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IDAHO PUBLIC
UTILITIES COMMISSION

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF IDAHO POWER)
COMPANY'S APPLICATION FOR A) CASE NO. IPC-E-09-03
CERTIFICATE OF PUBLIC CONVENIENCE)
AND NECESSITY FOR THE LANGLEY)
GULCH POWER PLANT.)
_____)

IDAHO POWER COMPANY

DIRECT TESTIMONY

OF

JOHN R. GALE

1 Q. Please state your name and business address.

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

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

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

8 Q. Please describe your educational background
9 and business affiliations.

10 A. I received a BBA in 1975 and an MBA in 1981
11 from Boise State University. I maintain a close
12 affiliation with the university and serve on the College of
13 Business and Economics' Advisory Council and on the Board
14 of Directors of the Alumni Association. I have also
15 attended the Public Utilities Executive Course at the
16 University of Idaho and am now on the faculty of that
17 program covering "Regulation and Ratemaking."

18 I am an active member of the Edison Electric
19 Institute's Rates and Regulatory Affairs Committee, which
20 is the committee that is concerned primarily with
21 regulatory issues and ratemaking methods. I am the current
22 Chair of this committee.

23 Q. Please describe your work experience.

24 A. From 1976 to 1983, I was employed by the

1 State of Idaho primarily as an analyst in the Department of
2 Employment. In October 1983, I accepted a position at
3 Idaho Power Company as a Rate Analyst in the Rate
4 Department. I initially worked on rate design, tariff
5 administration, and line extension issues. In March 1990,
6 I was assigned to the Company's Meridian District Office
7 where I held the position of Meridian Manager, which was a
8 one-year cross training position established to provide
9 corporate employees with an extensive field experience. I
10 returned to the Rate Department in March 1991 and in June,
11 I was promoted to Manager of Rates. In July 1997, I was
12 named General Manager of Pricing and Regulatory Services.
13 In March 2001, I was promoted to Vice President of
14 Regulatory Affairs, my current position.

15 As Vice President of Regulatory Affairs, I oversee
16 and direct the activities of the Pricing and Regulatory
17 Services Department. These activities include the
18 development of jurisdictional revenue requirements, the
19 oversight of the Company's rate adjustment mechanisms, the
20 preparation of class cost-of-service studies, the
21 preparation of rate design analyses, and the administration
22 of tariffs and customer contracts. In my current position,
23 I have the primary responsibility for policy matters
24 related to the economic regulation of Idaho Power Company.

1 I have testified frequently before the Idaho Public
2 Utilities Commission ("the Commission") on a variety of
3 rate and regulatory matters. I have also testified before
4 or submitted direct testimony to the regulatory commissions
5 in Nevada and Oregon, the Federal Energy Regulatory
6 Commission ("FERC"), the Bonneville Power Administration,
7 and the United States Senate Committee on Energy and
8 Natural Resources.

9 Q. What is the purpose of your testimony in
10 this matter?

11 A. I will briefly describe the new generating
12 resource for which the Company is seeking a Certificate of
13 Public Convenience and Necessity ("CPCN"). I will discuss
14 certain regulatory alternatives that are available to the
15 Commission that, if authorized, would assist the Company in
16 obtaining the necessary financing for the new resource.
17 Finally, I will propose the specific ratemaking treatment
18 sought by the Company as part of its CPCN request.

19 **THE PROJECT**

20 Q. Please generally describe the new resource.

21 A. The resource project is a gas-fired,
22 combined cycle combustion turbine power plant that would be
23 constructed, owned, operated, and maintained by Idaho
24 Power. Idaho Power plans to construct and operate the

1 approximately 330 MW plant and associated facilities in
2 Payette County, Idaho. The name of the new resource is
3 Langley Gulch Power Plant ("Langley Gulch" or "The
4 Project").

5 The Project is split into two categories: (1) the
6 power island and (2) the other support facilities. The
7 major components of the plant's power island include a gas
8 turbine generator, a heat recovery steam generator, a steam
9 turbine, and steam surface condenser. Other support
10 facilities will include a warehouse, office, and operation
11 control buildings to support the plant. The Langley Gulch
12 plant will be water-cooled using secured surface water
13 rights on the Snake River.

14 Q. What is the planned schedule for
15 construction and commercial operation of the Project?

16 A. With the Commission's approval of the CPCN,
17 construction of the Langley Gulch Power Plant will begin in
18 the summer of 2010. The Project is scheduled to be
19 commercially operational by December 2012. To support this
20 schedule, most permits will need to be secured by the
21 spring of 2010.

22 Q. What transmission facilities need to be
23 constructed to interconnect the Langley Gulch Project with
24 the rest of the Idaho Power system?

1 previous CPCN applications were before this Commission.
2 Company Witness Ms. Lori Smith discusses the challenge of
3 financing major capital projects in the present economic
4 and financial environment in her testimony.

5 Q. Given the differences between Langley Gulch
6 and the peaking units previously described, is Idaho Power
7 proposing any regulatory or ratemaking changes to its CPCN
8 request that can make this project more attractive to the
9 financial community?

