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

IDAHO POWER COMPANY

DIRECT REBUTTAL TESTIMONY

OF

LORI SMITH

DIRECT REBUTTAL TESTIMONY OF LORI SMITH

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I. INTRODUCTION

Q. Please state your name.

A. My name is Lori Smith.

Q. Are you the same Lori Smith that presented direct testimony in this proceeding?

A. Yes.

Q. What issues will you be addressing in your rebuttal testimony?

A. My testimony explains why the Company's test year in this case better reflects the operating conditions the Company expects to experience during the time rates will be in effect than does Staff's proposed test year. I will also provide information on the Company's 2008 actual third quarter results that show that the methodology the Company used to prepare its 2008 Test Year produces reasonably accurate results. I will explain why Staff's adjustments to the 2008 Test Year are arbitrary, rely on speculation, and are inconsistent with the framework Staff and Intervenors supported in the Forecast Test Year Workshop that was held prior to the Company filing this case. Finally, I will respond to several adjustments proposed by Commission Staff Witnesses Cecily Vaughn, Joe Leckie, John Nobbs, and Micron Witness Dr. Dennis E. Peseau.

Q. Your rebuttal testimony responds to Staff's proposed adjustments in considerable detail. Why have you taken this approach rather than focus on just the larger revenue requirement issues?

A. Over the course of several recent rate cases, Idaho Power believes it is making progress on developing a test year methodology that addresses the concerns of the Company, Staff, and other parties. Because new test year methodology is developing, Idaho Power wants to clearly address the new issues that arise from the proposed methodology as identified by Staff auditors. This necessarily requires delving into some of the intricacies of the revenue requirement issues present in this case.

II. <u>TEST YEAR METHODOLOGY</u>

Q. Idaho Power has proposed a test year that trends 2007 actual results to 2008 levels to set rates in 2009 ("2008 Test Year"). Why is it important that the test period and the rate-effective period closely match each other?

A. In order to provide the Company a reasonable opportunity to earn its allowed rate of return, the new rates from a test year would ideally take effect with the commencement of the actual year. With this underlying premise in mind, the Company filed the proposed 2008 Test

Year based on its intimate knowledge of the contributing factors that hinder the Company's ability to earn its allowed rate of return. These factors include the costs of serving both new and existing customers. These costs continue to out pace the revenues generated by rates set based on an historical test year or a hybrid test year adjusted for actuals. As a result of load growth, the Company must acquire new generating resources, build new transmission lines and stations for reliability purposes, and maintain its existing base fleet of resources in an environment of significant cost escalations.

Q. Haven't current economic conditions slowed load growth?

A. To some extent, yes. However, even with the lower than expected additions of new customers experienced so far in 2008, the need for timely rate recovery of operating expenses and capital expenditures is still present.

Q. Do you believe the Company's proposed test year revenue requirement is reasonable?

A. Yes. The Company's test year values are: (1) based on a compound average growth rate ("CAGR") developed from historical spending patterns; (2) reflective of realistic and systematic cost and revenue projections that fairly represent the 2008 Test Year; (3) validated by actual expenditures incurred thru September 2008; (4) closely scrutinized by business unit management, Idaho Power Company management, and the Idaho Power Company Board of Directors; and (5) determined using a period of time (2008) that precedes the rate implementation period (2009).

Q. By adopting a test year approach as proposed by the Company in this proceeding, would the Commission be required to accept all of the amounts reflected in the Company's filing?

A. No. There may be differences of methodology used to prepare a test year. Such differences are unavoidable in a general rate case where the parties have different perspectives. Idaho Power is not asking the Commission for a blanket validation of this specific test year. However, the Company is asking the Commission to accept the widely used regulatory model of future test year as being the most appropriate way to provide the level of rates to produce timely recovery for the increased level of expenditures that are required to serve Idaho Power's growing load and to keep Idaho Power a financially viable company, especially in light of current economic conditions locally, nationally, and internationally. Mr. Gale's direct and rebuttal testimony explains the Company's approach in greater detail.

Q. Have you reviewed the Company's September 2008 year-to-date expenditures?

A. Yes. Based on that review, I have included a chart which summarizes the major components included in the Company's filing with the amounts updated to reflect September 2008 actual year-to-date values.

Q. What does that chart show?

A. It shows that the Company has done a very good job of quantifying its 2008 Test Year expenses.

Q. Please explain how you came to that conclusion.

A. First, I selected significant components of the 2008 Test Year to compare them to actual September 2008 year-to-date values. These components are key variables in the determination of the Company's revenue requirement. The primary components I have included are Electric Plant in Service (excluding Asset Retirement Obligations ("ARO")) ("EPIS"), Accumulated Provision for Depreciation and Amortization, Net Electric Plant in Service, Other Operating Revenues, Operation and Maintenance Expenses ("O&M"), Depreciation and Amortization, and IERCO operating net income. I then compared the actual September 2008 year-to-date to the test year totals. The results of that comparison are as follows:

	Year-To-Date September 2008	2008 Proposed Test Year Total
EPIS (ex ARO)	$3,953,058,903	$3,883,565,221
Accumulated Provision for Depreciation & Amortization	1,654,111,059	1,640,626,080
Net EPIS	2,298,947,844	2,242,939,141
Other Operating Revenues	30,258,709	38,855,834
O&M Expenses (excluding Net Power Supply Expenses and Energy Efficiency	221,779,540	295,910,705
Depreciation & Amortization	78,112,259	105,290,342
IERCO Net Income	1,925,252	6,828,651

Q. Do the 2008 year-to-date actual values validate the escalated values contained in the 2008 Test Year used by the Company?

A. Yes. Year-to-date EPIS is already greater than the test year level and will only grow. O&M expenses excluding net power supply expenses and Energy Efficiency expenses ("O&M") through September are approximately three-fourths of test year values just as should be expected.

Q. Please provide more detail on why O&M expenses are three-fourths of the Company's test year values.

A. For the period January 2008 through September 2008, actual O&M equaled $215,197,715 with the incentive accrual expenses normalized to reflect only the operational targets. This amount can be compared to what Idaho Power filed for its 2008 Test Year with a few adjustments. Please refer to Exhibit No. 83.

Idaho Power's 2008 Test Year O&M equaled $295,910,705, which includes annualizing adjustments for operating payroll of $2,593,733 and a 2009 Salary Structure Adjustment of $3,019,804 as detailed on Exhibit No. 31 to my direct testimony. As these annualizing adjustments reflect 2009, they must be removed to properly compare what Idaho Power is actually experiencing through September 2008 to what was included in its 2008 Test Year.

To further improve the accuracy of the comparison, Account 565-Transmission of Electricity by Others is also removed from both the 2008 Test Year O&M ($10,469,726) and the year-to-date September 2008 actuals ($6,137,531). After making these adjustments, the 2008 Test Year O&M equals $279,827,442 ($295,910,705 minus $2,593,733 minus $3,019,804 minus $10,469,726). Year-to-date September 2008 actual O&M equals $209,060,184 ($215,197,715 minus $6,137,531) after adjustments.

One would expect that 75 percent (three-quarters of the entire year) of the Company's 2008 Test Year O&M as adjusted above would be reflected in actual O&M through the nine months ended September 2008. This is in fact the case. Through September 2008, the Company has experienced 75 percent ($209,060,184 divided by $279,827,442) of its comparable 2008 Test Year O&M.

Another way to view the analysis is to annualize the year-to-date September 2008 actuals which yields $278,746,912 ($209,060,184 divided by 9 months and multiplied by 12 months) and comparing the result to the Company's comparable 2008 Test Year O&M. As shown on Exhibit No. 84, Idaho Power's comparable test year O&M is just $1,080,530 or 0.4 percent higher than an annualized amount based on year-to-date September 2008 actuals.

Q. How does Staff's methodology for calculating O&M compare with what the Company is currently experiencing in 2008?

A. Staff's methodology severely understates the level of 2008 O&M expenses the Company is likely to incur. Please refer to Exhibit No. 83 for detailed calculations. Staff's test year 2008 O&M equals $271,553,813. For valid comparison purposes, Staff's annualizing adjustment for operating payroll of $1,157,432 must be removed from its test year 2008 O&M along with Account 565-Transmission of Electricity by Others of $10,469,726. After making these adjustments, Staff's comparable test year 2008 O&M equals $259,926,655 ($271,553,813 minus $1,157,432 minus $10,469,726). When compared to year-to-date September 2008 actuals, as defined in the previous question, the Company has already experienced 80 percent of what Staff has proposed for its comparable 2008 test year.

