

BEFORE THE
IDAHO PUBLIC UTILITIES COMMISSION

RECEIVED
2013 OCT 11 PM 3:33
IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF IDAHO POWER)
COMPANY'S APPLICATION FOR A) CASE NO. IPC-E-13-16
CERTIFICATE OF PUBLIC CONVENIENCE)
AND NECESSITY FOR THE INVESTMENT)
IN SELECTIVE CATALYTIC REDUCTION)
CONTROLS ON JIM BRIDGER UNITS 3)
AND 4.)

DIRECT TESTIMONY OF PATRICIA HARMS

IDAHO PUBLIC UTILITIES COMMISSION

OCTOBER 11, 2013

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

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

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

6 A. I am employed by the Idaho Public Utilities
7 Commission (Commission) as a Principal Financial
8 Specialist/Senior Auditor.

9 Q. Please give a brief description of your
10 educational background and experience.

11 A. I graduated from Boise State University, Boise,
12 Idaho in 1981 with a B.A. degree in Business
13 Administration, emphasis in Accounting. I am a Certified
14 Public Accountant licensed by the State of Idaho. Prior
15 to joining the Commission Staff in 2000, I was employed
16 by the State of Alaska as an In Charge Auditor and
17 performed both financial and performance audits of
18 governmental agencies. I was responsible for project
19 management of many of those audits. I have attended many
20 seminars and classes involving auditing and accounting.
21 While at the Commission I have audited a number of
22 utilities including water, electric, gas and telephone
23 utilities and provided comments and testimony in a number
24 of cases that dealt with general rates, hook-up fees,
25 accounting issues, and other regulatory issues including

1 Certificates of Public Convenience and Necessity (CPCNs).
2 I have also completed the National Association of
3 Regulatory Utility Commissioners' (NARUC) annual
4 regulatory studies program at Michigan State University.
5 I also regularly attend meetings of NARUC's Staff
6 Subcommittee on Accounting and Finance and serve as
7 secretary for the Subcommittee.

8 Q. What is the purpose of your testimony?

9 A. The purpose of my testimony is to present
10 Staff's recommendations regarding the treatment of return
11 on equity, depreciation and the Allowance for Funds Used
12 During Construction (AFUDC) in Idaho Power's request for
13 a CPCN authorizing investment in Selective Catalytic
14 Reduction (SCR) controls in Jim Bridger Units 3 and 4
15 (Project) and inclusion of the Project's costs in rate
16 base once the SCR controls are installed and operational.

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

19 A. The ratemaking treatment requested by Idaho
20 Power for the Project under *Idaho Code* § 61-541 includes
21 a determination of the method or the actual return on
22 common equity for the Project in section (2)(b)(i) "The
23 return on common equity investment or method of
24 determining the return on common equity investment."
25 Staff supports Company witness Youngblood's expectation

1 that the Project earn the authorized return in effect at
2 the time the Project is placed in service. Adopting the
3 methodology where the return on equity (ROE) for the
4 Project is the same as authorized for other rate base
5 items is consistent with normal rate base treatment and
6 is appropriate. Staff recommends the Order for a CPCN
7 and ratemaking treatment, if approved, authorize a return
8 on equity for the Project the same as the ROE authorized
9 for the rest of the Company's rate base when the Project
10 is placed in service. Staff also recommends that the ROE
11 change with Commission-authorized changes to the
12 Company's ROE over the life of the plant.

13 Q. Please explain Staff's recommendation for
14 depreciation in this case.

15 A. The ratemaking treatment requested by Idaho
16 Power for the Project under *Idaho Code* § 61-541 (section
17 (2)(b)(ii)) includes "the depreciation life or schedule."
18 Staff supports Company witness Youngblood's statement
19 that Idaho Power will depreciate the investments over the
20 remaining life of the Jim Bridger Plant in accordance
21 with the Commission-approved depreciation rates in effect
22 at the time the investment is closed-to-plant. Staff
23 also recommends that the depreciation rates change with
24 Commission-authorized changes to the Company's
25 depreciation rates over the life of the plant whether

1 those changes occur as a result of depreciation rate
2 cases like Case No. IPC-E-12-08 or as part of other
3 cases.

4 Q. Please explain Staff's recommendation for AFUDC
5 in this case.

6 A. Staff witness Louis is the primary witness
7 addressing the Project and, among other things,
8 recommends issuance of a CPCN and the ratemaking
9 treatment including Staff's proposed Commitment Estimate.

