his argument that regulatory lag may not adversely impact utilities, Dr. Peseau refers to the hiatus of general rate case filings by Idaho Power Company prior to its filing of the 03-13 Case in 2003. Dr. Peseau states that he is unaware of any constraints on Idaho Power that might have impacted its ability to file for general rate relief. Is Dr. Peseau correct in his recollection?

A. No. Dr. Peseau is not accurately describing the historical facts. Idaho Power actually was legally and practically constrained in its ability to file for general rate relief prior to 2003. Mr. LaMont Keen addressed these circumstances at length beginning on page 3 of his direct testimony in Case No. IPC-E-03-13 ("the 03-13 Case"). At that time I had worked on that section of testimony with Mr. Keen and can speak to it now. The last full general rate case filed with this Commission prior to the 03-13 Case was Case No. IPC-E-94-5 ("the 94-5 Case"). Idaho Power filed the 94-5 Case in June of 1994 and the Commission issued its final order in February of 1995. Closely following the 94-5 Case, Idaho Power filed to include the costs of the Twin Falls hydroelectric plant upgrade in rates. The Commission authorized this rate change in August of 1995. This was essentially a single item rate matter that was incrementally added on to the recently completed 94-5 Case.

Also in 1995, the Commission approved a rate moratorium and earnings stability stipulation proposed by Idaho Power and various Intervenor parties, Case No. IPC-E-95-11. One of the provisions of the stipulation was that Idaho Power would not file for a change to base rates prior to January 2000. As many remember, the western energy crisis began to manifest itself in the second half of 2000 and into 2001. As a primary result of that crisis, Idaho Power had several annual Power Cost Adjustments ("PCA") that were more than $200 million above base rates, representing rate increases that averaged more than 40 percent above base rates. Although after 1999, Idaho Power did not have a legal or regulatory restriction on filing general rate increases in addition to these PCA rate changes, as a practical and political matter, it was simply not possible to do so.

Q. In his discussion of forecast test years, Dr. Peseau refers to his Exhibit No. 702, which is the Iowa Utilities Board report to the Iowa General Assembly entitled *Review of Utility Ratemaking Procedures* dated January 2004. In his testimony, Dr. Peseau indicates that Exhibit No.702 shows that a historic test year equates to a "traditional" test year. Does Exhibit No. 702 support Dr. Peseau's conclusion?

A. Dr. Peseau's testimony paraphrased sections of Exhibit No. 702 to draw an incorrect conclusion that the historical test year is the "traditional" test year. In fact, the use of forecast test years has been common in numerous states since at least the 1970s. Idaho is surrounded by states, including Oregon, California, Utah, and Wyoming, that authorize their Commissions to adopt future test years to determine representative levels of revenues, expenses, rate base and capital structure. Accordingly, many utilities in these states are filing rate proceedings with forecast test years. The Oregon Commission has, for many years, viewed the future test year as the appropriate choice of test year. Utah law statutorily mandates that the Utah Commission give serious consideration to the adoption of a future test year period. PacifiCorp uses a future test year in Oregon, Utah, and Wyoming to establish jurisdictional revenue requirement.

Commissions and policy makers throughout the country, and particularly in the West, are increasingly recognizing that in an era of heavy construction, future test years are necessary to allow utilities a reasonable opportunity to earn their authorized rate of return. Utilities that operate in a period of rapid expansion and rate base growth will chronically under earn if test years are historical in nature and fail to synchronize the matching of expenses and revenues.

Q. Dr. Peseau argued in his testimony that the states that routinely use a forward test year are almost exclusively "highly populous states with very large public commission staffs." He opined that the Idaho Staff is too small to properly administer a forward test year. Do you agree?

A. No. I would not characterize Wyoming, Utah, and Oregon as states that are "highly populous states with very large public commission staffs." In researching the application of forward test years in the West, it is my understanding that the staff resource load is not increased, but rather the focus of the staff investigation changes.