As presented on Exhibit No. 84, when compared to the annualized year-to-date September 2008 O&M, Staff's comparable test year 2008 O&M is $18,820,257 or 6.8 percent <u>below</u> the expenses the Company is currently experiencing.

Q. What conclusion do you draw from this analysis?

A. The methodology Idaho Power used to forecast test year O&M is a very good representation of the expenses that the Company is currently experiencing and is much more accurate than Staff's proposed methodology. Idaho Power's methodology provides the Company the opportunity to earn its allowed rate of return established by the Commission while recovering operating expenses in a more timely fashion. Staff's methodology and resulting position exacerbates the mismatch between the timing of when expenses are incurred versus their recovery in rates and denies the Company an opportunity to earn its allowed rate of return.

Q. What other conclusions do you draw from the data in your table and in Exhibits Nos. 83 and 84?

A. This information supports the Company's position that a historical test year inadequately reflects the operating costs and capital expenditures that Idaho Power Company is currently experiencing to operate effectively. By the end of 2008, the Company will have made significantly more capital investments in property plant and equipment and will have spent significantly more money operating its system to provide reliable service to its customers than a historic test year would reflect. The Company proposed 2008 Test Year is a more reasonable representation from which to set rates for the coming year and will provide the Company the opportunity to earn its allowed rate of return established by the Commission.

III. O&M ADJUSTMENTS

Q. Do you agree with Staff's adjustments to the Company's 2008 Test Year O&M expenses?

A. No. I believe that the adjustments by Staff Witnesses Vaughn, Leckie, and Nobbs that reduce the revenue requirement by $24,314,269 are flawed. I will specifically discuss why I disagree with reductions in Other Operations and Maintenance, payroll-related items including reductions to target employee incentive, the elimination of the 2009 salary structure adjustment, the revision to the annualizing methodology, and the reduction of Plant Materials and Supplies revenue later in my testimony.

Q. How did the Company determine the O&M escalation methodology it applied in this case?

A. For the O&M escalation methodology, the Company accepted a "trending" approach agreed to in the Forecast Test Year Workshop (held on March 12, 2008, and described in my and Mr. Gale's direct testimony), which emphasized identification of the expected operating conditions in 2008 and the ease of auditability of 2007 as a base year to be trended forward to 2008. As stated in Ms. Vaughn's testimony and consistent with the trending approach, the Company developed a CAGR that was applied to major Federal Energy Regulatory Commission ("FERC") account groupings. Idaho Power Company's proposed major groupings and CAGRs were as follows: (1) Steam Power Production, CAGR 7.14 percent; (2) Hydro Production, CAGR 8.03 percent; (3) Other Production, CAGR 11.76 percent; (4) Transmission, CAGR 3.98 percent; (5) Distribution, CAGR 0.70 percent; (6)

Customer Accounting, Service and Selling, CAGR 0.06 percent; (7) Administration and General, CAGR 9.41 percent; and (8) for the total Company, an overall CAGR of 5.82 percent before considering the known and measureable cost containment adjustment of $3.8 million and the traditional ratemaking adjustments for annualizing and known and measureable adjustments. This compares to the Staff's overall percentage increase in O&M expense of 0.64 percent or $1,750,020.

Q. Please quantify the overall increase in O&M expense based on the Company's use of this trending methodology.

A. The overall increase in O&M expense as a result of this trending methodology is $15,985,407.

Q. Do you agree with Ms. Vaughn's recommendation that the Commission reduce the Company's O&M expense by $14,235,387?

A. No. Ms. Vaughn made two major adjustments. First, Ms. Vaughn reduced the O&M revenue requirement by adjusting the 2007 base amount by $1,537,989 for P-card expenditures and a 2003 FERC billing settlement. Both of these adjustments are faulty and I will explain why later in my testimony.

Secondly, Ms. Vaughn created a methodology used for escalation purposes that excluded all escalation on Administration and General ("A&G") expenses including labor, materials, purchased services, and other expenses, and all escalation for labor, materials, and purchased services from the other six areas of FERC O&M Account expense categories (Steam Production, Hydro Production, Other Production, Transmission, and Customer Accounting, Selling and Service).

Q. On page 7, lines 8-18 of her testimony, Staff Witness Vaughn characterizes labor escalation as being duplicated in two different areas of the Company's case. Do you agree?

A. No. The Company's adjustments to labor for annualization and structured salary adjustment ("SSA") match rates to the costs that will be incurred in the 2009 time period when these rates will be in effect. The Company's 2008 Test Year assumption for labor costs, as Ms. Vaughn correctly states, was based on 2007 values escalated to 2008 by the FERC account grouping escalation rate. The effect of this escalation is to produce an initial 2008 Test Year for the O&M expense component. The December known and measurable adjustment that annualizes the 2008 Test Year labor is then made to reflect the expected cost at the end of 2008 for labor expenses. This adjustment provides a December 2008 test year estimate of prospective employee count levels versus an average of employment levels for the previous year that would be in effect beginning January 1, 2009. These are two separate and distinct adjustments, both of which are appropriate for the test year.

The SSA adjustment is consistent with methodologies accepted in past filings and is used to reflect salary adjustments necessary to represent the 2009 expense level of labor when new rates take effect. The SSA is a market-based adjustment reviewed and approved by Idaho Power Company's Board of Directors to provide market-based pay to employees in order to attract and retain the employee talents necessary for the Company to operate effectively. Company Witness Ric Gale discusses the appropriateness of the adjustments in greater detail in his rebuttal testimony. Despite the criticism of these adjustments, Staff provides no evidence that these labor expenses are not increasing.

Q. Do you agree with Ms. Vaughn's decision to exclude any escalation or trending on the FERC O&M Accounts listed above?

A. No. Ms. Vaughn provides no empirical data or verifiable evidence suggesting that the escalation rate on the A&G category is incorrect or inappropriate. She bases her disallowance recommendation solely on the fact that the trending increase occurs coincidently with the unrelated IDACORP divestiture of multiple subsidiaries.

Q. Staff Witness Vaughn attributes the 9.41 percent increase in A&G Accounts 920-935 to the one-time divestiture of corporate subsidiaries. Please describe the type of expenses that are included in this category of expenses.

A. The type of expenses included in this group of accounts are varied and include: regulatory commission fees paid to regulatory agencies such as the state public utilities commissions, the Federal Energy Regulatory Commission, as well as property and casualty and excess liability insurance premiums. This expense category also includes the expenses required to meet the significantly expanding compliance requirements for reliability mandated activities required by FERC Order 888 for Critical Infrastructure Protection, plus expenses related to the large increase in reliability standards to be managed from a compliance perspective. SEC mandated Sarbanes-Oxley ("SOX") expenses, legal expenses to implement these new standards and compliance-related activities, and the maintenance of general plant expenses are part of this expense category as well.

The requirements listed above have also increased the labor associated with this account group in order to meet the compliance requirements, all of which are incorporated in the A&G portion of the 5.82 percent overall increase in O&M expenses. The divestiture of IDACORP's subsidiaries has changed the expense allocation between Idaho Power and IDACORP but to a significantly smaller degree than Staff Witness Vaughn has inferred in her testimony.

Q. Do you agree with Staff Witness Vaughn's conclusion that the growth in A&G expense is attributable to the divestiture of IDACORP subsidiaries?

A. No. I disagree with Ms. Vaughn's conclusion for three reasons. First, Ms. Vaughn draws this conclusion from incomplete and inadequate analysis. On page 8 of her testimony, Ms. Vaughn states that 2007 A&G expense has increased $17,597,452 over the average of 2004 through 2006. She then states that it is "coincident with the divestiture of multiple IDACORP subsidiaries" and concludes that "it is apparent that the growth in G&A is the result of one-time corporate divestitures."

In response to Production Request No. 30, Ms. Vaughn indicates that her only rationale for drawing this conclusion is her review of a handout for the November 16, 2006, presentation to the Idaho Power Board of Directors where four factors, listed simply as discussion points, were given for expected 2007 O&M expense increases. Then, for additional support, she cites Audit Question and Response No. 106 from Case No. IPC-E-07-08 where she asked the Company "to provide copies of any additional materials made available to the Board, before, during, or after the meeting that provide additional information related to these four factors." The Company responded that no additional materials were made available to the Board.