10 Staff recommends that the Company accrue actual
11 AFUDC based upon the actual capital expenditures of the
12 Project (excluding PacifiCorp's AFUDC) as it is under
13 construction. This is Staff's understanding of the
14 method Idaho Power currently uses to accrue AFUDC on the
15 Project. When Idaho Power seeks cost recovery in rates
16 after the Project is placed in service, the monthly
17 expenditures would be subjected to a prudence review of
18 the amounts to which the AFUDC rate is applied except for
19 those plant amounts approved in this proceeding. Absent
20 specific ratemaking authority, AFUDC will cease when the
21 plant is placed in service. Staff also recommends that
22 the actual AFUDC rates applied during the course of the
23 Project be reviewed by Staff when the Project is brought
24 before the Commission for inclusion within rates.

25 Q. What is AFUDC?

1 A. AFUDC is an accounting mechanism which
2 recognizes capital costs associated with financing
3 construction. Generally, the capital costs recognized by
4 AFUDC include interest charges on borrowed funds and the
5 cost of equity funds used by a utility for purposes of
6 construction. The main purposes of AFUDC are to
7 capitalize with each project the costs of financing that
8 construction; separate the effects of the construction
9 program from current operations; and to allocate current
10 capital costs to future periods when these capital
11 facilities are in service, useful and producing revenue.
12 AFUDC represents the cost of funds used during the
13 construction period before plant and plant additions go
14 into service. When it is placed in service, the entire
15 cost of the plant and plant additions, including AFUDC,
16 is added to rate base, where it earns a rate of return
17 and is depreciated over the life of the plant/plant
18 addition.

19 Q. How does Idaho Power calculate the AFUDC rate
20 it applies to projects?

21 A. Idaho Power calculates the Company's AFUDC rate
22 on a monthly basis consistent with the AFUDC formula
23 established by the Federal Energy Regulatory Commission
24 (FERC). Annually the annualized AFUDC rates are
25 calculated and compared to the monthly AFUDC rates to

1 determine reasonableness and ensure the AFUDC amounts are
2 calculated using the method set by the Idaho Commission.

3 Q. What has Idaho Power requested in this case for
4 AFUDC?

5 A. Idaho Power has included in its request for a
6 CPCN and binding ratemaking treatment a Commitment
7 Estimate including \$11,889,431 in AFUDC.

8 Q. How has Idaho Power calculated the \$11,889,431?

9 A. Generally speaking, Idaho Power has taken the
10 current Project estimates by year (less current charges
11 through May 30, 2013) and calculated a monthly amount on
12 which they applied an AFUDC rate. The AFUDC rate applied
13 was calculated from actual charges through May 30, 2013.

14 Q. Has any portion of Idaho Power's Commitment
15 Estimate of \$11,889,431 in AFUDC actually been incurred?

16 A. Yes. According to the Company's response to
17 Production Request No. 15, approximately \$40,000 of the
18 almost \$12 million AFUDC has been incurred as of May 30,
19 2013. If the Commission chooses to include any AFUDC
20 within binding ratemaking in this case, Staff recommends
21 that the actual AFUDC incurred (approximately \$40,000) be
22 the amount included for binding ratemaking treatment.

23 Q. Does this conclude your direct testimony in
24 this proceeding?

25 A. Yes, it does.

CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 11TH DAY OF OCTOBER 2013, SERVED THE FOREGOING **DIRECT TESTIMONY OF PATRICIA HARMS**, IN CASE NO. IPC-E-13-16, BY E-MAILING AND MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

LISA D NORDSTROM
JENNIFER REINHARDT-TESSMER
IDAHO POWER COMPANY
PO BOX 70
BOISE ID 83707-0070
E-MAIL: lnordstrom@idahopower.com
jreinhardt@idahopower.com
dockets@idahopower.com
CBearry@idahopower.com

KEN MILLER
SNAKE RIVER ALLIANCE
BOX 1731
BOISE ID 83701
E-MAIL: kmiller@snakeriveralliance.org

PETER J RICHARDSON
GREGORY M ADAMS
RICHARDSON ADAMS
515 N 27TH ST
BOISE ID 83616
E-MAIL: peter@richardsonadams.com
greg@richardsonadams.com

DR DON READING
6070 HILL ROAD
BOISE ID 83703
E-MAIL: dreading@mindspring.com

BENJAMIN J OTTO
ID CONSERVATION LEAGUE
710 N 6TH ST
BOISE ID 83702
E-MAIL: botto@idahoconservation.org

DEAN J MILLER
McDEVITT & MILLER LLP
420 W BANNOCK
BOISE ID 83702
E-MAIL: joe@mcdevitt-miller.com



SECRETARY