For example, in the last two Rocky Mountain Power general rate requests in Wyoming, there were five members of the Public Service Commission Staff assigned to the dockets. In Oregon, the Public Utility Commission assigns approximately the same number of Staff to Idaho Power rate cases (which utilized a historic test year) as it does to the 2005 PacifiCorp rate case (which utilizes a future test year).

Q. Previously you spoke of the use of the forecast test year as a tool to remove the detrimental effects of regulatory lag. While the Iowa Utilities Board in its report to the Iowa General Assembly (Exhibit No. 702) recognized the eroding effects of regulatory lag on a utility's revenue stream, the Board chose not to recommend a future test year option. Please explain why.

A. In its investigation, the Iowa Utilities Board found that most concerns regarding the negative effects of regulatory lag had been addressed by other Iowa statutes. In fact, Iowa has numerous statutes or "tools" in place that exist to reduce the effect of regulatory lag. For example, Iowa allows for updates of infrastructure investment nine months beyond a test year and allows utilities to place temporary rates into effect without Board approval within ten days of a filing for a general rate increase. The Iowa Utilities Board has authority to allow for the automatic adjustment of rates and charges for sudden and volatile costs, and the Board has approved 100 percent recovery of fuel and transportation costs for electricity generation.

In addition, the implementation of two relatively new Iowa laws allowing regulatory assurances for capital investment decisions and for environmental improvements and the ability to consider cost of capital changes after the test year period go a long way to alleviate concerns related to regulatory lag in Iowa and therefore are useful regulatory "tools." These regulatory tools would be very helpful to have in Idaho given the current and forecasted energy and economic situation.

Q. Dr. Peseau objects to the use of future test years because he believes that utilities will be tempted to abuse the system. He calls this "systemic bias." This Commission has often approved the use of a historical test year adjusted for known and measurable changes. Does a historical test year always produce a totally objective and unbiased revenue requirement?

A. No. Every type of test year is subject to criticism and objection if a rate increase is proposed. When an historical test year is proposed, the arguments simply shift from issues surrounding forecasting technique to the choice of known and measurable adjustments. Utilities are often criticized in their choice of an historic test year; opponents argue that the utility has an incentive to exaggerate its costs in the period under review. Every type of test year has its advantages and challenges.

Idaho Power is not asking for a blanket acceptance of its calculations but rather acceptance of the concept of a forward test year as being an appropriate tool to provide timely recovery for the increased level of expenditures that are required to serve the growing Idaho load.

Q. Let us now move on to Industrial Customers of Idaho Power Witness Don Reading's forecast test year concerns. Beginning on page 17 of his testimony, Dr. Reading notes that in the current case, the Company has filed a full twelve-month forecast test year and is sympathetic as to the underlying reason for filing in this manner. He is also complimentary (page 19) of the Company for ". . . its efforts and communication with the Staff and Interveners in the development of the forecasted test year in this case." Yet he is not supportive of the Company's filing. Why?

A. My understanding of his testimony is that a forecasted test year is based upon a projection that ultimately may not be the case; thus, customers are paying rates on unrealized projections. My difficulty with his position is that rates based upon actual historical costs are not reflective of future costs either.

Q. Dr. Reading proposes that Idaho Power file actual results for the first nine months of 2008 and compare these to the test year to provide a better "squaring" with reality. Does the Company agree with this proposal?

A. Yes. Ms. Smith's rebuttal testimony includes precisely this type of information. Idaho Power is comfortable with validating its test year and would even entertain the idea of a future true-up if that type of mechanism would advance the cause of more timely rate relief.

Q. Are you proposing a true-up?

A. I do not think that a true-up of forecast information is needed to set rates that are reflective of the costs expected to be incurred during the time that the rates are in place. Knowing how often the Company will be before this Commission over the next five years, the Company has concluded that unreasonably inaccurate forecasting would become readily apparent to all the parties. With the challenge Idaho Power has to earn authorized returns, any incentive to "game" the forecast would be short-term gain and long-term folly. However, as a practical matter, if true-ups provide a comfort level to the Commission and customers that would allow the Commission to accept a full forecast test year, then Idaho Power stands quite ready to accept the symmetrical application of a true-up to a forecast test year.