In fact, in Audit Question and Response No. 140, Case No. IPC-E-07-08, the Company estimated the impact on the 2007 O&M budget to be approximately $560,000 in additional labor costs resulting from IDACORP selling two non-regulated subsidiaries and refocusing its efforts on Idaho Power. Without adequate analysis and supporting data, Ms. Vaughn incorrectly concluded that the $17.6 million increase was due to the divestiture of the IDACORP subsidiaries.

Second, actual costs transferred from Idaho Power to IDACORP and its non-regulated subsidiaries are very small in comparison to the $17.6 million Ms. Vaughn attributes to the one-time cost of divesture. Since the mid-1990s, Idaho Power has had in place Service Level Agreements which transfer direct and indirect costs (fully loaded labor, materials, purchased services, etc.) incurred by Idaho Power for the benefit of IDACORP's subsidiaries. The results of these Service Level Agreements have been included in general rates cases beginning with the 2003 Rate Case. From 2003 through 2007, the average annual expenses transferred to IDACORP from Idaho Power equaled $3.1 million. From 2003 to 2007 (used in determining the Company's 5-year CAGR), transferred costs have decreased $1.6 million ($2.8 million less $1.2 million). This $1.6 million is significantly less than the $17.6 million Ms. Vaughn suggests is the result of IDACORP's divesture of subsidiaries.

And finally, any expenses due to divesture of IDACORP subsidiaries were properly recorded to either the divested subsidiary or to the IDACORP holding company in accordance with generally accepted accounting principles ("GAAP") and not to Idaho Power.

Q. Did Ms. Vaughn trend any O&M expenses?

A. Yes. Ms. Vaughn did escalate the Other Expense cost category in her summarized Power Generation category and Distribution category by 5 percent, resulting in an increase of $2,876,561. This amount was then offset by her methodology applied to the Accounting Entries cost element resulting in a $1,126,541 reduction to the $2,876,561, or a net escalation of $1,750,020.

Q. Do you agree with Ms. Vaughn's approach to escalation or trending methodologies?

A. No. Actual experience in 2008 demonstrates the flaw in these methodologies. Ms. Vaughn's escalation results in a 0.64 percent increase in O&M expenses for the 2008 Test Year. The Company's year-to-date actuals support an overall increase of 5.82 percent as proposed by the Company. The Company's actual expenditure levels to date in September 2008, including cost containment efforts since the spring of 2008, have resulted in a 75 percent realization of the Company's 2008 Test Year O&M expenditures. By ignoring the 75 percent of the test year completed, the Staff adjustments to the Company's test year O&M will not allow rates to match expenses and diminishes Idaho Power Company's ability to remain financially viable so as to meet customer loads during these financially difficult times. To add insult to injury, Staff Witnesses Mr. Leckie's and Mr. Nobbs's adjustments continue to erode the requested O&M increase to a level that is below the actual 2007 expenses used as the base for the 2008 Test Year presented in this case.

Q. Why do you disagree with Staff's methodology?

A. The Company prepared a 2008 Test Year to reduce the timing differences between its costs and effective rates necessary to recover them. While the Staff has aligned partially with the Company's approach of test year determination for rate base adjustments, the Staff adjustments to reduce the O&M expenses exacerbate the timing differences between the Company's costs and the rates necessary to recover them that the proposed test year methodology sought to address. I believe the Company's test year continues to closely match the expenditures required to provide safe and reliable service to our customers.

Q. Do you agree with Dr. Peseau's suggestion to introduce an objective standard like the Producer Price Index, the rate of system load growth, or employee load growth in establishing an inflator for test year purposes?

A. I agree with the recommendation to use an objective standard for establishing an inflation indicator in a test year process. I do not agree with Dr. Peseau's proposal to use a single factor inflator because I believe the combination of both inflation and customer growth impact the Company's expense level. For the time period 2003 to 2007, the rate of combined growth for inflation and customer growth has been 6.3 percent.

Q. How does this two-factor indicator compare to the Company's filed test year in this case?

A. For the O&M FERC account groups that were grown by an inflator as indentified in my Exhibit No. 33, lines 33-46, the average for all accounts is 5.82 percent. This is a smaller inflator than the 6.3 percent two-factor inflator composed of the Consumer Price Index combined with the additions of new customers to Idaho Power's system between 2003 and 2007. The combination of these two factors more reasonably represents the expense impact versus a single-factor inflator suggested by Dr. Peseau.

Q. Are there other comparisons that would support your O&M methodology of escalating the 2007 Base Year on average by 5.82 percent?

A. Yes. A review of the rates of growth other regional Northwest utilities have experienced also reinforces the Company's use of a 5-Year CAGR of 5.82 percent in this filing. Using FERC Form 1 data, Idaho Power's reported customer growth from 2003 to 2007 of 3.21 percent is 1.6 times greater than the peer group of utilities at 1.96 percent. By comparison the expense growth rate for Idaho Power of 6.39 percent is only 1.1 times that of the other companies' expense growth rate of 5.74 percent. The result of reviewing a combination of the actual O&M growth and the actual customer growth from 2003 to 2007 indicates that Idaho Power Company has had a slower rate of O&M expense growth compared to this peer group on average given the larger growth rate in new customer additions during this time frame. This is depicted in Exhibit Nos. 85 and 86, column 6, rows 1, 2, and 10.

Q. What is your conclusion on applying the Company's CAGR of 5.82 percent as the rate of escalation of O&M expenses, where appropriate?

A. When reviewing the actual adjusted expenses through September 2008 and reviewing the Northwest utility peer group included in Exhibit Nos. 85 and 86, the Company's request for an increase in O&M expense of $16 million through this test year methodology is a reasonable approach to set sufficient rates, not excessive rates, as some witnesses have indicated, to provide the Company with the opportunity to earn a reasonable return.

IV. PLANT ANNUALIZATION ADJUSTMENTS

Q. Why has the Company included $91.3 million in annualizing adjustments to rate base?

A. Annualizing adjustments are intended to reflect projects at a year-end level so that rates in place beginning in 2009 will reflect the end-of-year investment in these projects versus an average year investment in these projects, therefore reducing timing differences related to recovery of rate base investments in 2009.

Q. Do Idaho Power and Staff generally agree on how best to adjust rate base for investments in plant?

A. Yes. Projects greater than $2 million are typically included as a known and measurable adjustment to rate base. Although Staff did not recommend an adjustment to the Company's proposed escalation of capital expenditures less than $2 million, the Company is open to discussing other ways it can capture growth in investments less than $2 million given the large volume of projects (approximately $110.4 million) that are included in this category.

Q. Micron Witness Dr. Peseau criticizes the Company's proposed plant annualizing adjustment, alleging that it does not match costs and revenues. Do you agree with Dr. Peseau's recommendation to remove $91.3 million in annualizing adjustment to the 2008 rate base?

A. No. The Company proposed an annualizing adjustment to 2008 rate base in Company Witness Greg Said's

Exhibit No. 52. This exhibit identifies large construction projects greater than $2 million that were classified as Reliability/Compliance, Load Growth, or Other. The Company removed $1,489,324, or 11.6 percent, of the requested ratebase-related revenue requirement to reflect offsetting revenues from those projects in the Load Growth category that could be revenue producing.

More than 50 percent of the $91.3 million in annualized plant, or $45.8 million, has an offsetting imputed revenue included in the revenue requirement per the Commission's direction in Order No. 29505. Over $37.6 million, or 41 percent, of the $91.3 million of annualizing adjustments are included and categorized as Reliability or Compliance-related projects that the Company is either mandated to construct or has identified as a critical project to reliably serve load. These projects do not have revenue producing capability.

V. DEPRECIATION ADJUSTMENT

Q. Do you agree with Staff Witness Leckie's $1,471,189 depreciation expense adjustment and the adjustment to Accumulated Depreciation account or depreciation reserve of $227,440?

A. Yes. Mr. Leckie has correctly adjusted the Company's filing to reflect the Commission Order No. 30630.

VI. PURCHASING CARDS

Q. As a preliminary matter, what are purchasing cards and how are they utilized at Idaho Power?

A. Idaho Power has a OneCard Solution Purchasing Card ("P-Card") program implemented for Company employees to use for purchases. This program was implemented to replace a variety of processes including petty cash, local check writing, cash advances by check, expense accounts, open vendor accounts, and certain purchase orders. The intent of the P-Card is to allow the Company to better manage high volume, low-dollar transactions and to improve cash flow management by simplifying payments, reducing paperwork, reducing processing expense, reducing multiple checks, and providing a centralized listing of all expenses.

