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BEFORE THE

IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF IDAHO POWER COMPANY FOR AN ACCOUNTING ORDER TO AMORTIZE ADDITIONAL ACCUMULATED DEFERRAL INCOME TAX CREDIT AND APPROVING A RATE CASE MORATORIUM.	)	**CASE NO. IPC-E-09-30**

DIRECT TESTIMONY OF RANDY LOBB
IN SUPPORT OF STIPULATION

IDAHO PUBLIC UTILITIES COMMISSION

DECEMBER 22, 2009

Q. Please state your name and business address for the record.

A. My name is Randy Lobb and my business address is 472 West Washington Street, Boise, Idaho.

Q. By who are you employed?

A. I am employed by the Idaho Public Utilities Commission as Utilities Division Administrator.

Q. What is your educational and professional background?

A. I received a Bachelor of Science Degree in Agricultural Engineering from the University of Idaho in 1980 and worked for the Idaho Department of Water Resources from June of 1980 to November of 1987. I received my Idaho license as a registered professional Civil Engineer in 1985 and began work at the Idaho Public Utilities Commission in December of 1987. My duties at the Commission currently include case management and oversight of all technical staff assigned to Commission filings. I have conducted analysis of utility rate applications, rate design, tariff analysis and customer petitions. I have testified in numerous proceedings before the Commission including cases dealing with rate structure, cost of service, power supply, line extensions, regulatory policy and facility acquisitions.

Q. What is the purpose of your testimony in this case?

A. The purpose of my testimony is to describe the process leading to the filed Stipulation (proposed rate settlement), to present the terms of the Stipulation and to explain the rationale for Staff's support.

Q. Will you please summarize your testimony?

A. Yes. Staff believes that the comprehensive rate Stipulation, developed through a series of workshops with the participation of the Company, Staff, various customer groups and other interested parties is in the public interest and should be approved by the Commission. Staff further believes that the proposed rate Settlement incorporating a general rate case moratorium, use of Accumulated Deferred Investment Tax Credits (ADITC), a three-year settlement on return on equity (ROE), potential revenue sharing and a formula to share anticipated reductions in the 2010 Power Cost Adjustment (PCA) provides benefits to both the Company and its customers. Finally, Staff believes that proposed base rate relief provided to the Company under the Stipulation represents a better deal for customers than what might be achieved through a general rate case (rate case).

Q. Would you please describe the terms of the proposed Stipulation?

A. Yes. The terms of the Stipulation specify the potential rate changes that are allowed through

December 31, 2011 and how an anticipated reduction in the 2009/2010 PCA will be allocated to customers and the Company. The Stipulation also specifies that Idaho Power Company can use up to $45 million in investment tax credits over a three-year period (2009 to 2011) to improve its opportunity to earn a reasonable return. In exchange, the Stipulation specifies that Idaho Power will share with its customers, on a 50/50 basis, any earnings during the three-year period that exceed its authorized return.

Q. What does the Stipulation allow in terms of potential rate changes through 2011?

A. The Stipulation specifies that base rates cannot increase as a result of a general rate case until January 1, 2012. There are however, several exceptions that can result in rate increases during that period. Increases can result from existing annual adjustment mechanisms including the power cost adjustment (PCA) and the fixed cost adjustment (FCA). Potential increases can also occur through cost recovery of advanced metering infrastructure, pension expenses, changes in the energy efficiency rider adjustment, governmentally imposed fees and increases in low income weatherization funding. There is also a potential for rate reduction if revenue above the Company's authorized return is available for sharing.

Finally and most importantly, rate changes may occur based on a stipulated formula to share an anticipated PCA rate reduction on June 1, 2010. The existing PCA rate currently collects approximately $200 million per year. The formula provides that the Company and its customers will share equally in the first $40 million of PCA reduction. Additional reduction will be used to address necessary increases in base rate net power supply costs (power supply costs), provide an additional $5 million in base rate revenue relief for the Company and further decrease customer rates. An example of the PCA rate reduction allocation methodology is shown in Exhibit No.3 of Company witness Gale's direct testimony.

Q. Please explain the proposed use of Accumulated Deferred Investment Tax Credits.

A. The ADITCs are tax benefits that Idaho Power has already received based on the level of plant investment in various years. Idaho Investment Tax Credits continue to accumulate annually, but these particular Federal Investment Tax Credits are no longer received. The ADITC is amortized over the life of the associated plant investment. In each general rate case this annual amortization is a reduction to customer tax expense and the ADITC balance is a deduction to rate base.