Q. What do you mean by a symmetrical application of a true-up?

A. If the Company estimate is higher than actual values, rates would be reduced. If the Company estimate is lower than actual, then rates would increase.

LABOR EXPENSE DISALLOWANCE

Q. Staff Witness Joe Leckie proposes to make several labor expense disallowances to the Company's test year. They include annualizing labor expense at August and September levels instead of year-end, removing the Salary Structure Adjustment ("SSA"), and removing most of the normalized target incentives for employees. Do you agree with Mr. Leckie's disallowances?

A. From a ratemaking perspective, I disagree with all of Mr. Leckie's labor expense adjustments because they are arbitrary and because their impact ignores costs the Company will likely incur to serve its customers at the time the ordered rates resulting from this proceeding are effective.

Q. What is your concern with annualizing employment levels partway through the year instead of at year-end?

A. Annualizing adjustments are not new to developing revenue requirements and, to my knowledge, they are performed consistently at year-end. The purpose of an annualizing adjustment is to reflect an amount that would have existed had year-end circumstances been in effect for the entire test period. Labor expense is a classic annualizing adjustment because typically year-end is a better reflection of labor expense going forward than earlier in the year.

Q. What specifically is done in an annualizing adjustment?

A. Year-end expense levels are treated as if they had been in place throughout the year. Otherwise the Company's labor expense for ratemaking purposes is represented by essentially the average for the test year, which is not reasonably reflective of the costs going forward. Annualizing is particularly important to apply to account classifications that are typically growing or declining in a predictable trend year over year.

Q. What is your understanding of why Mr. Leckie proposed changing the method for annualizing labor expense?

A. Mr. Leckie noted that there was a greater opportunity to overstate annualized payroll expense through a forecast method than by using actual numbers. He does not present any evidence that this has occurred or will occur. He only posits that it *might* occur. Presumably, he believes his method is more reflective of what the future costs will be.

Q. How do you answer Mr. Leckie's hypothetical charge?

A. Admittedly, there is an opportunity to manipulate a forecast. In my mind it would be a short-sighted path for a utility that is attempting to bring rates more current with costs to purposefully pursue this strategy. In our case, just closing the time gap is sufficient ratemaking progress. However, on the flip side, when an expense category has proven to be appropriate for annualization - as labor expense has - annualizing it by an earlier time period than year-end will typically understate the expense level.

Q. With 2008 drawing to a close, what has happened to employment levels at Idaho Power?

A. At the end of November, Full Time Equivalent ("FTE") employment is 2079 positions. In August, FTEs were 2085 and in September, they were 2084. While I disagree with Mr. Leckie's adjustment from a ratemaking logic perspective, the actual plateaued employment levels in 2008 support his adjustment.

Q. Why have employment levels plateaued in the second half of 2008?

A. The Company is adjusting to the economic slowdown and has instituted a selective hiring freeze to help manage labor costs during difficult times.

Q. As a result of the economic slowdown, does the Company accept Mr. Leckie's annualizing adjustment?

A. Yes. Again from a logic perspective, I would disagree, but from a review of employment data after the Company filing, Mr. Leckie's annualizing proposal is reasonable.

Q. Turning to Mr. Leckie's proposed disallowance of the SSA, what is the purpose of the SSA at Idaho Power?

A. The purpose of an SSA is to realign base compensation with prevailing market conditions.

Q. What is the process for determining the SSA?

A. Idaho Power gathers data from multiple sources and evaluates factors when determining the appropriate SSA. These include: the average percentage increase among northwest utilities; industry and region-specific salary increase surveys; budget increases of other large local corporations; the local and national economy; and the national Consumer Price Index.

Q. Who approves the SSA?

A. The Company's Board of Directors approve any annual SSA at their November meeting.

Q. What reasons did Mr. Leckie give for disallowing this labor expense?

A. He made two arguments. First, the SSA proposed by the Company was neither known nor measurable and, second, the Staff is concerned about Company "raises" during difficult economic times.