Q. How does the use of P-Cards add value to Idaho Power's operations?

A. P-Cards are commonly used by many businesses to effectively administer and manage the reimbursement of business related expenses. P-Cards allow employees to make emergency field purchases and fund business related travel expenses. Also, the use of P-Cards for small dollar purchases saves the Company money by eliminating the need to create purchase orders and process invoice payments for small items.

Q. Staff Witness Vaughn claims that "the widespread use of P-cards and the ability of an Idaho Power employee to take cash withdrawals to self-reimburse for expenditures prior to approval opens the door to the possibility of employee abuse." Do you agree?

A. No. In fact, in Staff Witness Vaughn's testimony, she specifically states that Staff did not find any evidence of employee abuse. Company policy expressly prohibits personal use of the P-Card and employees that violate the policy are subject to discipline, including termination.

Q. How do Idaho Power's internal controls and the culture it promotes minimize the potential that exists for employees to misuse Company assets?

A. Idaho Power has established a culture that promotes honesty and integrity. This control environment includes:

Tone at the Top - Officers and Senior Management have established a culture with a strong value system founded on integrity. This is evidenced through consistent and frequent messaging, our mission statement, corporate leadership initiatives, and training programs, and through the actions of management.

Code of Business Conduct and Ethics ("Code") - Each Idaho Power employee is required to sign a statement of acknowledgement that they will comply with the Code. The Code not only outlines legal requirements and guiding principles but also sets forth the Company's commitment to an ethical way of doing business. The Manager of Corporate Compliance oversees the Code and is a resource to employees.

Ethics Line - Suspected violations may be reported anonymously through a third-party hotline, a website, or other internal resources. The third-party hotline allows for a direct reporting conduit to the Board of Directors. All reports are promptly investigated and acted upon.

Hiring and Promoting Appropriate Employees - Idaho Power has established various proactive hiring and promotion procedures to hire and promote qualified employees. These procedures include the use of detailed position descriptions, targeted selection interview standards, background investigations, drug testing, and the incorporation of regular performance reviews.

SOX Compliance Program - As part of the SOX compliance program, fraud risk is considered in developing key controls. These controls are evaluated and tested as part of the SOX compliance program.

Annual Business Planning - Management performs an annual business planning process. In this process, fraud risk factors to the Company are identified and catalogued based on industry research, brainstorming/focus group/interviews, existing event inventories, and process flow analysis. Results are evaluated and presented to Senior Management as part of the annual business planning process.

Fraud Risk Assessment - The SOX Project Manager compiles a fraud risk assessment as part of the SOX compliance program, which is reviewed in detail with the Vice President, Audit and Compliance and the Vice President, Chief Risk Officer.

Q. How does Idaho Power's internal control structure specifically limit the potential for employees to misuse P-Cards?

A. Monitoring controls have been established to deter or detect errors specific to the P-Card expense process. P-Card charges must be approved for each employee. Managers review their cost center charges, which include P-Card expenses. Accounts Payable ("AP") Team Members review P-Card expenses to ensure that documentation provided is appropriate to support the expense. AP Team Members are empowered to escalate any questionable expenses to the AP Team Leader for further review. Finally, the AP Team Leader, Vice President/Treasurer and Senior Vice President, Administration/Chief Financial Officer review and sign off on the monthly P-Card reconciliation.

Q. On page 33 of her testimony, Staff Witness Vaughn states that because P-Cards can be used for cash advances without pre-approval, an employee can use it for personal expenses or a cash advance similar to a payday loan. Is that an accurate assessment?

A. No. All expenses related to cash advances must be properly supported and approved. If these requirements are not met, the amount in question will be deducted from the employee's next paycheck. In addition, because Company policy expressly prohibits personal use of the P-Card, employees that violate the policy are subject to disciplinary action including termination. This may explain why Staff identified no instance of P-Cards being used intentionally for employee personal expenses.

Q. On page 33 of her testimony, Staff Witness Vaughn states that this practice gives an employee "unfettered" access to $5,000. Is she accurately describing Company policy?

A. No. All employees with a P-Card do not have cash advance access. The cash advance function can only be granted to an employee based on a manager's approval. For those employees granted cash advance access, limits range from $150 to $3,000, depending on the employees' job duties. The cash advance limit for most employees is $300.

Q. Do you have any concerns about the auditing methodology used by Staff to come up with their critique of the Company P-Card system?

A. Yes. The Company has put in a great deal of time and effort in reviewing Staff workpapers and discovery responses to understand the basis for their conclusions and findings related to P-Card expenditures. Our review was guided by the standards issued by the American Institute of Certified Public Accountants ("AICPA"), which state that:

> The auditor must prepare audit documentation in connection with each engagement in sufficient detail to provide a clear understanding of the work performed (including the nature, timing, extent, and results of audit procedures performed), the audit evidence obtained and its source, and the conclusions reached.

(AICPA, Professional Standards, Vol. 1, AU sec. 339)

It certainly does not appear that Staff complied with those standards. In its review of Staff's workpapers, Idaho Power was unable to gain a clear understanding of the work performed or the basis for the conclusions reached. Specific concerns include: (1) The criteria for evaluating audit evidence were not defined; (2) it does not appear that Staff used the information obtained through the review of the sample of 900 monthly reconciliations to develop conclusions on the entire population; and (3) Staff's conclusions on the disallowances regarding meals and cell phone usage were subjective and not supported by the testing documentation.

Q. What is your concern regarding Staff's failure to not provide sufficient criteria for evaluating audit evidence?

A. Through review of Staff's workpapers, it appears the criteria used by Staff were unreasonably subjective. According to Government Auditing Standards issued by the Government Accountability Office ("GAO"), the criteria should ". . . provide a context for evaluating evidence and understanding the findings." The GAO guidance further represents that criteria includes ". . . standards, measures, expected performance, defined business practices, and benchmarks against which performance is compared or evaluated." (Chapter 6.16).

In Staff Witness Vaughn's response to Idaho Power Company's Production Request No. 35, she states that

". . . expenditures must be considered necessary, reasonable, and prudent in provision of this service" to the customer. She further states that "Expenditures that do not meet these criteria should be recorded below the line . . . ." The criteria defined by Staff do not meet the GAO standard because Staff does not cite anything other than Ms. Vaughn's personal belief as the source to define necessary, reasonable, and prudent expenses. For example, there is no reference to an independent study, industry benchmarks, or best practices to support her assertions.

Q. How did Staff use the sample of 900 monthly reconciliations in performing their audit?

A. It appears that Staff examined a randomly selected sample of approximately 900 reconciliation envelopes. However, the information taken from the sample was not used to evaluate the total population of P-Card expenditures that occurred in 2007. Instead, Staff requested a list of all 2007 calendar year P-Card expenditures and subjectively chose percentages to exclude for meal and cell phone expenditures. As a result, there is not a clear logical link between Staff's selected sample for review and the conclusions reached for the disallowances.

Q. How did you conclude that Staff did not use the information obtained through the review of the sample of 900 monthly reconciliations to develop conclusions on the entire population?

A. In Ms. Vaughn's response to Production Request No. 46, she stated "No" when asked if she pulled and reviewed the individual P-Card envelopes (reconciliations) that supported the charges included on her Exhibit No. 125, pages 1 and 2 that formed the foundation of Staff's conclusion that the expenses should be excluded from recovery in rates.

Q. Regarding P-cards, please identify the components that make up Staff Witness Vaughn's recommended $884,747 adjustment for ratemaking purposes.

A. Staff Witness Vaughn's adjustment includes: (1) $236,274 for restaurant expenditures; (2) $306,475 for cell phone related expenditures; (3) $247,339 for Gifts/Awards; (4) $61,729 for bottled water, coffee, and newspapers; (5)$17,606 for charitable donations; (6)$7,999 for political activity; and (7) $7,366 related to the Company's "keyword" search. I will address each of these adjustments separately below.

A. **Restaurant Charges**

Q. Do you agree with Staff Witness Vaughn's recommendation to exclude $236,274 of restaurant expenses from Idaho Power Company's revenue requirement?

A. No. Ms. Vaughn recommends removing $236,274, or 50 percent, of all restaurant and food expenses incurred within the Company's service territory stating they were "excessive" and "neither reasonable or necessary" while simultaneously stating that because of the volume "it was clearly impossible for Staff to review all supporting documentation." Although the implication in her testimony is that she reviewed some supporting documentation, Ms. Vaughn's response to Production Request No. 46 was that she did not review the supporting documentation for the P-Card expenditures included in the amount she recommended for removal. To remove 50 percent of all restaurant and food expenses incurred within the Company's service territory is both subjective and arbitrary.