The Stipulation proposes to allow Idaho Power to accelerate the amortization of up to $45 million of ADITC over the three-year period of 2009 - 2011. This accelerated amortization can be used to improve earned returns if Idaho Power's actual Idaho jurisdictional earned return on year-end equity falls below 9.5%. The stipulated return on equity (ROE) is 10.5% but the ADITC can only be used to improve ROE up to 9.5%. The maximum dollar amount of ADITC that may be used in 2009 is $15 million. If the $15 million is not accelerated in any year it may be rolled forward for use in subsequent years of the proposal. The maximum accelerated ADITC is $25 million in any one year.

Q. How will the accelerated amortization of ADITC impact the Company and its customers?

A. The accelerated amortization is intended to improve the earnings of Idaho Power. These improved earnings are important to maintain or improve the ability of Idaho Power to finance its ongoing plant investments. Improved earnings will improve financial ratios evaluated by financial investors of the Company. It may help maintain financial credit ratings and it could reduce interest costs below the rate that Idaho Power would otherwise obtain. The increased financial stability allows customers to benefit now with the delayed rate case and potential lower interest costs in exchange for the reduced ADITC in future rate cases in later out years. Staff believes this is a benefit for all under the current economic conditions.

Q. Why does Staff believe this is a reasonable use of ADITC?

A. Staff believes it is reasonable to accelerate the amortization of ADITC due to current economic conditions. The improved earnings stability benefits efforts to finance ongoing required plant investments at the lowest cost. Staff believes this benefits both customers and the Company

Q. Why does Staff believe a three-year agreement on a 10.5% ROE is reasonable?

A. The 10.5% ROE was authorized by this Commission on January 30, 2009, Order No. 30722, Case No. IPC-E-08-10. In that case the Commission specifically referenced deteriorated economic and financial markets when approving the increased ROE of 10.5% from the previously authorized 10.25%. The following ordering paragraph states it best and Staff believes it remains accurate.

> The Commission finds that a return on equity of 10.5% for Idaho Power is fair, reasonable and appropriate. This rate takes into account the results of the analyses provided by the witnesses, and also the deteriorated economic and financial markets since the Company's last contested rate case where we approved a return of 10.25%. The determination of the appropriate cost of common equity capital primarily attempts to quantify a rate of return required by investors for that specific investment, and the evidence supports a finding that a slightly higher rate of return is required to attract investors. We are primarily concerned, however, with establishing a rate that is "reasonably sufficient to assure confidence in the financial soundness of the utility," and that is "adequate, under efficient and economical management, to

maintain and support its credit and enable it to raise the money necessary for the proper discharge of its public duties." Tr. p. 2235 quoting Bluefield Water Works, supra. Idaho Power is facing significant capital expenditures in the next few years, and the current economic climate will affect its ability to obtain credit to build necessary facilities. The rate for return on equity we approve is an increase over its currently approved rate and should assure continued confidence in the financial soundness of the Company.

Staff believes the Company will continue to face significant capital expenditures with current economic conditions affecting its ability to obtain credit. Although some economic indicators reflect a recovering economy, most economists predict recovery will be slow. Staff believes the three-year agreement on ROE provides continued confidence to investors that the Company will remain sound and that it can obtain credit at a reasonable cost to meet its capital obligations. Perhaps more importantly to customers is the base rate stability that will be provided by the deferral of a general rate case increase through January 1. 2012.

Q. Please describe the process that led to the Stipulation.

A. In preparation for its anticipated rate case filing in October of 2009, the Company informally approached Staff in August of 2009 to discuss accelerated use of ADITC and the possibility of an agreement on ROE. Staff was not necessarily opposed to accelerated use of ADITC and an agreement on ROE because a similar agreement on these issues had been approved by the Commission in 1995. However, the prior agreement had also included revenue sharing between the Company and its customers when earnings exceeded the Company's authorized return. The Company agreed that it would consider revenue sharing and Staff suggested that other interested parties be invited to participate in any further discussions. On August 28, 2009, the Company provided the Commission sixty-day notice of its intent to file a general rate case.

Q. What happened next?

A. On September 3, 2009, the Company, Staff and parties participating in the last Idaho Power general rate case met informally to discuss the Company's proposal to provide revenue sharing in conjunction with accelerated use of ADITC and an agreement on ROE. The Company indicated that an agreement would simplify its rate case filing and reduce its revenue request. The Company further stated that it intended to have new base rates in effect by June 1, 2010 to coincide with a large anticipated reduction in the PCA. The potential reduction in the PCA was estimated to be as high as $160 million of the current $200 million annual collection. Staff and the various parties asked the Company to consider a general rate case moratorium as part of the

ADITC/ROE agreement.