Q. Addressing the difficult economy first, why is Idaho Power raising its employees' wages at this time?

A. There are two reasons: (1) to attract, retain, and motivate a quality work force and (2) to offer a competitive compensation package to our trade employees.

While the current job market does offer a deep, qualified applicant pool, there are frequently exceptions in specialized fields that remain in high demand. Additionally, there are also many companies continuing to provide salary adjustments to their employees. Even in a softened economy, it is prudent to attract and retain a quality workforce. For Idaho Power, there is the additional need to offer a competitive compensation package to the Company's trade employees. It is imperative that the Company provide wages and benefits to this employment group that they perceive as an equal or higher value than other utilities with union representation.

Q. Is Idaho Power opposed to unions?

A. Idaho Power values the flexibility and the direct communication with employees that a non-union environment provides to us and our customers. The Company believes strongly that it is incumbent upon our management team to provide a sustaining work environment that negates the necessity for labor to organize. This is not an anti-union position; it is a proactively pro-employee position.

Q. Regarding Mr. Leckie's concern that the SSA is not known and measureable, what was the SSA amount included in the Company's 2008 revenue requirement?

A. The SSA included in Idaho Power's rate request was three percent.

Q. Did Idaho Power's Board of Directors take any action at its November 2008 meeting regarding a year-end SSA?

A. After much discussion, the Board of Directors approved a three percent SSA. Idaho Power believes it is important to provide employees with competitive total compensation and reward the value they bring to the Company. The need to maintain the competitiveness of our base compensation structure comes at a difficult time. The recent upheaval in the capital markets, downsizing announcements by local businesses, including our largest customer, and the significant downturn in the housing market have and will affect us. In order to narrow the gap between the higher pay of other northwest utilities, the Company's original SSA recommendation to the Board was 3.5 percent. However, considering the current state of the economy, all of our stakeholders and the long-term health of the Company, the Board of Directors approved a 3 percent SSA that becomes effective on December 27, 2008. This action makes the SSA revenue requirement known and measurable and within the test year. More importantly, the SSA is a real labor expense the Company will incur at the time the new rates are in place.

Q. The last component of labor expense disallowance proposed by Mr. Leckie has to do with the appropriate target employee incentive level for ratemaking purposes. Do you agree with Mr. Leckie's contention that some of the incentive components included by Idaho Power in its test year are of primary benefit to the shareholders?

A. No. These components are customer-based incentives. I am in agreement with Mr. Leckie that incentives based solely on benefits accruing to shareholders should be removed from revenue requirement. Idaho Power routinely removes any incentives that are driven by profits or earnings from its test year. The Company also removes from its revenue requirement any short-term incentives paid to or targeted for its senior executives, whether those incentives are based on shareholder benefits or customer benefits. Consistent with Case No.IPC-E-05-28 settlement, only mid-level or "target" levels of customer-based incentives are requested to be included in rates. As stated previously, these customer-based incentives are keyed to customer satisfaction, budget management, and reliability.

Q. Which customer-based incentive does Mr. Leckie propose to remove?

A. Mr. Leckie proposes to remove from the test year the two percent target incentive related to O&M budget management because he believes the incentive should be "self-funding." He also proposes to remove another 0.5 percent of the other incentive payments because no incentives are paid unless the Company has sufficient earnings to pay its $1.20 per share dividend.

Q. Is Mr. Leckie's argument that any incentive for O&M budget management should be "self-funding" a valid reason to remove target incentive payments?

A. No. Budget discipline is an important management activity and an appropriate area to incent employees. The balance and tension struck between providing excellent customer service and improving reliability from an aging distribution system is accomplished by including the O&M budget management as part of the customer-related target incentive. In the current environment, in which the Company is in the position of managing rising costs to the best of its ability and filing rate cases every one to two years, the benefits of budget management are reflected in rates on an ongoing basis, thus providing customers the direct benefit of cost management.

Q. Do you agree with Mr. Leckie's proposal to remove from the test year the 0.5 percent incentive payment because of the $1.20 dividend threshold?