Q. Why should these items not be removed?

A. Again, based on a limited description provided in a data dump from the Company's general ledger system and with no apparent detailed review, a 50 percent adjustment removing these expenses is unreasonable. The

Company has adequate oversight controls in place for these types of purchases in order to ensure they have a legitimate business purpose and are neither excessive nor unreasonable.

Q. Why do you believe Staff's conclusions regarding meals were arbitrary and not supported by the testing documentation?

A. In Staff Witness Vaughn's response to Idaho Power Company's Request No. 36 regarding the 50 percent adjustment to restaurant expenditures, she states that "the 50% was not based on a specific calculation . . . ." As the rationale for this disallowance, she cites 50 percent as a reasonable percentage "to eliminate expenditures that are believed to be excessive." (Page 26 of Vaughn's direct testimony). Further, she cites four "worrisome" examples of meal expenditures that she believes are neither reasonable nor necessary for a regulated utility based on the limited description provided in a data dump from the Company's ledger system. These four examples total less than $150 and serve as her basis for excluding nearly $236,000 in restaurant expenditures for ratemaking purposes. Her workpapers do not provide an adequate basis to conclude that the meal expenses were neither reasonable nor necessary. There is no evidence that 50 percent of the meal expenses reviewed by Staff met her criteria as "worrisome." Further, Staff did not include any objective criteria to support her assertion that these expenses are excessive.

B. <u>Cell Phone Expenses</u>

Q. Do you agree with Staff Witness Vaughn's recommendation to exclude $306,475 of cell phone expenditures from Idaho Power Company's revenue requirement?

A. No. I have the same problems with Staff's conclusions regarding cell phone usage that I did with restaurant charges; Staff conclusions were arbitrary and not supported by the testing documentation. The resulting Staff adjustment is not valid and should not be allowed.

Q. Why do you believe Staff's conclusions regarding cell phone usage were subjective and not supported by the testing documentation?

A. On page 28 of Staff Witness Vaughn's direct testimony, she states that she "removed 75% of the cell phone expense charged to A&G and 50% of all remaining cell phone expense." In her response to Idaho Power Production Request No. 40, she further states that "the percentage was not calculated, nor was it intended to be . . . ." As rationale for this disallowance, she cites a belief that the Company has too many employees with cell phones and that cell phones are unnecessarily assigned to employees located in central headquarters. Staff Witness Vaughn further stated in response to Idaho Power Company Production Request No. 39, that Staff believes it is reasonable for certain key employees and many field personnel to carry a Company-provided cell phone. In reviewing the Company provided-workpapers, Staff had access to employee job titles, yet there was no analysis performed to determine which employees should or should not have cell phones based on Staff's cell phone criteria. Rather, the disallowance was based on assumptions unsupported in Staff's workpapers or testimony.

Q. Why should cell phone related expenses be included in the revenue requirement?

A. The Company agrees with Ms. Vaughn's statement that cell phones are a necessary expense of doing business and "due to the wide spread and often remote work areas of Company employees, reasonable cell phone communication expense should be included in rates." However, I believe Ms. Vaughn reaches her conclusion that the cell phone charges are excessive on the basis of an inadequate auditing process. The Company takes very seriously the prudent use of cell phones and provides them based on business necessity.

Q. You mentioned inadequate auditing process in your answer. Would you elaborate on that statement?

A. It is apparent Ms. Vaughn failed to follow good auditing practice and look at the data underlying the numbers. There are numerous items Staff Witness Vaughn identifies in her workpapers as cell phone charges which are not cell phone charges. Among the largest of these individual charges are satellite communication fees incurred in the monitoring of water flows, monitoring of snow levels, and communication service for dams. Most of the noted monitoring equipment charges are included in Account 921. In reviewing Account 921, Ms. Vaughn concludes "145,921 (27%) of the total O&M cell phone expense is charged" to P-cards and because "most A&G employees are employed at the Company central headquarters." She incorrectly concludes that these charges are for only A&G employee use of cell phones. Also included in Ms. Vaughn's analysis of cell phone expenses are charges completely unrelated to cell phones use, such as charges for ladders and tools for vehicles, an extension cord, parking fees, employee training, trailer stock materials, audit department reference materials, restaurant, lodging and training expenses. In addition, there is a significant amount of charges related to after-hour and on-call support for the call center. It is apparent Ms. Vaughn based her findings on assumptions and not fact.

Q. Are there any other cell phone charges that Ms. Vaughn has identified for removal that are in fact reasonable and prudent expenses for ratemaking?

A. Yes. There are charges for cell phones that are located in outlying areas that are used to transmit data so that additional labor costs can be averted in the collection of necessary business data. Among these are cell phones located at large customer (Rate Schedule 9P and 19) meter locations and interchange points. These phones are attached directly to the meter and are necessary due to the large amount of daily transmitted data collected from these customers. Additionally, there are charges for cell phones used by meter readers to receive orders for disconnects and connects, to call prior to disconnecting customers for non-payment, and to call other meter readers when they are done with their routes to see if help is needed in other areas.

Q. What is your overall assessment of the cell phone charges Ms. Vaughn has removed?

A. I have discussed several flaws within Ms. Vaughn's evaluation of data that she used for the basis of her assumptions. While the Company takes Ms. Vaughn's concerns seriously, the Company provides cell phones based solely on business necessity and has adequate controls in place. As part of the Company's ongoing cost containment and prior to the filing of Mrs. Vaughn's testimony, the Company commenced a complete review of all cell phone policies and procedures, which should be completed by the end of the year.

Contracts with carriers are continuously reviewed and renegotiated resulting in more competitive pricing. Corporate pooled accounts were established with two large cell phone carriers in December 2007 and January 2008, which have resulted in additional savings. The Company has negotiated an umbrella contract that will cover all employees, creating a larger group and thereby providing economies of scale, which will provide significant savings to customers. Ms. Vaughn's desire to make assumptions based on a data dump of 14,327 lines, with limited descriptions, without a detailed review is unreasonable. Ms. Vaughn has not demonstrated any rational basis for her 50 percent and 75 percent removal percentages.

Q. In her testimony, on page 32, Staff Witness Vaughn states that P-Cards are used for cell phones and office supplies "in lieu of standard business purchasing practices." Has she correctly characterized the Company's purchasing practices?

A. No. In 2007, each employee with a Company-issued cell phone used Company-negotiated service contracts with an individual pool of minutes. In addition, standard purchasing practices are utilized to purchase office supplies and paper. With the exception of emergency purchases, all paper and office supplies are purchased through negotiated contract pricing using an electronic procurement system, which uses P-Cards instead of separate purchase orders to improve the Company's efficiency and reduce costs.

C. <u>Gifts/Awards</u>

Q. Do you agree with Staff Witness Vaughn's $247,339 adjustment for Gifts/Awards?

A. No. Blanket removal of all these items should not be allowed based on a data dump, with limited descriptions of the charges, and no in-depth review. The Company provides certain benefits to employees to foster a positive working environment, good morale, and, although indirect, assist in attracting and retaining quality employees - all of which benefit customers. Although Ms. Vaughn states these expenditures, "though allowable as traditional expenses, do not benefit the customer," she does not articulate why they do not benefit customers. In review of Ms. Vaughn's adjustments, a large majority of these items are for Service Award Celebrations, including Retirement Parties ($67,795), Excellence Awards ($50,314), and Company-Sponsored Social Functions ($76,543), all of which are conducted under specific guidelines and are addressed in the Company's employee handbook. For example, the purpose of the Service Award Celebration is for an employee's co-workers to recognize the employee for his or her time and contributions to the Company. The total amount of expenditure is based on years of service, which is $125 for 5 and 10 years, $200 for 15 and 20 years, and $300 for 25 years of service and above.

Excellence Awards are tools that supervisors, managers, and officers can utilize to recognize "exceptional" employee contributions and motivate employees to perform in a like manner. These awards can be given in the form of cash or gifts for which there are specific guidelines.

While in today's environment Company-sponsored social events such as Christmas parties and picnics are kept to a minimum, these events promote employee morale as well as develop positive working relationships and environments.