10 A. We are proposing two regulatory alternatives
11 for the Commission's consideration. Both alternatives
12 build from traditional CPCN filings that include the
13 establishment of the need for the resource, the resource
14 selection process, construction timelines, capacity and
15 operating characteristics, and firm commitment estimates
16 for both the power supply and transmission components of
17 the proposed resource. In this filing, the Company is
18 asking the Commission to also consider either (1) a
19 ratemaking order that would permit all or a portion of the
20 Construction Work in Progress ("CWIP") the Company incurs
21 as it constructs the Project to be included in current
22 rates on an annual basis or (2) to assertively state in the
23 CPCN Order how the Commission intends to treat the

1 Company's investment in Langley Gulch for ratemaking
2 purposes at the time Langley Gulch goes into service.

3 Q. Please describe the CWIP alternative you
4 propose.

5 A. Utilizing this alternative, the Company
6 would submit annual filings to the Commission following the
7 close of each year - potentially on or before March 1. The
8 Commission could audit the Company's filing and authorize
9 the Company to include its investment costs in rates at the
10 time of the annual Power Cost Adjustment rate change (or
11 some other date of its choosing). Utilization of this
12 approach would allow Staff three months to audit the cost
13 information and would implement rate changes in a non-
14 disruptive manner. To alleviate potential concerns
15 regarding the prudence of expenditures, in addition to the
16 ability to audit, the Commission could also limit CWIP
17 recovery to a percentage of booked and audited costs. In
18 the final year, the accumulated plant in service would be
19 evaluated against the Company's Commitment Estimate in the
20 same manner as other projects I cited earlier in my
21 testimony that were constructed under the CPCN process.

22 Q. How would the inclusion of annual CWIP
23 amounts into rates reduce the cost of financing the
24 Project?

1 (3) stated that costs incurred in an amount up to the
2 Commitment Estimate could be deemed to be reasonable and
3 prudent subject to a "soft cap"; (4) stated that at the
4 time the Project was closed to plant and placed in rate
5 base and cost recovery could begin at the time Langley
6 Gulch begins full commercial operations; and (5) stated
7 that the return on equity the Company could expect to earn
8 on the Project investment would be the authorized rate in
9 effect at the time the Project is placed in service.

10 Q. Please clarify what you mean by the term
11 "soft cap."

12 A. A soft cap when applied to a Commitment
13 Estimate means that the Company could be assured that
14 amounts incurred up to the Commitment Estimate amount would
15 be determined to be prudent. Should the cost of the
16 Project be less than the Commitment Estimate, the savings
17 would directly benefit the customer through a lower amount
18 in rate base. On the other hand, should the project come
19 in over the Commitment Estimate, amounts above the
20 Commitment Estimate would have to be justified before the
21 Commission and may or may not be determined as prudently
22 incurred.

1 Q. Does this Commission have the ability to
2 bind future Commissions to the degree that you are
3 requesting?

4 A. No. However, as a practical matter given
5 the construction time frame for the Langley Gulch project,
6 it is likely that all or most of the current Commissioners
7 will be serving at the time the Project becomes commercial.
8 Additionally, if during the pendency of this proceeding the
9 Commission should obtain the legal authority to issue
10 orders that would commit future Commissions to the
11 ratemaking determinations made by this Commission, it would
12 be the Company's intent to file an amended request seeking
13 such a commitment.

14 **RATEMAKING REQUEST**

15 Q. After considering the application of the
16 regulatory alternatives just described, what is the Company
17 asking the Commission to include in its Langley Gulch CPCN
18 order?

19 A. Idaho Power believes that the results of the
20 RFP clearly demonstrate that the Langley Gulch Project
21 represents an opportunity for its customers to obtain a
22 very cost-effective resource. To take advantage of that
23 opportunity, the Company is asking the Commission to
24 include ordering language that will enhance the Company's

1 chances to obtain financing for the Project. Specifically,
2 Idaho Power requests that the Commission find that:

3 (1) The construction of the Langley Gulch
4 Power Plant is consistent with Idaho Power's resource plans
5 and is an appropriate resource to supplement and support
6 the Idaho Power system and its customers.

7 (2) The December 2012 on-line date is
8 consistent with Idaho Power's resource plans and the
9 anticipated load requirements of Idaho Power's retail
10 customers.

11 (3) The approved total Commitment Estimate
12 is \$427,400,000, which includes the power plant and the two
13 transmission projects described previously in my testimony
14 related to the Ontario-Caldwell connection and the
15 Caldwell-Willis connection.

16 (4) The Commitment Estimate is subject to a
17 soft cap that provides retail customers with the full
18 benefit of the Project being completed under the Commitment
19 Estimate, while providing the Company with an opportunity
20 to justify any costs above the Commitment Estimate as
21 prudent should that be the case.

22 (5) The Company can recover prudently
23 incurred costs for fuel, fuel storage, and fuel

1 transportation through the Company's existing Power Cost
2 Adjustment mechanism.

3 (6) The Company can include in rates
4 through annual ratemaking adjustments of booked and audited
5 CWIP investment with a final reconciliation at the time of
6 commercial operation or, in the alternative;

7 (7) The Company can expect to include in
8 rates at the time of commercial operation the specific
9 ratemaking determinations I described previously in my
10 testimony.

11 Q. Can Idaho Power assure this Commission that
12 if the Commission authorizes either of the alternatives
13 requested, that the Company has the ability to finance the
14 Project?

15 A. No it cannot. Providing the regulatory
16 assurances would give Idaho Power a better chance to obtain
17 financing, but in today's environment, we simply do not
18 know if it can be done. The Company will be reviewing its
19 financing alternatives for the Project throughout this
20 spring and, if necessary, may supplement or amend this
21 request based on its findings.

22 Q. Does this conclude your testimony?

23 A. Yes, it does.