Q. Did the Company come back with a comprehensive proposal?

A. Yes. At a meeting of the parties on October 13, 2009, the Company made a comprehensive proposal offering a general rate case moratorium in exchange for base rate relief using a portion of the anticipated reduction in the PCA.

Q. Was an agreement reached at that time?

A. No. The parties agreed to consider the Company's offer, determine if a counter proposal was warranted and either meet again or discontinue discussions.

Q. Did the parties meet again?

A. Yes. Staff and previous workshop participants met on October 19, 2009 without the Company to discuss the merits of the Company's proposal and determine whether a counter proposal could or should be developed.

Q. Did the parties develop a counter proposal and present it to the Company?

A. Yes. The parties presented a comprehensive rate proposal to the Company on October 23, 2009. A settlement in principal was reached at the meeting and the Company agreed to drop its rate case filing. The Company filed a Stipulated Settlement with the Commission on November 6, 2009. The Stipulation was signed by the Company, the

Commission Staff, the Idaho Irrigation Pumpers Association, the Industrial Customers of Idaho Power, Micron Technology Inc., Kroger Co., the United States Department of Energy and the Community Action Partnership of Idaho.

Q. Why does Staff believe rate treatment as proposed in the Stipulation is reasonable?

A. Staff believes that the rates proposed in the Stipulation strike a reasonable balance by providing modest base rate relief for the Company and necessary rate relief for customers during difficult economic conditions. Staff further believes that the proposed base rate increase is better for customers than might potentially occur as a result of a traditional rate case.

Q. What does Staff believe is the most important provision in the Stipulation?

A. While the Stipulation contains many terms and conditions, it is the limited impact on customer base rates through 2011 that justifies the Settlement and makes it superior to the alternative.

Q. Would you please explain?

A. Yes, but in order to demonstrate why the limited base rate change is the key to supporting the Stipulation, it is necessary to discuss the other Settlement terms. As explained earlier, Staff believes that accelerated use of the ADITC will have little impact on long-term customer rates but will provide benefits to the Company and will require reduced revenue from customers in the near term. The 10.5% ROE was recently approved by the Commission for Idaho Power and would likely have been recommended by Staff in the Company's rate case. The revenue sharing provision, while a necessary backstop to assure that the Company does not over earn during the moratorium period, provides little potential for customer rate relief in Staff's opinion.

The existing PCA at a current surcharge of $200 million per year provides the potential for significant rate relief in June of 2010 regardless of the Stipulation. The agreement simply allocates whatever reduction actually occurs between the Company and its customers. Even the proposed allocation of the PCA reduction to increase base rate power supply costs will have little impact on overall customer rates in the future as 95% of all power supply costs flow through the PCA anyway.

The revenue requirement and rate adjustment changes allowed during the period deal primarily with existing annual mechanisms or cost recovery previously approved by the Commission and would occur absent the Stipulation. Other potential rate changes allowed during the moratorium period address issues such as pension expense, the DSM tariff rider, and low income weatherization. Rate changes associated with these issues while allowed, can only occur with specific Commission approval.

That leaves the proposed base rate increase, which is dependent upon the 2010 PCA reduction, as the most significant provision of the Stipulation and the primary tradeoff to the rate case moratorium.

Q. What is the proposed base rate increase?

A. The base rate increase proposed in the Stipulation is dependent upon the ultimate reduction in the 2010 PCA. The maximum proposed base rate increase is $25 million if the PCA reduction is $145 million. No base rate increase would result if there is no reduction in the PCA. The Stipulation does allow the Company to further pursue base rate relief up to the $25 million maximum in the 2011 PCA. A $25 million annual increase in base revenue represents an increase of approximately 3.5% in total annual base rate revenue.

Q. What level of net PCA rate reduction would occur if base rates increased by the maximum of $25 million?

A. Under the allocation formula, PCA rates would decrease by $120 million less the increase in net power supply cost, if any, ultimately approved by the Commission. For example, if the Commission approves a power supply cost base rate increase of $75 million, the PCA rate reduction would be $45 million. Keep in mind that any base rate increase in power supply cost will reduce all future PCA surcharges or increase all future PCA credits over what they otherwise would have been.

