

BEFORE THE

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IDAHO PUBLIC UTILITIES COMMISSION PUBLIC
UTILITIES COMMISSION

IN THE MATTER OF IDAHO POWER)
COMPANY'S APPLICATION FOR A) CASE NO. IPC-E-09-3
CERTIFICATE OF PUBLIC CONVENIENCE)
AND NECESSITY FOR THE LANGLEY)
GULCH POWER PLANT)
_____)

DIRECT TESTIMONY OF TERRI CARLOCK

IDAHO PUBLIC UTILITIES COMMISSION

JUNE 19, 2009

1 Q. Please state your name and address for the
2 record.

3 A. My name is Terri Carlock. My business
4 address is 472 West Washington Street, Boise, Idaho.

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

7 A. I am the Deputy Administrator of the
8 Utilities Division at the Idaho Public Utilities
9 Commission. I am responsible for the Accounting/Audit
10 Section and coordinating Staff's policy positions with
11 Staff Administrator Randy Lobb.

12 Q. Please outline your educational background
13 and experience.

14 A. I graduated from Boise State University in
15 1980, with B.B.A. Degrees in Accounting and Finance. I
16 have attended various regulatory, accounting, rate of
17 return, economics, finance, and ratings programs. I am
18 currently the Chair of the National Association of
19 Regulatory Utilities Commissioners (NARUC) Staff
20 Subcommittee on Accounting and Finance. I also Co-chair
21 the Task Force on International Financial Reporting
22 Standards. I previously chaired the NARUC Staff
23 Subcommittee on Economics and Finance for more than 3
24 years. Under this subcommittee, I also chaired the Ad
25 Hoc Committee on Diversification. I have been a

1 presenter for the Institute of Public Utilities at
2 Michigan State University and for many other conferences.
3 Since joining the Commission Staff in May 1980, I have
4 participated in audits, performed financial analysis on
5 various companies, and have presented testimony before
6 this Commission on numerous occasions.

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

9 A. The purpose of my testimony is to provide
10 the Staff's position and overview on the return on
11 equity, accounting issues and financing considerations
12 for this case.

13 Q. Please explain Staff's recommendation for
14 the return on equity in this case.

15 A. The ratemaking treatment requested by Idaho
16 Power for the Langley Gulch Power Plant (Langley Gulch or
17 Project) under *Idaho Code* § 61-541 (Senate Bill No. 1123)
18 includes a determination of the method or the actual
19 return on common equity for the project in section
20 (2) (b) (i) "The return on common equity investment or
21 method of determining the return on common equity
22 investment". Staff supports Company witness Gale's
23 proposal related to the return on equity. Adopting the
24 methodology where the return on equity for Langley Gulch
25 is the same as authorized for other rate base items is

1 consistent with normal rate base treatment and is
2 appropriate. Staff recommends the Order for a
3 Certificate of Public Convenience and Necessity (CPCN)
4 and ratemaking treatment, if approved, adopt a return on
5 equity methodology with language similar to that proposed
6 by Company witness Gale in Supplemental Direct, page 4,
7 lines 1-6 as follows:

8 The return on equity (ROE) authorized for
9 Langley Gulch will be the same as the ROE
10 authorized for the rest of the Company's
11 rate base when Langley Gulch achieves
12 commercial operation and that the ROE for
Langley Gulch will change with Commission-
authorized changes to the Company's ROE
over the life of the Project.

13 Q. Please provide the accounting overview.

14 A. Staff witness Harms provides testimony on
15 the accounting issues. Since we have discussed these
16 positions and are in agreement, at this time I will
17 simply provide an overview of the depreciation
18 recommendation to comply with *Idaho Code* § 61-541 section
19 (2)(b)(ii) "The depreciation life or schedule". The
20 depreciation life or schedules should begin at the
21 requested life of 35 years for the production plant and
22 45 years for the transmission plant. As discussed by
23 Staff witness Harms, these lives should be reviewed along
24 with the components in the appropriate depreciation
25 studies. This is consistent with the Company's beginning

1 recommendation and current depreciation practice for
2 Idaho Power.

3 Q. Company witnesses Smith and Gale discuss
4 cash flow, capital markets and the ability to raise
5 capital. What is Staff's recommendation at this time
6 related to these issues?

7 A. Staff is always concerned about these issues
8 for Idaho Power and other utilities. For this case,
9 Staff believes its recommendation with advanced
10 ratemaking treatment under *Idaho Code* § 61-541 is the
11 best way to recognize these issues considering the
12 current economic environment. Some of the pieces of
13 Staff's recommendation differ from the Company's request
14 but advance treatment with the CPCN is the focal point.
15 Staff recommends the Commission state the methodology to
16 be used for return on equity and depreciation. Staff
17 witness Sterling is the primary witness addressing the
18 project and recommends a Soft Cap and a Hard Cap to
19 evaluate prudence and future cost recovery for the
20 project.

21 Q. Company witness Smith discussed the shortage
22 of cash flow (Smith Di, pg 5) on average as \$60 million
23 per year. Can you comment on the cash flow issue?

