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

A.My name is Treva J. Pline.  My business address is 472 W. Washington Street, Boise, Idaho.

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

A.I am employed by the Idaho Public Utilities Commission as an auditor in the accounting section.

Q.Please outline your educational background and work experience.

A.I graduated from Colorado State University in 1986 with a B.B.A. Degree in Accounting.  I have attended the annual regulatory studies program sponsored by the National Association of Regulatory Utilities Commissioners (NARUC) at Michigan State University.  Prior to joining the Commission Staff in 1993, I worked as a staff auditor for the Legislative Auditor's Office from September 1988 to August 1992.

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

A.The purpose of my testimony is to attest to the accounting figures included in the Company's application associated with the Twin Falls hydroelectric plant (Twin Falls) and the additional investment in the Swan Falls hydroelectric plant upgrade (Swan Falls).

Q.Are you sponsoring any exhibits?

A.Yes, I am sponsoring Staff Exhibit Nos. 101, 102 and 103.  Staff Exhibit Nos. 101 and 102 are schedules of the monthly costs included in this rate case for the Twin Falls project and the Swan Falls project respectively.  Staff Exhibit No. 103 is a reproduction of Company Exhibit No. 4, modified for Staff's adjustments.  Staff Exhibit No. 103 is the basis of my testimony.

Q.Regarding the Swan Falls project, will you explain what is meant by additional investment.

A.Swan Falls is a hydroelectric facility located on the Snake River in south Ada County.  In 1990, Idaho Power Company began the process to substantially rebuild its Swan Falls facility.  The costs associated with the Swan Falls project up to the cut off date of November 30, 1994 were included in rate base as authorized by Order No. 25880.  These costs totaled $54,946,055.  The costs associated with the Swan Falls project included in this case are associated with the next completed phase of the project and reflect the updated Accumulated Reserve for Depreciation and the Accumulated Deferred Income Taxes.

Q.Have you completed an audit of the Twin Falls and Swan Falls figures?

A.Yes I have.

Q.Please explain your audit procedures.

A.Using the Company's Exhibit No. 4, I separated the audit into four areas:

1.Twin Falls Electric Plant in Service of $38,200,000;

2.Swan Falls Electric Plant in Service of $2,686,354;

3.Twin Falls Operating Expenses of $1,124,166 including depreciation expense of $760,180, property taxes of $309,420, and kWh taxes of $54,566;

4.Swan Falls Operating Expenses of $71,995 including depreciation expenses of $51,041, and property tax expenses of $20,954.

Q.Please continue.

A.Prior to testing the additions to plant-in-service, I prepared a schedule of the total expenses charged to both the Twin Falls project (Exhibit No. 101) and the Swan Falls project (Exhibit No. 102) by month.  I then included in my workpapers a series of monthly, itemized reports provided by the Company, detailing all of the accounting transactions that make up the total expenses for each project by month. From these monthly itemized reports, I audited transactions totalling approximately 80% of the dollar amount included in each month's total expenses charged to plant-in-service.  Overall, I tested 84.0% of the total dollar amount of plant-in-service for the Twin Falls project, and 77.3% of the total dollar amount for the Swan Falls project.

Q.Are you of the opinion that the dollar amounts included in the Company's application for plant-in-service for the Twin Falls project and the Swan Falls project are actual expenses accruing to the projects?

A.Yes.  As of the date of this prefiled testimony, I have audited the Company's accounting records regarding the Twin Falls and Swan Falls projects through June 30, 1995.  I have audited $37,075,521 of the costs charged to the Twin Falls plant-in-service account, and an additional $2,486,250 charged to the Swan Falls plant-in-service project.  Based on my audit of the Company's accounting records, I am of the opinion the dollar amounts I have audited are actual expenses accruing to the respective projects.

Q.Do these dollar amounts include all of the costs subject to the Company's application.

A.No.  Any costs closed to the Twin Falls project in the month of July are not available to audit at this time. I will complete the audit of these numbers as soon as they become available and include the results in supplemental testimony.

Q.What about the costs included in the application for the Swan Falls project?

A.At the time of this prefiling, the Company has not paid the remaining balance on a contract with Voest-Alpine due to a contract performance dispute.  The Company has advised me the dollar amount involved is not in dispute, and will be available for audit once the contract is paid.

Q.The Company's application includes a reduction of Plant-In-Service for Accumulated Reserve for Depreciation for both the Twin Falls and Swan Falls projects.  Did you audit these amounts?

A.Yes.  The dollar amount shown for Accumulated Reserve for Depreciation for each project is one half of the annual depreciation expense.  The Accumulated Reserve for Depreciation on Swan Falls is also updated for the incremental depreciation since the rate case (IPC-E-94-5).  Staff believes this adjustment is necessary since the plant numbers have been updated.  The incremental depreciation reserve of $520,786 is added to the $25,521 of reserve on the plant addition based on the half year convention, a generally accepted rule that allows one-half a year depreciation for plant placed in service during the year.  Depreciation expense is discussed later in my testimony.

Q.The Company's application also requests additional rate relief based on the additional operating expenses associated with both the Twin Falls and the Swan Falls projects.  Have you audited these additional operating expenses?