Q. How does the stipulated base rate impact compare to what might have occurred as a result of a general rate case?

A. Because the Company never filed its rate case, it is not known what the base rate revenue request would have actually been. However, the Company has indicated that its request would have been in excess of 10% or about $80 million even if all of the stipulated carve out issues like net power supply expense, AMI investment and pension expenses were excluded. The Company has also indicated that the cost drivers for its rate request are near-term declining revenues due to reduced sales, added rate base and increased operation and maintenance expense. Staff conducted a preliminary analysis and concluded that potential test year results of operations could result in a rate case filing as described by the Company.

Q. How did Staff evaluate the potential rate case revenue request of the Company to determine if the base rate increase proposed in the Stipulation is reasonable?

A. Staff considered several factors in evaluating the base rate increase proposed in the Stipulation. The first is the recent history of Idaho Power general rate cases. In the last decade, the Company has filed four general rate cases. The average request has been for an increase in rates of 11.44%. The average increase awarded by the Commission was 5.13% or approximately 45% of the original request. The Stipulated increase in this case is a maximum of 3.5% or less than 35% of what Staff expected the Company to request.

Staff also recognized that all of the requests made by the Company in past rate cases included a ROE significantly above what the Commission ultimately authorized. The lower Commission-approved ROE represented a significant portion of the difference between the Company's requested increase and that ultimately approved by the Commission. The requested increase in excess of 10% that the Company expected to make in its planned 2009 rate case was at a ROE of 10.5%, the same ROE approved by the Commission in the Company's last rate case. Consequently, little reduction in the Company's request would likely have been achieved by reduced ROE.

Finally, after four Idaho Power general rate cases in eight years, the expense and rate base items subject to adjustment in the past are no longer included in the Company's filings. In other words, Company rate case filings have become leaner, eliminating many of the items adjusted by the Commission in recent cases.

Therefore, Staff believed that a maximum 3.5% increase until at least January 1, 2012 was a better outcome than trying to achieve a smaller increase through an October 2009 rate case.

Q. You state that the proposed increase in base rate power supply costs will have little impact on overall customer rates. How is that possible?

A. The limited impact on overall customer rates is due to the method currently in place to recover power supply costs. Actual net power supply costs that are incurred by the Company each year are recovered to the extent possible from base rates. If actual costs exceed the amount authorized for recovery in base rates, 95% of the remaining costs are recovered through the PCA via a customer rate surcharge. If actual power supply costs are less than the costs embedded in base rates then 95% of the over recovery is returned to customers through the PCA via a rate credit. Consequently, an increase in base rates to recover higher power supply costs simply decreases future PCA surcharges or increases PCA credits.

Q. Company witness Gale's Exhibit No. 3 shows an expected annual increase in base rate power supply costs of $75 million. Has the future increase actually been determined?

A. No. The $75 million increase used in the exhibit is only an example of what the Company believes may be justified. The Stipulation requires that prior to June 1, 2010 the Company file a case before the Commission to determine if power supply costs included in base rates should change and by how much.

Q. When would new rates resulting from the Stipulation become effective?

A. New PCA and base rates would become effective on June 1, 2010 if the Stipulation is approved by the Commission. The actual magnitude of the rate changes, if any, will not be known until April of 2010.

Q. Does this conclude your testimony?

A. Yes it does.

CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS **22ND** DAY OF DECEMBER 2009, SERVED THE FOREGOING **DIRECT TESTIMONY OF RANDY LOBB IN SUPPORT OF STIPULATION,** IN CASE NO. IPC-E-09-30, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

BARTON L KLINE
LISA D NORDSTROM
IDAHO POWER COMPANY
PO BOX 70
BOISE ID 83707-0070
E-MAIL: bkline@idahopower.com
lnordstrom@idahopower.com

JOHN R GALE
IDAHO POWER COMPANY
PO BOX 70
BOISE ID 83707-0070
E-MAIL: rgale@idahopower.com

BRAD M PURDY
ATTORNEY AT LAW
2019 N 17TH ST
BOISE ID 83702
E-MAIL: bmpurdy@hotmail.com

MICHAEL L KURTZ ESQ
KURT J BOEHM ESQ
BOEHM KURTZ & LOWRY
36 E 7TH ST, SUITE 1510
CINCINNATI OH 45202
E-MAIL: mkurtz@BKLlawfirm.com
kboehm@BKLlawfirm.com

KEVIN HIGGINS
ENERGY STRATEGIES LLC
PARKSIDE TOWERS
215 S STATE ST, SUITE 200
SALT LAKE CITY UT 84111
E-MAIL: khiggins@energystrat.com

Rhonda D. Koch
SECRETARY