24 A. Yes, cash flow can be measured and discussed
25 in several ways. For ease of comparison and ready access

1 to the data by all parties, I have used the Value Line
 2 report on IDACORP, Inc. dated May 6, 2009. Since Idaho
 3 Power is currently the primary driving entity for
 4 IDACORP's operations, I believe this comparison is
 5 representative for this higher level evaluation. At the
 6 time further ratemaking is being considered, the data for
 7 Idaho Power will need to be used. Again on a higher
 8 level of comparison, Cash Flow to Capital Spending can be
 9 compared on a per share basis to evaluate their
 10 relationship and indicate if the level of expected
 11 financing will change. This evaluation shows cash flow
 12 to capital spending as follows:

	2006	2007	2008	2009E	2010E	'12-14E
14 Cash Flow/share	4.58	4.11	4.27	4.35	4.4	4.6
15 Capital Spendg/ share	5.16	6.39	5.19	5.75	5.6	5.3
16 Cash Flow/ Capital Spendg	88.8%	64.3%	82.3%	75.7%	78.6%	86.8%

18 One interpretation of this information is that greater
 19 financing needs have been experienced since 2006 and will
 20 be reduced after Langley Gulch is in operation. I
 21 believe this supports Idaho Power's characterizations on
 22 financing requirements.

23 Q. How is cash flow improved?

24 A. Like with all individuals or companies, cash
 25 flow is improved by increasing revenues or by reducing

1 required expenditures. For utilities, increased revenues
2 of course are seen primarily through general rate cases.
3 Alternative ratemaking treatment, if approved, such as
4 including Allowance for Funds Used During Construction
5 (AFUDC) or Construction Work in Progress (CWIP) in rates
6 will provide additional cash flow. This additional cash
7 flow would fund operations and construction, strengthen
8 the balance sheet and income statement to improve
9 financial ratios supporting ratings and improving the
10 ability to borrow funds at a reasonable rate. Depending
11 on the approach utilized, AFUDC or CWIP in rates could
12 also result in a lower overall level of rate increases
13 for customers even though the increase would be sooner
14 and probably with more frequent increases to smooth the
15 rate changes and allow for audit verification of costs.
16 At this time the inclusion of AFUDC or CWIP in rates is
17 not recommended for Langley Gulch.

18 Q. How do changes in current ratings and
19 financing opportunities impact Idaho Power?

20 A. Idaho Power's ratings are stable with the
21 outlook being neutral as reported by many Institutional
22 and Investor Research Reports. However, positive and
23 negative recommendations are also seen. For the most
24 part this doesn't change Idaho Power's ability to
25 finance.

1 Capital markets continue to be unsettled and
2 raising capital at a reasonable cost continues to be
3 challenging. Views that the Idaho Public Utilities
4 Commission regulatory climate is above average should
5 continue to be supported with the Staff's recommendations
6 in this case. If the Commission issues a CPCN and
7 accepts Staff's recommended Soft Cap with preapproval of
8 costs under *Idaho Code* § 61-541, a level of ratemaking
9 certainty related to prudence and cost recovery should
10 enhance the Company's ability to obtain financing at a
11 reasonable rate. Staff's recommendation should be viewed
12 as positive with the advanced ratemaking components
13 including the equity return, depreciation and preapproval
14 of a soft cap.

15 Equity issuances will be difficult if not
16 currently impossible with the stock price remaining below
17 book value. Equity funds will primarily be from retained
18 earnings and dividend reinvestment plans.

19 Q. Do you agree with Company witness
20 Bokenkamp's discussion of imputed debt?

21 A. I agree that the Request for Proposal (RFP)
22 evaluation process did not assign any additional cost to
23 the Purchase Power Agreement (PPA) or Tolling Agreement
24 (TA) costs. I also agree that the impact from rating
25 agencies reflecting imputed debt for its analysis would

1 need to be considered in the ratemaking process. What I
2 would like to expand upon is that the cost impact on
3 Idaho Power from imputed debt is not known. Estimates
4 could be made based upon assumptions but I don't believe
5 the assumptions would be readily acceptable to make such
6 a calculation. However, I do not believe this
7 calculation is necessary for this Commission to review
8 the current request. It is sufficient to know that there
9 would likely be additional costs incurred by Idaho Power
10 associated with imputed debt if a PPA or TA was utilized.

11 Q. Does this conclude your direct testimony in
12 this proceeding?

13 A. Yes, it does.
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CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 19TH DAY OF JUNE 2009, SERVED THE FOREGOING **DIRECT TESTIMONY OF TERRI CARLOCK**, IN CASE NO. IPC-E-09-3, BY ELECTRONIC MAIL AND MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

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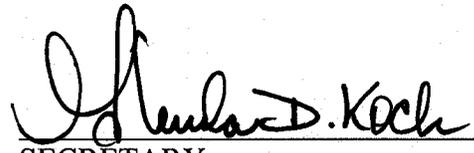
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