A. No. This is an arbitrary and unnecessary disallowance. The Company has already removed from its rate request all short-term executive incentives and all employee incentives that are directly based on earnings. One could logically argue that positive earnings do provide the customers with an indirect benefit through future lower financing costs. The Company has not made this argument because we believe the four percent normalized target strikes a fair balance between customers, shareholders, and employees. The $1.20 threshold recognizes that if the Company's finances are such that it does not earn enough to make its dividend payments, then employee incentives should not be paid. History has shown again and again that when utilities cannot pay their dividend, ultimately their financing costs increase.

CONSTRUCTION WORK IN PROGRESS

Q. Staff Witness Cecily Vaughn, Dr. Reading, and Dr. Peseau all criticize Idaho Power's proposal, described in detail in Company Witness Catherine Miller's testimony, to include some of its CWIP related to Hells

Canyon relicensing expense in its revenue requirement in this case. What are their criticisms?

A. Ms. Vaughn finds the Company's application of CWIP in this case to be appropriate, but takes issue with the appropriate AFUDC rate used to compute the amount of CWIP to be included. As previously stated, Ms. Miller provides a technical rebuttal to Ms. Vaughn's recommendation. Dr. Reading and Dr. Peseau are opposed to the Company's inclusion of CWIP in rate base under any circumstances as a general principle.

Q. Why has the CWIP issue surfaced at this time?

A. For a number of years the Commission was unable to allow utilities to include CWIP in its revenue requirement due to a specific prohibition in Idaho law. Interestingly, that section of code also contained a prohibition on including plant held for future use in ratemaking. As Idaho Power started into its current period of increasing capital investments, it became apparent to the Company and to others that it would be advantageous to at least have these regulatory tools available to use at the discretion of the Commission. Accordingly, in 2006, Idaho Power supported legislation to strike the prohibition. This legislation was successfully enacted.

Q. Now that the legislation was revised, what is Idaho Power's position regarding the potential inclusion of CWIP in rate base in the future?

A. As described in my direct testimony, Idaho Power views CWIP as a useful tool for itself, its customers, and the Commission when used to smooth the ratemaking and financing impacts of large multi-year projects, which require capital outlays in the hundreds of millions. Idaho Power believes it will benefit our customers if the Commission allows the Company to include CWIP in rate base for such items as major relicensing of hydro projects, new base load production plants, and some high voltage transmission construction.

Q. Why did Idaho Power introduce the concept as it did in this case by proposing to include an AFUDC amount related to relicensing?

A. Idaho Power wanted to test the concept in a contested proceeding on a smaller amount at first. The Company will likely have production and/or transmission projects that may be considered for CWIP recovery in the relatively near future.

Q. Dr. Peseau describes his opposition to including CWIP in rate base as a "matter of principle." Do you share his concern?

A. No, I do not. On page 22 of his testimony, Dr. Peseau expresses his concern that including CWIP in rate base breaks the regulatory compact in that it "mitigates efficiency incentives and is fundamentally unfair to ratepayers." Since the Company will be bringing specific project-by-project CWIP proposals to the Commission, the Commission will be in full control on how much, if any, CWIP is allowed in rate base. In this instance, it is limited to a portion of the carrying cost on financing Hells Canyon relicensing. Future applications will be based on well known and well vetted projects that likely will have gone through a "Certificate of Public Convenience and Necessity" process with the Commission. These are unlikely candidates to fail a prudency test particularly if amounts remain below approved commitment estimates. Again, the Commission will be in full control in the use of the CWIP tool. It can weigh valid "used and useful" concerns against the customer benefits that CWIP can provide.

Q. Dr. Reading is also opposed to the inclusion of CWIP in rate base, citing a 1978 Commission order and the Commission's long precedence in disallowing CWIP from rates. What is your reaction to these points?