Q. What other types of items were included in Ms Vaughn's adjustment for gifts and awards?

A. There are over 2,500 rows of expenses listed in Ms. Vaughn's exhibit so it is virtually impossible to list each item; however, the list is included in her workpapers for review. Examples of the types of items included in this list are expenses related to team building functions, sympathy cards and flowers for deaths, safety appreciation lunches, employee appreciation breakfasts, etc.

D. <u>Bottled Water, Coffee, and Newspapers</u>

Q. Do you agree with Staff Witness Vaughn's $61,729 adjustment for bottled water, coffee, and newspapers?

A. No. Idaho Power employees, particularly those in the field, frequently work in inhospitable conditions to maintain or restore power in remote areas. In some instances, the Company provides water or coffee for the health and/or safety of employees working in extreme temperatures. Idaho Power utilizes local newspaper subscriptions to stay abreast of new businesses, legal notices, and legal publications of local ordinances and laws that may impact the utility business or Idaho Power customers. Staff's proposed adjustment would disallow appropriate business expenses such as these that enable the Company to provide quality service to its customers.

E. <u>Charitable Donations</u>

Q. Please address Staff Witness Vaughn's $17,606 adjustment for charitable donations. Is this adjustment reasonable?

A. No. Ms. Vaughn removed $17,606 in expenses classifying them as donations. In the Company's 2003 Idaho Rate Case (IPC-E-03-13), Staff identified and the Commission ordered the removal of 100 percent of all charitable contributions and 1/3 to 100 percent of memberships. In this current rate case, the Company removed $195,563 for those items identified in Exhibit No. 30, pages 2 and 3 of 9, and an additional $3,445 on Exhibit No. 30, pages 4 and 5 of 9.

While the Company reviewed thousands of entries in an attempt to remove all charitable donations, it is inevitable that a few small dollar items might be missed. However, unlike donations made to specific entities, the vast majority of the expenses was incurred in support of employee community involvement, which enhances employee morale and benefits the local communities that comprise Idaho Power's service territory. A review of these items also indicates that some of these items (less than $2,000) were already removed in my Exhibit No. 30, pages 2 and 3 of 9. Ms. Vaughn's adjustment would remove those amounts twice from Idaho Power's 2008 test year expenses.

F. Political Activity

Q. Do you agree with Staff Witness Vaughn's $7,999 adjustment for political activity?

A. Partially. While the Company makes every effort to assure expenses relating to political activities are removed, some of Ms. Vaughn's adjustments are valid. However, the Company had already removed $4,733.70 of this amount and thus Ms. Vaughn's adjustment results in double counting. For example, one-third of the $3,752.50 Boise Metro Chamber membership was removed in Exhibit No. 30, page 2 of 9, line 41. The amount of $404.00 for Mr. Panter's officer physical was removed in Exhibit No. 30, page 8 of 9, line 126, and 17.4 percent of Mr. Keen's travel expenses to the Governor's Cup Scholarship fund raising event has been removed in Exhibit No. 30, page 6 of 9, line 56. These were removed in accordance with Order No. 29505 (Case No. IPC-E-03-13).

G. <u>Keyword Search</u>

Q. Do you agree with Staff Witness Vaughn's $7,366 adjustment related to the Company's keyword search?

A. No. Ms Vaughn states she included "expenditures similar to those removed by the Company subsequent to its 'keyword' search as described in Ms. Smith's direct testimony." (Vaughn Dir. 22.) However, this statement is incorrect. In Exhibit No. 30, page 9 of 9, the Company removed charges that, although the Company feels are appropriately incurred costs, the vendor name might lead an uninformed individual to come to the wrong conclusion. Included in the Company's initial keyword search was the name "bar." However, the Company has found that a significant number of restaurants include the name "bar" in their names. There are instances when "bar" may not even be stated in the logo on the building, but when employees pay for their meals, they find it is printed on their receipts. Therefore, after discussions with management, it was determined to remove only charges to establishments that included only the word "bar" in their name. If the establishment's name included "bar" but also grill, restaurant, café, or something similar, it was not removed. Therefore, the Company feels it is unreasonable to remove all of these charges.

VII. <u>INVENTORIES ADJUSTMENTS</u>

Q. Staff Witness Vaughn recommends removal of $6,617,514 from rate base based on her assessment that there is "no accurate predictor" of Accounts 154 and 163 - Plant Materials and Supplies and therefore "adequate planning, ordering, and inventory management" by the Company will allow inventory levels to be maintained at 2007 levels. Is her recommendation valid?

A. No. While I do agree that 100 percent accuracy in estimating account balances is difficult, a reasonable estimation is possible. 2008 actual data shows that the Company has done a good job of managing and estimating Accounts 154 and 163 levels. In its original filing, the Company estimated that by the end of 2008 the total of these two accounts to be $50,128,526. As of October 2008, the combined balance is $50,407,997, or $279,471 higher than the Company's entire 2008 estimate. There were three primary drivers in arriving at the Company's 2008 estimate: (1) the Company in 2007 had been applying sales taxes included in Account 163 to the reissuance of Company remanufactured transformers; (2) the Company has seen an increase in the cost of transformers by an estimated 60 percent due to the increased cost of metal and oil; and (3) the need for higher inventories to serve a larger customer base.

The over-application through the Stores Loading process of sales taxes was discovered in February 2008 and corrected through a reduction to Stores Loading rate from February 2008 through October 2008, resulting in an increase to 2008 inventory levels of approximately $2 million. The Company only incurs sales tax expense once when a transformer is purchased and subsequently should only be capitalized once when the transformer is originally issued, not when remanufactured and reissued.

While the Company is constantly monitoring its inventory levels to assure adequate but minimal inventory, it must ensure that there are sufficient inventories to serve the customers. It takes this responsibility very seriously. Unlike unregulated companies, Idaho Power cannot tell a customer he or she may have to wait while inventory is ordered.

VIII. <u>EXECUTIVE DEFERRED COMPENSATION ADJUSTMENT</u>

Q. Do you agree with Staff Witness Nobbs that the four entries in sub-account 920.350 identified as Executive Deferred Compensation for 2007 totaling $459,524 should not have been included in the revenue requirement?

A. Yes, but not for the reasons cited by Mr. Nobbs. Idaho Power has approximately 1,250 active general ledger accounts and many of those accounts have thousands of lines of entries included within them in any given year. While Idaho Power makes every possible attempt to review accounts and remove items that should not be borne by the ratepayer, these costs were inadvertently overlooked in the preparation of the rate case.

Q. Do you agree with Mr. Nobbs's characterization of the source of the funds included in the $459,524 amount?

A. No, I do not. While Mr. Nobbs is correct that these expenses are included in a "Rabbi Trust," he is incorrect in his description of the source of the funds included in the $459,524 amount. As part of Idaho Power Company's Executive Compensation plans, the Company allows executives to defer, at their discretion, some of their compensation until he or she separates from the Company. While the executive's compensation is correctly recorded as a current expense to the Company at the time it is earned, instead of paying the executive at that time, the Company takes the cash the executive elects to defer and deposits it in a participant-directed investment account. This account is very much like a 401(k) plan and the executive has the same investment options as are available to participants in the Company's ordinary 401(k) plan. Generally Accepted Accounting Principles ("GAAP") require the Company to set up an asset for the investment and corresponding liability for the benefit of the executive. Any earnings or losses on the trust assets that accrue to the benefit of the employee are recorded as either gains or losses, or interest and dividend income or expense, in the Company's income statement as it is earned and a corresponding entry is made to gross up the value of the asset. At the same time, an identical amount is recorded as an increase or decrease to compensation expense in the income statement with an offsetting entry credited to the liability account to recognize the increase or decrease in the liability to the executive. Therefore, the income generated is offset by a corresponding expense. In this case, the income fell below the line while the expense was recorded above the line. Mr. Nobbs is correct that the $459,524 should not have been included in the revenue requirement.

Q. Did any executive use this provision to defer a portion of their compensation in 2007?

A. No. The $459,524 represents only earnings on amounts executives had deferred prior to 2007.

Q. Mr. Nobbs stated earlier in his testimony that businesses often use this type of trust to provide "Golden Parachutes" and later in his testimony that it is a form of non-qualified deferred compensation similar to a golden parachute. Do you agree with these statements?

A. No, I do not. It is not a form of severance pay, bonus, stock option, or a combination thereof. There is also no contract defining it as such. It is purely a plan to permit deferral of base salary or incentive compensation that the participant would otherwise receive in cash. The deferred funds are kept in a participant-directed investment account that is very similar to a 401(k) account. The term "golden parachute" is certainly an inflammatory term these days and it is unfortunate that Mr. Nobbs chose to use it when it is not applicable to Idaho Power's situation.

