BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

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

IDAHO POWER COMPANY

DIRECT REBUTTAL TESTIMONY

OF

LORI SMITH

Q. Would you please state your name, business address, and present occupation?

A. My name is Lori Smith and my business address is 1221 West Idaho Street, Boise, Idaho. I am employed by Idaho Power Company ("Idaho Power" or "Company") as Vice President of Corporate Planning and Chief Risk Officer.

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

A. Yes, I am.

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

A. My testimony responds to testimony by Industrial Customers of Idaho Power ("ICIP") witness Cynthia Mitchell and the Idaho Public Utilities Commission ("IPUC") Staff witnesses Patricia Harms and Rick Sterling.

Q. Ms. Mitchell asserts on pages 34 and 35 of her testimony that CWIP is inappropriate for investments in new generation.

CWIP in rate base is a beneficial financing tool for constructing new generation or any multi-year large project that is available to the Commission to support the cash flow health of the utility. CWIP augments the recovery of financing costs and/or all costs associated with multi-year

construction projects with current recovery of some or all of the investments as the plant is constructed. Although use of CWIP has been historically limited, the current financing environment, the Company's current below-book value stock price, and the uncertainty of the market of providing financing for a large project warrant the consideration of extraordinary Commission support. CWIP is precisely the sort of ratemaking support Idaho Power needs in the current credit market because it reduces financing risk, regulatory risk, and capital market risk associated with long-lead time, large construction projects.

Q. Ms. Mitchell refers to a ratio that measures the stress on financial ratios related to construction programs in her testimony on pages 36 and 37. Do you agree with her assumptions that Idaho Power's ratio has been in the 8-10 percent range over the last several years and that a 20 percent ratio is acceptable for avoiding financial difficulty?

A. Partly. Idaho Power's CWIP to Capitalization ratio is a financial ratio defined as Construction Work in Progress, a line item on its asset side of the balance sheet **divided by** Total Capitalization (the sum of Long Term Debt and Common Stock - line items on

the liability side of the balance sheet). Included below is the 5 year history for this ratio for Idaho Power.

	2008	2007	2006	2005	2004
CWIP	207,662	257,590	210,094	149,804	151,652
Total Capitalization	2,368,569	2,255,190	2,255,190	1,927,761	1,842,616
CWIP to Total Cap Ratio	8.9%	11.4%	9.3%	7.8%	8.2%

While Ms. Mitchell indicates Idaho Power's capitalization ratio has been in the range of 8-10 percent over the last several years, the ratio has actually been as high as 11.4 percent. Additionally, she indicates that adding one large generation project could take this ratio as high as 20 percent for only a brief time. I am unaware of what Ms. Mitchell bases her estimate of a 20 percent CWIP capitalization ratio on, but I do know that Idaho Power has more than one large generation project to be funded in the near term horizon, including the Boardman to Hemingway 500 kV transmission line, the Hemingway Substation, plus the normal care and feeding of an aging thermal fleet and distribution system. Ms. Mitchell's conclusion that this ratio could linger as high as 20 percent without consequences is risky because the ratio would be an indication of the deteriorating operating cash flow health of the Company. Rating agencies may view

IDACORP and Idaho Power as a greater credit risk and downgrade the Company's ratings.

Q. What is the operating cash flow result of this ratio getting too high?

A. The increase in the AFUDC component of net income, while construction is in progress, will be detrimental to the cash flow coverage ratio because AFUDC is a non-cash item (except for those instances where the Commission allows for CWIP in rate base or the collection of AFUDC currently in cash while construction is underway). Without the cash flow associated with these expenditures in the form of CWIP in rate base or AFUDC collection currently, the credit metric that measures funds from operations, a key rating agency metric for determining a company's ability to pay its bondholders, will, all things being equal, decline.

Q. Would the recommended regulatory assurances Mr. Gale outlines in his direct testimony help support the financial impact of financing a large project like Langley Gulch?

A. Yes. The regulatory assurances Mr. Gale outlines will serve to reduce the regulatory risk of how the expenditures for the Langley Gulch Project will be handled in the future, specifically upon completion of the

project. These assurances will help Idaho Power to obtain the lowest possible cost for the financing package of Langley Gulch; the traditional balanced approach of issuing both long-term debt and common equity for these expenditures is the Company's preference in this case. Absent this support and more certain capital markets, the Company may have to obtain less traditional types of financing that are typically more expensive.

Q. Do these assurances satisfy credit rating agency requirements to maintain Idaho Power's current credit ratings?

A. As I stated in my direct testimony, there are a number of factors that are involved in rating recommendations like past operational and financial performance (quantitative factors) as well as regulatory environment and management capability (qualitative factors). Of the alternatives outlined by Mr. Gale in his supplemental testimony filed on April 28, 2009, pages 3 through 5, CWIP would provide the regulatory support of current cash flow in the form of collection of construction expenditures during the construction of the plant in the form of AFUDC or CWIP. The other alternative, which Mr. Gale requested given the current economic environment in southern Idaho, is the regulatory assurance provisions

available to the Commission under Senate Bill 1123. I believe both alternatives provide for a reduction in regulatory risk; however, I cannot predict the outcome of credit rating agency decisions related to Idaho Power's credit ratings.