A. There is a long precedence in CWIP's absence from rate base because from 1984 to the 2006, the Commission did not even have the ability to use CWIP even if it might have benefited customers. The 1978 order points to a shareholder risk shift and a generational customer mismatch. As I stated above in response to essentially the same argument made by Dr. Peseau, the Commission will be in full control of the application and the degree that CWIP will potentially be used. The Company does not believe that the Commission will blindly approve inclusion of CWIP in rate base in this case or in future ones. The Company understands that in each instance it will have the burden of showing why including CWIP in rate base is in the public interest.

Q. Why would the Commission consider including some amount of CWIP in the revenue requirement determination?

A. Including CWIP in rate base is a tool that allows the Commission to smooth the rate impact of large, multi-year projects allowing more gradual rate changes rather than the one-time impact of putting the project and its financing costs in at one time. CWIP does provide better cash flow to utilities, thus improving key financial ratios and lowering interest costs.

ENERGY EFFICIENCY

Q. Staff Witness Lynn Anderson addresses Idaho Power's energy efficiency efforts and recommends that the Commission defer a prudency finding regarding these efforts. What is the Company's reaction to this recommendation?

A. This recommendation is frustrating to the Company on several levels. Ms. Theresa Drake will address its impact on energy efficiency operations, while I will describe its potentially chilling effect on energy efficiency investment.

Q. Please explain how Demand-side Management ("DSM") and energy efficiency have risen to their current prominence in Idaho Power's resource portfolio.

A. Following the wholesale energy volatility experienced in the 2000-2001 energy crisis, the Commission directed Idaho Power in Order No. 28722 to develop and file a comprehensive DSM program to provide customers with opportunities to reduce electric consumption. The Company did this in Case No. IPC-E-01-13 by identifying a number of potential DSM programs that could be implemented to assist customers in reducing their bills and proposed that the expenditures for the analysis and implementation of energy conservation programs be funded through a charge known as the Energy Efficiency Rider ("Rider"). On November 21, 2001, the Commission issued Order No. 28894 directing the Company to implement limited DSM programs for the 2001-2002 winter heating season and to organize the Energy Efficiency Advisory Group ("EEAG") to advise the Company on the implementation of long-term DSM programs. In April 2002, the Energy Efficiency Advisory Group, comprised of members from the Company's customer groups, technical experts, special interest groups, Commission Staff, and Company personnel, was formed and has met regularly since to advise Idaho Power on its energy efficiency offerings.

On May 13, 2002, the Commission issued Order No. 29026 authorizing the implementation of the Energy Efficiency Rider as a means to fund DSM programs. The Rider amount for each customer class targeted a level approximately equal to 0.5 percent of overall class revenue. As more program offerings became available and expenses increased, in Order No. 29784, the Commission increased the Rider amount to 1.5 percent of base revenue with a monthly funding cap of $1.75 for residential customers and a cap of $50 per meter per month for irrigation customers. Recognizing Idaho Power's robust growth in both demand response and energy efficiency programs as well as the importance of additional funding in sustaining DSM programs that benefit customers individually and collectively, the Commission, in Order No. 30560, authorized removal of the funding caps and increased the Rider to 2.5 percent of base revenues effective June 1, 2008.

Q. Has the Company's increased focus on energy efficiency over the past six years impacted Idaho Power's Integrated Resource Planning?

A. Yes. Idaho Power's 2004 Integrated Resource Plan called for 124 MW of demand response and energy efficiency programs, which demonstrated the Company's renewed emphasis on demand-side resources. While the Commission indicated in the April 2005 Order accepting the 2004 Integrated Resource Plan for filing that it was pleased with the Company's efforts thus far, it found that "Idaho Power could and should do more to implement conservation. We encourage the Company to actively promote and expand participation in its AC Cycling, Irrigation Peak Clipping, and other cost-effective conservation programs." (Order No. 29762 at 10.)