Q. Mr. Nobbs stated on pages 3 and 4 of his direct testimony that "[because] creditors can exercise a prior claim on trust corpus; the trust beneficiaries bear a 'substantial risk of forfeiture.' Simply put, contributions can be taken back until they are given to the employee." [Emphasis in original.] Has he correctly described the operation of the deferred compensation plan at issue here?

A. Not entirely. Trust beneficiaries do bear a risk of forfeiture of their deferral and earnings on their deferral because the trust corpus can be reached by creditors. However, it is inaccurate for two reasons to say that contributions can be taken back until they are given to the employee. First, the Company does not make contributions to this plan. All amounts contributed to the plan are elective deferrals made by the participants. There is no Company match associated with these deferrals. Second, the statement implies that Idaho Power may redirect these funds to its own purpose, which is not true. Idaho Power holds legal title to the funds until they are distributed but has no access to the funds for its own use. The funds could only be forfeited in a bankruptcy proceeding, in which case the funds would go to satisfy creditor claims.

IX. INTEREST ON DIRECTOR'S FEES ADJUSTMENT

Q. Do you agree with Mr. Leckie's removal of $15,172 in interest paid to Company directors on their deferred director's fees?

A. No. Interest on deferred director's fees is recorded in FERC Account 431 and is a below-the-line account. Because the interest was not included in the

Company's requested revenue requirement, the $15,172 cannot be removed.

X. OUT OF PERIOD ACCRUALS ADJUSTMENT

Q. Staff Witness Nobbs states that he found two accruals in 2007 recorded in account 928.101 - FERC Order No. 472 containing out-of-period charges totaling $193,901 and that each of these accruals covered a one-year period. Do you agree with this statement?

A. No. Idaho Power accrues FERC administrative fees monthly, based on an estimate using the previous twelve-month actual billing. The monthly accrual amount is established in August or September of each year and is for the following twelve-month period from October 1 through September 30. When the Company receives the FERC's invoice, the Company adjusts its accruals and by the end of the twelve-month period in September the amount accrued agrees to the actual billing for the same time period. Based on the FERC invoice, the Company would then estimate the monthly accrual for the next twelve-month period.

In Mr. Nobbs's exhibit, he reduces the Company's 2007 accrual of $480,505 by $163,901, stating that $98,239 of this amount relates to 2006 and $65,662 relates to 2008. I am not certain how Mr. Nobbs came to his conclusion but the full $480,505 is the accrual for 2008. A reduction of this amount would understate Idaho Power's 2007 expenses and revenue requirement.

XI. CONTRIBUTIONS, ALARM CLOCK AND CANDY

Q. Staff Witness Nobbs recommends the removal of contributions, alarm clocks, and candy in the amount of $7,150 from Account 930.2-Miscellaneous Expenses because these "appear to be personal, a contribution or frivolous." Do you agree with his assertion?

A. No. None of these items are either personal or frivolous in nature. These expenses had a definite business purpose and benefit. The alarm clocks, which were of small individual dollar value ($8.46 each and $457 in total expense), were given out at the EEI Fall Financial Conference to assist in reminding security analysts (both fixed-income or debt, and equity) that Idaho Power is a viable and prudent investment option. This either reinforces Idaho Power (by a logo on the gifts) to those who already know us or introduces the corporate logo to new analysts and potential investors.

As Idaho Power and IDACORP compete for new capital (an even more defining issue today in the credit-constrained capital markets), it is important to differentiate Idaho Power from others. And to that extent, Idaho Power is not alone in giving out "trinkets" to those who either influence or directly purchase our debt and equity securities. At this conference, Idaho Power also met with members of the credit rating agencies (Moody's, Standard & Poor's, and Fitch) and they often take these items after having a thorough dialog with the management team.

The $1,718 spent on butter toffee was provided to city and county agencies for providing information, data and assistance with easements, GIS data, and other documentation to Idaho Power. Maintaining city and county relationships and their cooperation is invaluable when gathering easement information.

Q. Do you take issue with any other amounts included in the $7,150 that Mr. Nobbs recommends removing?

A. Yes. Besides the gifts previously mentioned, the Company had already removed from the Company's revenue requirement the membership for $1,000 to the Idaho Economic Council in Exhibit No. 30, page 2 of 9, line 53. Therefore, this amount does not exist in the revenue requirement such that it can be removed.

Q. Are there any amounts included within the $7,150 Mr. Nobbs recommends removing that you do agree should be removed?

A. Yes. While the Company feels the remainder of the $7,150 has an appropriate business purposes, in Case No. IPC-E-03-13 the Commission found that certain memberships and contributions should be removed from test year expenses. As a result, the Company reviewed thousands of rows of charges to make every attempt to remove such charges. However, our additional review shows that the Company did in fact fail to remove the memberships for $2,500 to the Caldwell Economic Council and $1,125 to the Eastern Oregon Visitors Association.

XII. <u>FERC SETTLEMENT CREDIT ADJUSTMENT</u>

Q. Staff Witness Vaughn describes on page 19 of her testimony an adjustment to the Staff's actual test year for a credit received from the FERC involving FERC administration and Other Federal Agency ("OFA") charges. Do you agree that this adjustment is appropriate?

A. No.

Q. Please explain why the Company received reimbursement of the FERC administration and other federal agency charges.

A. The FERC and other federal agencies assess utilities for costs related to their administrative and regulatory duties. Numerous utilities sued over the accuracy of the charge and the court agreed with Idaho

Power's position on the charges. As a result, Idaho Power received reimbursement for fees collected from 1999 through 2006.

Q. Ms. Vaughn recommends that the Company flow through this reimbursement to its customers over a five year period. Do you agree with this recommendation?

A. No. There are essentially two reasons for my disagreement. First, Ms. Vaughn contends that the Company over-collected its expenses in prior years. This would only be true if the Company had over-earned since the period of time she uses; i.e., from 2003 forward. As Company Witnesses Steve Keen demonstrated on page 31 of his direct testimony and LaMont Keen explained on pages 9 and 10 of his direct testimony, the Company actual return on equity for those time periods was well below the allowed return established in those two cases and accordingly there was no overcharge. Second, Ms. Vaughn has simply selected one expense item out of many to make a retroactive adjustment for ratemaking purposes. She is artificially increasing the Company's revenues for the next five years when she creates the amortization of her credit. This amortization has no relationship to the actual ongoing costs of the Company. It will simply cause the Company to under-earn through the device of creating a revenue stream from a prior period by assuming that the Company has over-collected on an expense item for a prior period.

Q. What would be the financial impact on the Company of Ms. Vaughn's recommendation?

A. The Company would be required to write off approximately $3.3 million to 2008 net income.

XIII. ARCHITECTS' SERVICES ADJUSTMENT

Q. Do you agree with Staff Witness Nobbs's characterization that the architects' services of ZGA Architects and Planners totaling $36,375 should be capitalized rather than expensed?

A. No. Mr. Nobbs appears to have assumed that because these particular expenses were incurred to an architectural and planning firm, that these costs represent architectural costs for capitalized items. However, this firm not only provides architectural services but also consulting services. Idaho Power requested the firm's consulting services be provided in the Corporate Headquarters Master planning efforts to identify alternative solutions to physically accommodating employee growth. This effort has resulted in the decision to relocate approximately 20 percent of the Company's employees from the Corporate Office to the Boise Plaza building and thus defer a long-term decision on building new facilities.

Q. Why have you concluded that these costs are not capitalizable costs?

A. Capital expenditures according to GAAP are not normal, recurring expenses and are costs that benefit the operations of more than one operating period. Also, costs that improve efficiency or extend the life of an asset would also qualify under GAAP to be capitalized. However, unlike architectural drawings which may meet the aforementioned requirements, consulting costs of this nature are normal, recurring, and according to GAAP should be expensed.

Q. Given that Mr. Nobbs stated these should be capitalized, did he add these costs to rate base and include an appropriate amount in the cost of service for depreciation?

A. No, he did not.

XIV. <u>LEGAL FEES ADJUSTMENT</u>

Q. On page 13 of his testimony, Staff Witness Leckie recommends that the Commission deny recovery of legal fees in the amount of $192,364 paid to the Dewey & LeBoeuf law firm. Is Mr. Leckie's adjustment reasonable?