A.Yes.

Q.You previously stated the additional operating expenses include depreciation, property taxes, and kWh taxes.  Beginning with depreciation, will you discuss these expenses associated with the Twin Falls project?

A.The annual depreciation expense associated with the Twin Falls project is $760,180.  This number is the result of $38,200,000 multiplied by an annual depreciation rate of 1.99% using the straight line method.

Q.Has the Commission issued an order approving an appropriate depreciation period or depreciation rate to use for the additional plant?

A.No.  In lieu of an order, the Company has followed the precedent of Commission Order No. 24739 issued in case No. IPC-E-92-23 (Ref. p. 7) and used a 2055 retirement date.  This equals a service life of 60 years.

Q.Does Staff accept a 60 year service life ending in year 2055 for ratemaking purposes?

A.Yes.

Q.The expense component for property taxes related to the Twin Falls project is $309,420.  Have you audited this amount?

A.Yes.  The $309,420 is the product of $38,200,000 Plant-In-Service multiplied by a 1994 tax rate of 0.81%.  Tax rates are calculated for each county based on an allocation of total annual property taxes to booked plant investment.  The tax rate applied to the total dollar value of production equipment located in the county of Twin Falls is 0.81%.  I reviewed the Company's method and calculation of the tax rate and found both to be reasonable.

Q.You have applied a jurisdictional allocator to the subtotal of depreciation and property tax expense.  Will you explain its use?

A.The Idaho Jurisdictional Allocator (D10) of 86.30% is applied to depreciation and property tax expense.  It will be discussed by Staff witness Keith Hessing.

Q.What are the results of your review of the expense component of $54,566 for kWh taxes related to the Twins Falls project?

A.I contacted Jim Lane, Idaho Tax Commission, to confirm the kWh tax and to discuss its application.  I then reviewed the Company's method of applying the tax to the Twin Falls project.  Based on my review and my conversation with Mr. Lane, I found the Company's application of the tax rate of 1/2 mill per taxable kWh to be reasonable.

Q.Will you explain the deduction for "Change in Net Power Supply Costs?"

A.The "Change in Net Power Supply Costs" of $2,248,000 is explained by Staff witness Hessing.

Q.You have applied a jurisdictional allocator to the subtotal of kWh tax and "Change in Net Power Supply Costs."  What is the appropriate allocator?

A.The Idaho Jurisdictional Allocator (E10) of 84.90% is applied to the kWh tax and change in net power supply costs.  It is explained by Staff witness Keith Hessing.

Q.Are there any other issues related to the Twin Falls plant that need to be addressed?

A.Yes.  Accumulated Deferred Income Tax (ADIT) related to the Twin Falls plant needs to be addressed.  Staff estimates the ADIT to be $1,052,410 using a tax life of 20 years.  Idaho Power is compiling additional information for Staff on this issue and Staff plans to update the ADIT in supplemental testimony.

Q.The annual depreciation expense associated with the Swan Falls project is $51,041.  Did you review the Company's calculation of this amount?

A.The annual depreciation expense associated with the Swan Falls project is the result of $2,686,254 multiplied by an annual depreciation rate using the straight line method of 1.90%.  I reviewed the calculation and found it reasonable.

Q.Property tax expense associated with the Swan Falls project is $20,954.  Have you reviewed this amount?

A.Yes.  Property tax expense is calculated for the Swan Falls project using the same method as for the Twin Falls project.  The $20,954 property tax expense is the product of $2,686,354 Plant-In-Service multiplied by a 1994 tax rate of 0.78%.  The 0.78% rate reflects the tax rate applied to the total dollar value of production equipment located in Ada County.  I reviewed the Company's calculation of the tax expense associated with the Swan Falls project and found it to be reasonable.

Q.Is the ADIT an issue with the Swan Falls plant?

A.Yes.  Staff estimated the ADIT to be $75,218 on the Swan Falls plant.  Staff also plans to update this number in the supplemental filing when additional information has been obtained.

Q.Does this conclude your discussion of the additional rate base and operating expenses included in the Company's application.

A.Yes.

Q.Did you review the Company's calculation of the revenue deficiency?

Q.Yes.  A rate of return includes components for both long-term debt and equity.  When applied to rate base, the debt portion of the return to cover interest expense should not be grossed up for taxes.  In this rate case, the Company used the same overall rate-of-return of 9.199% as authorized in Order No. 25880 to arrive at the required return after taxes of $3,213,660.  The Company then grossed this dollar amount up for taxes.  This is incorrect because it ignores interest expense on long-term debt as a tax deductible expense.  Staff Exhibit No. 103 shows a recalculation of Company Exhibit No. 4 showing an adjustment removing the grossed up return amount attributed to interest expense on long-term debt.  Staff's adjustment reduces the Company's requested rate relief by $818,405.

Q.What is the Staff recommended additional revenue requirement in this proceeding?

A.The additional revenue requirement recommended by Staff is $3,399,844 as shown on Exhibit No. 103, line 24.

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

A.Yes, it does complete my initial direct prefiled testimony.  As previously mentioned supplemental direct testimony will be filed.