Following the issuance of Order No. 29784 increasing the amount of the Rider in Case No. IPC-E-04-29, Idaho Power successfully implemented four of the six energy efficiency programs identified in the 2004 IRP and both of the demand response programs. In addition, as part of the 2006 IRP process, Idaho Power implemented three new DSM programs and a major expansion of a fourth program. Following the suspension of the Bonneville Power Administration's Conservation Rate Credit Program, two programs developed by the Bonneville Power Administration and implemented by the Company also began receiving Rider funding in mid-2007. In the March 2007 order accepting the 2006 Integrated Resource Plan, the Commission again indicated that it was "pleased that the Company is expanding its DSM programs and increasing the amount of energy sources in its portfolio." (Order No. 30281 at 12)

Recognizing that energy efficiency programs continue to benefit its customers by reducing the need for additional generation resources, Idaho Power will continue pursuing all cost-effective energy efficiency programs as part of its resource planning process going forward.

Q. To put the Company's DSM and energy efficiency efforts in perspective, how has Idaho Power's financial commitment and resulting energy savings grown over the past several years?

A. As the Commission noted on page 6 of Order No. 30560 issued in May 2008, "Idaho Power has significantly increased its DSM programs during the past six years, and many more customers are participating in and seeing the benefits from the Company's DSM programs." Idaho Power currently has 13 programs and two pilot programs serving all of its customer classes. Idaho Power's DSM expenditures have grown rapidly from approximately $1.8 million in 2002 to nearly $20 million in 2008. The Company estimates that this investment in energy efficiency will save an estimated 118,000 MWh in 2008.

Idaho Power is proud of the positive results its increased energy efficiency efforts have achieved for its customers. In October 2008, the state of Idaho received national recognition by the American Council for an Energy-Efficient Economy ("ACEEE") when it named Idaho as the most improved state for employing energy efficiency to grow its economy while meeting electricity demand, combating global warming, and contributing to U.S. energy security. The commitment of more resources to energy efficiency programs was a significant reason the state of Idaho jumped 12 spots in ACEEE's rankings. Idaho Power is pleased to have played a role in this achievement.

Q. Why does Idaho Power want to be in the business of energy efficiency?

A. For a number of reasons: (1) energy efficiency is a good activity to build positive relationships with our customers; (2) similarly, it is a good activity to build positive relationships with our regulators; (3) it is an integral and increasingly important part of our resource planning; and (4) the Company believes it can provide energy efficiency in a more cost effective and efficient manner because of the inherent discipline in place in the regulated environment.

Q. Why is a prudency review of energy efficiency measures important to Idaho Power?

A. Under Idaho Power's current regulatory model for energy efficiency, out-of-pocket costs are largely recovered through Schedule 91, the Energy Efficiency Rider. Essentially the Rider provides for the collection of funds in relatively close proximity to their expenditures. The Company collects and spends dollars on energy efficiency measures in a balancing account that carries symmetrically applied interest. However, there is no earnings opportunity for the energy efficiency activities at this time - other than one very small performance-based pilot related to Energy Star® homes.

The energy efficiency activity today is a close regulatory parallel to the buying and selling of energy for the system that is run through the Power Cost Adjustment ("PCA") mechanism. Typically, the Company expects PCA costs to be deemed prudent and recovered, unless there has been mismanagement of system operations. In like manner, Idaho Power would expect Rider costs to be deemed prudent and recovered, except in circumstances of mismanagement. Any disallowance would result in reduced earnings stemming from other Company operations unrelated to DSM. Delayed prudency review places future earnings at risk.

Q. Did the Company communicate this importance to the Staff?

A. Yes. With the growing importance of energy efficiency and demand-response programs in terms of dollars, megawatts, and megawatt-hours and without a clear understanding of when Rider expenditures can be considered appropriately spent, the Company informally asked the Staff to specifically include in its case audit a review of Rider funds spent to date. As described in Ms. Drake's rebuttal testimony, the Company has made great strides in the area of energy efficiency and demand response programs. Idaho Power has invested millions and intends to invest even more. A timely prudency decision from the Commission greatly assists our continued commitment to what we believe is now our first resource.