A. No. Mr. Leckie testifies that the billings for these legal services were entitled "Stock Plans" and separated from other Dewey & LeBoeuf billings. On this basis, he mistakenly concludes that the legal services covered by these billings only benefit shareholders and therefore should be excluded from expenses to be included in the Company's revenue requirement. I believe if Mr. Leckie had examined the actual invoices from Dewey & LeBoeuf, he would have recognized that the legal services described in the invoices labeled "Stock Plans" cover legal compliance issues associated with multiple employee benefit matters and are not for legal services directly related to IDACORP stock. For example, the legal services covered in the "Stock Plan" invoices include work on legal compliance issues associated with the Company's 401(k) and restricted stock plans for its employees. Both restricted stock and 401(k) plans are common employee benefits that help the Company attract and retain qualified employees.

Q. Should any of the legal services billed under the "Stock Plans" label be allocated to IDACORP?

A. Yes, and they already have been. The actual invoiced amounts are greater than the amounts shown in Mr. Leckie's Exhibit No. 118. The Company has already reduced the amount it is seeking to collect in its revenue requirement to reflect an allocated portion of these billings going to IDACORP. The Company's General Counsel's office reviewed the bills and concluded that a portion of the total bill should be allocated to IDACORP. The amounts shown in Mr. Leckie's Exhibit No. 118 reflect that reduction.

Q. Will the Company change the way it labels these legal services invoices in the future?

A. Yes. Idaho Power has requested that Dewey & LeBoeuf revise its invoice descriptions to avoid future misunderstandings of this type.

Q. Does this conclude your rebuttal testimony?

A. Yes, it does.

IDAHO POWER COMPANY
Other Operating and Maintenance excluding Net Power Supply Expenses and Energy Efficiency
Comparing Idaho Power and IPUC Staff Test Year Ended 2008 *versus* Actual Nine Months Ended September 2008

	Actuals Year to Date September 2008		Test Year 2008 IPC as Filed	Test Year 2008 IPUC Staff	
Other O&M (excludes Net Power Supply Expense & Energy Efficiency)	$215,197,715	*(2)*	$295,910,705	$271,553,813	
Adjustments for comparability ***(1)*** *:*					
Operating Payroll 2009 Annualizing Adjustment			(2,593,733)	(1,157,432)	*(3)*
2009 Salary Structure Adjustment			(3,019,804)	0	
	215,197,715		290,297,168	270,396,381	
Account 565 - Transmission of Electricity by Others	(6,137,531)		(10,469,726)	(10,469,726)	
Comparable Other O&M	**$209,060,184**		**$279,827,442**	**$259,926,655**	
Actuals Year to Date September 2008	*(A)*		209,060,184	209,060,184	
Comparable Other O&M	*(B)*		279,827,442	259,926,655	
% of Other O&M Spent as of September 2008	*(A) divided by (B)*		**75%**	**80%**	

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(1) Remove 2009 annualizing adjustments in order to properly compare actual nine months ended September 2008 to Idaho Power and IPUC Staff 2008 test year Other O&M.

(2) Adjusted to include operational incentive at target levels.

(3)	IPC: Op Payroll Annualizing Adjustment (Smith Direct - Exhibit 31)	$2,593,733
	Staff Adjustment: (J Leckie Direct - page 6)	(1,436,301)
	Per Staff: Op Payroll Annualizing Adjustment	$1,157,432

IDAHO POWER COMPANY

Other Operating and Maintenance excluding Net Power Supply Expenses and Energy Efficiency
Comparing Annualized 2008 based on Actual Nine Months ended September 2008
to Idaho Power and IPUC Staff Test Year Ended 2008

	Test Year 2008 IPC as Filed	Test Year 2008 IPUC Staff	
Comparable Other O&M (Smith Rebuttal Exhibit X)	**279,827,442**	**259,926,655**	*A*
September 2008 - YTD Annualized:			
September 2008 - YTD (Smith Rebuttal Exhibit **X**)	$209,060,184	$209,060,184	
Divide by 9 months	9	9	
	23,228,909	23,228,909	
Multiply by 12 months	12	12	
Annualized Other O&M	**278,746,912**	**278,746,912**	*B*
Difference	**$1,080,530**	**($18,820,257)**	*(A - B)*
% Difference (Difference / YTD September 2008)	**0.4%**	**-6.8%**	*(A-B) / B*

(1) As explained and calculated on Smith Rebuttal Exhibit X, Comparable Other O&M equals the 2008 test year as filed by Idaho Power and the IPUC Staff adjusted for 2009 annualizing adjustments.

The above analysis compares 2008 Other O&M annualized based on year to date September 2008 actuals (75% of the year completed) to Idaho Power's and Staff's "Comparable Other O&M" for test year 2008. As the analysis indicates, Idaho Power's comparable test year 2008 Other O&M is just $1.1 million or .4 percent higher than the annualized amount based on year to date September 2008 actuals. In contrast, Staff's comparable Other O&M is significantly understated at $18.2 million or 6.8 percent lower that the annualized actuals.

Idaho Power Customer Growth Compared to Regional Peer Utilities
(Peer company data taken from FERC Form 1) [1]

		1	2	3	4	5	6
		2003	**2004**	**2005**	**2006**	**2007**	**5 Year Compound Annual Growth Rate** [2]
1	Idaho Power Company	420,439	433,465	448,819	464,969	477,094	3.21%
2	*Average of Peer Companies*	*1,355,332*	*1,385,335*	*1,408,614*	*1,439,953*	*1,464,527*	*1.96%*
3	Avista Corporation	321,678	327,049	333,214	340,732	347,097	1.92%
4	Nevada Power Company	682,044	717,787	757,200	794,351	817,587	4.64%
5	PACIFIC GAS AND ELECTRIC COMPANY	4,889,123	4,985,189	5,022,530	5,121,485	5,190,976	1.51%
6	PacifiCorp	1,548,234	1,578,247	1,613,112	1,649,447	1,683,619	2.12%
7	Portland General Electric Company	750,496	762,336	775,533	788,831	800,587	1.63%
8	Puget Sound Energy, Inc.	968,586	990,020	1,011,474	1,027,890	1,048,402	2.00%
9	Sierra Pacific Power Company	327,163	336,717	347,233	356,932	363,422	2.66%
10	**Comparison Multiple (column 6, row 1/column 6, row 2) =**						**1.6**

(1) FERC Form 1 data for IPCo and peer companies = Avg.No. Customers per Month - Page 301, line 10

(2) CAGR = (2007_Amt / 2003_Amt)^(1/4)-1

Idaho Power O&M Growth Compared to Regional Peer Utilities
(Peer company data taken from FERC Form 1) [1]

		1	2	3	4	5	6
		2003	2004	2005	2006	2007	5 Year Compound Annual Growth Rate [2]
1	Idaho Power Company	211,915,942	233,304,802	232,703,449	252,656,967	271,473,048	6.39%
2	*Average of Peer Companies*	*512,920,271*	*528,378,518*	*544,468,501*	*610,916,430*	*641,269,062*	*5.74%*
3	Avista Corporation	125,284,089	137,688,697	136,686,046	138,325,222	146,364,457	3.96%
4	Nevada Power Company	240,028,276	240,544,657	263,023,514	279,891,059	298,021,818	5.56%
5	PACIFIC GAS AND ELECTRIC COMPANY	1,779,287,822	1,779,877,949	1,818,869,243	2,144,060,499	2,300,582,663	6.63%
6	PacifiCorp	828,763,571	915,992,894	914,979,575	986,504,461	948,005,642	3.42%
7	Portland General Electric Company	253,779,368	263,092,686	286,732,757	295,060,260	324,480,671	6.34%
8	Puget Sound Energy, Inc.	242,588,488	228,652,335	250,081,499	278,444,746	322,465,825	7.38%
9	Sierra Pacific Power Company	120,710,286	132,800,411	140,906,872	154,128,764	148,962,360	5.40%
10				**Comparison Multiple (column 6, row 1/column 6, row 2)**		**=**	**1.1**

(1) FERC Form 1 data for IPC and peer companies...
Total Elec Op and Maint Expn - Page 323
less account (501) Steam - Fuel - Page 320
less accounts (517 - 532) Nuclear - Page 320
less account (547) Other - Fuel - Page 321
less account (555) Purchased Power - Page 321
less account (565) Transmission of Electricity by Others - Page 321
less account (557) Other Power Production Expense - Page 321

(2) CAGR = (2007_Amt / 2003_Amt)^(1/4)-1

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L. Smith, IPC
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