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

A.My name is Terri Carlock.  My business address is 472 West 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 the Accounting Section Supervisor.

Q.Please outline your educational background and experience.

A.I graduated from Boise State University in May 1980, with a B.B.A. Degree in Accounting and in Finance.  I have attended the annual regulatory studies

program sponsored by the National Association of Regulatory Utilities Commissioners (NARUC) at Michigan State University.  I chaired the NARUC Staff Subcommittee on Economics and Finance for over 3 years.  Under this subcommittee, I also chaired the Ad Hoc Committee on Diversification.  I have also attended various finance conferences, including the Public Utilities Finance/Advanced Regulation Course at the University of Texas at Dallas, National Society of Rate of Return Analysts' Financial Forums, the Regulatory Economics and Cost of Capital Conference in Utah, a Standard & Poor's Corporation Telecommunications Ratings Seminar, a Kidder Peabody Seminar on Corporate Finance for the Regulated Utility Industry and an Edward D. Jones Financial and Capital Markets Conference.  Since joining the Commission Staff in May 1980, I have participated in several audits, performed financial analysis on various companies and have presented testimony before this Commission on numerous occasions.

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

A.The purpose of my testimony is to address Idaho Power Company's (Idaho Power, Company) Application (1) for an accounting order authorizing Idaho Power to defer and amortize its extraordinary costs of reorganization and (2) for approval to modify its amortization methods for accumulated deferred investment tax credits (ADITC).  I will discuss the Settlement Stipulation between Idaho Power Company, the Idaho Public Utilities Commission Staff, FMC Corporation, United States Department of Energy, the Commercial Utility Customers, Micron Technology, and the Idaho Irrigation Pumpers Assoc., Inc. (collectively referred to as "the parties").  I will provide a summary and overview of the Settlement Stipulation and explain why I believe the Settlement Stipulation is in the public interest.

Q.Are you sponsoring any exhibits to accompany your testimony?

A.No, my testimony refers to and supports Exhibit No. 1 sponsored by Idaho Power Company which is  the Settlement Stipulation executed by the parties.

Q.Please summarize the settlement provisions.

A.The following outline reflects the terms of the Settlement Stipulation:

\*The deferral and amortization of corporate reorganization costs (discussed below).

\*For the years 1995 through 1999, the Company would be permitted to accelerate the amortization of state and federal ADITC in an amount that would result in the Company earning, on an actual basis, an 11.5% return on equity.  Wholesale firm revenues will be included in the calculation of this return.  The amount of state and federal ADITC Idaho Power may accelerate for amortization purposes is limited to a total of $30 million for the years 1995-1999.

\*In the event the Company’s actual earned return on year-end common equity rises above 11.75%, Idaho Power will refund to the customers 50% of all amounts above 11.75%.  Idaho Power will file its earnings report with workpapers by April 1st of each year.  Any refunds will be made in conjunction with Idaho Power's PCA adjustment on May 15th of each year.

\*Idaho Power agrees to a rate moratorium pursuant to which base rates will not change prior to January 1, 2000.

\*Idaho Power may file only for recovery of costs during the rate moratorium for the following items: significant changes in local, state and federal taxes or franchise fees; a legislatively imposed surcharge for hydro relicensing; changes in the manner in which Demand Side Management charges are recovered and; the recovery by Idaho Power of costs related to catastrophic events which are outside the control of the Company.

\*The PCA adjustment mechanism is not changed.

\*Idaho Power agrees that its quality of service will not diminish either as a result of the corporate reorganization or this Settlement Stipulation.  Service quality and customer relations criteria will be developed.

\*Revenue-neutral rate design changes based on cost of service principles may be filed.

Q.Please explain the deferral and amortization provision for reorganization costs.  Why is this reasonable?

A.The Company requests and the Settlement Stipulation accepts the deferral of reorganization costs incurred in 1995, 1996 and 1997.  Reorganization costs to be deferred include out-of-pocket expenses, consultant's fees and severance costs.  It is reasonable to defer these costs to better match the expenses with the time period when the associated savings from reorganization will be realized.  The amortization of these costs will occur through December 31, 2005.  This amortization period is shorter than the period over which the benefits are expected to occur but is not so short as to create a financial burden in any one year.  If these costs are expensed in the year they occur, the magnitude of the expense could significantly reduce earnings.  The expected savings exceed the amortization expense in all but the first year.  Staff believes the amortization period is reasonable.

Q.Please explain why the Settlement Stipulation is reasonable and in the public interest.

A.The price of electricity in the future is a concern for all parties.  Maintaining electric prices for Idaho Power's customers that are among the lowest in the nation is an important goal of the parties.  The Settlement Stipulation provides a rate moratorium on base rates that will not be changed prior to January 1, 2000.  This rate moratorium should maintain Idaho Power's retail rates at a level among the lowest in the nation.