Q. What is your reaction to Staff's suggestion to defer review?

A. Idaho Power believes that energy efficiency activities since 2002 need some finality as to the prudency of their expenditures, particularly when even more dollars are planned for the near future. The Company believes that it has supplied appropriate and sufficient information for the Staff and Commission to make a determination. Since the inception of the Rider, Idaho Power has had multiple general rate proceedings and Rider funding requests. Certainly, Rider funding spent through either the last general rate case or Rider filing should be determined as spent in the public interest and not subject to continued jeopardy.

AFFORDABILITY ISSUES

Q. There have been concerns regarding energy affordability - and specifically, electric service affordability - raised in the testimony of the Staff and by Community Action Partnership Association of Idaho ("CAPAI"). Please summarize your understanding of these issues.

A. Staff Witness Curtis Thaden and CAPAI Witness Terri Ottens both address affordability concerns. Mr. Thaden discusses the soft economy and its impact on customers, including some customers who may be facing tough financial circumstances for the first time. Mr. Thaden also discusses the stress on current energy assistance programs such as Low Income Home Energy Assistance Program and Project Share and the status of the Weather Assistance for Qualified Customers ("WAQC"). Ms. Ottens expresses similar concerns and recommends future increases to WAQC funding.

Q. Regarding the issue of energy affordability, does the Commission currently have a docket open to address aspects of this issue?

A. Yes. It is GNR-U-08-1, a generic Commission inquiry into matters of energy affordability.

Q. Is Idaho Power an active participant in this proceeding?

A. Yes. Idaho Power has attended and actively participated in both the October 14 and October 22 public workshops. The Company has presented comprehensive information on its current programs and activities that specifically address low income customers, as well as other customers who might be financially challenged in today's economy. Currently, the Company is reviewing draft Staff comments on the matter that have been publicly available since November 26, 2008, and will be commenting fully by the December 19 due date.

Q. Realizing that comments are not due until December 19, please indicate what Idaho Power's position has been during the public workshops?

A. The Company has emphasized that new and additional action should be purposeful and productive. Idaho Power believes that the capabilities of existing programs and activities should be fully understood and utilized as an appropriate first step. Further the Company is supportive of matching ongoing WAQC funding with the needs of the service area communities, addressing energy efficiency to the impacted customers, and supporting rate design that promotes efficient use of energy. Additionally, in recognition of the impact that the present economy has on some of Idaho's citizens, Idaho Power is increasing its shareholder commitment to Project Share from present levels to $100,000 for the current heating season.

Q. Ms. Ottens proposes to increase funding for WAQC progressively in 2010, 2011, and 2012. Do you agree with her recommendation?

A. As stated previously, Idaho Power supports adequate funding for the WAQC programs and these funds may very well need to be increased in 2010 and in subsequent years. Idaho Power believes this is the low hanging fruit when it comes to addressing affordability. The Company has calculated that a $100 investment in WAQC can return more than $200 in present value customer benefits in future bill savings and over $300 in system benefits because of the selection of a lower cost resource option. Idaho Power commits to work with Ms. Ottens and CAPAI to fund WAQC appropriately. The Company also commits to bring to the Commission the appropriate rate recovery request - general rate case or other - for additional WAQC funding. However, a 2010 issue does not need to be addressed now when the generic energy affordability docket and future Rider funding filings are looming.

CONCLUSION

Q. Please summarize Idaho Power's rebuttal position to the collective recommendations of the Staff and Intervenors.

A. This is Idaho Power's fourth general rate case since 2003. The Company is evaluating a 2009 filing at this writing and anticipates the need for additional general rate cases in the next several years as we meet the challenges of both our industry and our service territory. *As a result, our operations and financial results will be very transparent to both the Commission and our customers.* The Company is seeking a reasonable opportunity to earn its authorized rate of return during this time period. It is the Company's opinion that this opportunity can be best achieved through use of the forecast test year proposed - January 1, 2008, to December 31, 2008 - to decrease the time period between cost incurrence and rate implementation. This ratemaking model, along with the establishment of the proposed PCA changes currently before this Commission in Case No. IPC-E-08-19, will give Idaho Power a reasonable opportunity to earn its authorized return for the first time in many years.

Q. Have you concluded your direct rebuttal testimony?

A. Yes.