Q. Do you agree with Staff witness Harms' testimony on pages 19-20 that the decision to include CWIP in rate base under the amended section of Idaho Code 61-502A be based solely on the three unique circumstances cited by the Commission in Order No. 30722?

A. No.

Q. Please describe the amended section of the Code and the Company's request for extraordinary rate assurances with this filing.

A. The amended section previously read:

> Except upon its finding of an extreme emergency, the [Public Utilities] Commission is hereby prohibited in any order issued after the effective date of this act, from setting rates for any utility that grants a return on construction work in progress . . . or property held for future use and which is not currently used and useful in providing utility service.

However, in 2006 this section was amended to read:

> Except upon its *explicit* finding *that the public interest will be served thereby,* the Commission is hereby prohibited in any order issued after the effective date of this act, from setting rates for any utility that grants a return on construction work in progress . . . or property held for future use and which is not currently used and useful in providing utility service.

The capital market meltdown in late 2008 coupled with the RFP selection of the Benchmark Resource, which was $95 million less expensive than the next closest bid, creates a compelling argument for the Commission to use CWIP in rate base to support all or some portion of the successful baseload resource.

The financing of Langley Gulch will be a significant challenge for many reasons, including the size of the resource, the current uncertain market for long-term debt, and the current trading level of IDACORP's common stock. All considerations for regulatory assurances by the Commission related to this lowest cost RFP resource will be helpful to Idaho Power in the financing challenge it faces in the current environment.

Q. In Mr. Sterling's direct testimony on pages 59 and 60 he states "by choosing the Benchmark Proposal, Idaho Power will face some risks that it would have avoided

with a tolling agreement." What risks would Idaho Power assume if a tolling agreement was chosen?

A. Mr. Sterling is correct in summarizing the construction and operational risk that the Company would have in owning the Langley Gulch project. These risks are risks that the Company currently manages in its operation and construction of many of its assets. The Langley Gulch project will simply be on a larger scale.

Q. Do you agree that a tolling agreement would have been risk-free for the Company?

A. No. Mr. Sterling outlines the risks that could have been avoided, but does not list the risks that would be assumed if a tolling arrangement bid had been selected. Plant ownership carries a range of operational risks like Mr. Sterling describes, but a tolling agreement carries a significant risk in the 20-year counterparty credit exposure. Credit risk manifests itself in the ability for the counterparty to perform under the terms of the contract. Both plant ownership and a tolling arrangement will expose the Company to liquidity risk in the management of fuel supply for the plant.

Q. Ms. Harms recommends in her direct testimony on page 3, lines 8-15, that a new depreciation study be conducted around the time that the Langley Gulch project be

completed and placed into service. Do you agree with Ms. Harms?

A. Yes, I do.

Q. Ms. Harms recommends in her direct testimony on page 11, lines 7-17 "that the Company create and retain documentation associated with the Langley Gulch Project that would allow the Company to comply with component depreciation when IFRS are adopted." Do you agree with Ms. Harms?

A. I agree with Ms. Harms that the Securities and Exchange Commission ("SEC") is evaluating the convergence of U.S. Generally Accepted Accounting Principles - ("U.S. GAAP") and the International Financial Reporting Standards ("IFRS"). I also agree that this migration from GAAP to IFRS will be a significant change in accounting practice.

However, I do not agree that the SEC is eager to impose such a significant change on business that will be required with this conversion. Under the previous administration, the roadmap that Ms. Harms refers to was published in 2008 and established very aggressive implementation deadlines by 2014. This was proposed before the capital market crisis and the recession. Because of the uncertainty related to the timing of the implementation

of the migration of GAAP to IFRS, I would not recommend that Idaho Power be required to create additional documentation related to the Langley Gulch project that is different than currently required for established FERC and state accounting requirements. IFRS accounting for depreciation requires componentization of significant pieces of large assets be separately capitalized and depreciated. Utility depreciation identifies units of property that are tracked, depreciated, and retired by vintage year. The implementation of IFRS on IPC related to depreciation expense is not expected to be large because of the detailed depreciation requirements currently in place. However the system changes required for this migration will be large and would be an administrative burden to request that this be implemented for the Langley Gulch project.

Q. Is Idaho Power actively engaged in the progress of the migration of U.S. GAAP to IFRS?

A. Yes. Idaho Power is closely monitoring these activities by participating in industry task force groups, attending external auditor training, evaluating the impacts on our fixed asset accounting systems, and is closely following all related activities and guidance on this potential requirement.

Q. Does this conclude your testimony?

A. Yes, it does.