The Settlement Stipulation provides for a direct 50%/50% sharing of earnings in excess of an 11.75% return on equity (ROE) between the Company and it's Idaho ratepayers.  This sharing enhances benefits to the ratepayers as part of the agreement giving Idaho Power the ability to accelerate ADITC to maintain an earnings floor of 11.5%.

The cost to ratepayers of accelerating ADITC is the present value of the foregone future reduction in expenses from the flow through of the credits.  The present value of the first $5,000,000 of accelerated ADITC is approximately $200,000.

The benefit to Idaho Power that results from accelerating ADITC is earnings stability.  Earnings stability benefits the Company and ratepayers by improving the financial position of Idaho Power Company.  An improvement in financial position can reduce the costs of future financings and maintain low rates.  Earnings stability also improves the competitive position of Idaho Power and enables it to maintain quality service at the lowest possible rates.

Q.Please summarize the exceptions to the rate moratorium set forth in the Settlement Stipulation.

A.The exceptions, which are narrowly defined, allow the Company or other parties the opportunity to request a change in rates only under rigid circumstances.  The exceptions to the rate moratorium do not necessarily mean that rates will change.  While there are exceptions carved out in the rate moratorium, the parties expect the agreement to provide rate stability.  I expect any request to increase rates to be heavily scrutinized by the parties when it is presented to the Commission for consideration.

The areas where requested changes may be made include significant changes in local, state and federal taxes or franchise fees, a legislatively imposed surcharge for hydro relicensing, changes in the manner in which Demand Side Management charges are recovered, and costs related to catastrophic events which are outside the control of the Company.

Q.Please explain the benefits from an earnings cap where all earnings above 11.75% ROE are shared 50% with the Idaho customers and 50% with the Company.

A.The Settlement Stipulation provides for all actual earnings above 11.75% ROE to be shared between Idaho Power and its Idaho customers.  The customer's share will be returned in the form of a decrease in customer bills.  Idaho Power's current authorized ROE is 11% which was established by Order No. 25880, issued on January 31, 1995, in Case No. IPC-E-94-5 (Idaho Power's last general rate case).  Firm wholesale revenues were an issue in Idaho Power's last general rate case.  The Settlement Stipulation includes these firm wholesale revenues in the calculation of retail jurisdictional earnings.  Inclusion of firm wholesale revenues with the retail revenues authorized by Order No. 25880 would increase the Company's effective ROE to 11.6%.  The ROE cap of 11.75% in the Settlement Stipulation for sharing of additional earnings is 15 basis points above the effective authorized ROE of 11.6%.  The sharing mechanism will benefit Idaho ratepayers by automatically returning a portion of excess earnings to them without litigating a rate case.  Under the stipulation, I believe ratepayers will be more likely to receive the benefits of higher earnings and to receive them faster than under standard ratemaking practices.  Standard ratemaking practices would require a costly rate case through which Staff or another party must prove that Idaho Power is earning significantly above its authorized return.  Any future rate case to reduce rates would evaluate earnings on a normalized basis with known and measurable changes.  I believe the sharing of excess earnings over the next 4 years will be more beneficial to Idaho ratepayers.

Q.Do you believe there will actually be years where sharing occurs?

A.Yes.  Based on my review of Company documents and forecasts, I believe there is potential for sharing from year 3 forward and possibly in year 2.  This belief is based on normal conditions as reflected in the IPC-E-94-5 case and estimated reorganization savings net of amortized reorganization costs.

Q.How is the return on equity calculated to determine if ADITC is accelerated or if sharing of earnings will occur?

A.For purposes of this Agreement, the term “earnings” shall be calculated based on the Company’s actual year-end results of operations which include the wholesale firm revenues.  The results of the Company’s wholesale operations will be spread to the Company’s retail jurisdictions.  Earnings do not include the results of operations from the Company’s Nevada or Oregon retail jurisdictions nor their associated allocation of wholesale firm revenues.  The Oregon and Nevada exclusion will be accomplished by (1) separating actual financial results using a Jurisdictional Separations Study based on the same allocation methodology as ordered by the Commission in Idaho Power’s last general rate case (Case No. IPC-E-94-5) and (2) computing either the ADITC or the shared earnings on an Idaho-separated basis.

Q.How will the sharing of earnings be accomplished?

A.For the years 1995 through 1999, Idaho Power will formally file, for review by all parties, its calculations of earnings, along with supporting workpapers, with the Commission by the 1st day of April of the following year.  Copies of this filing shall be sent to all signatory parties to this Settlement Stipulation.  In the event the Company's actual earnings for a preceding year exceed 11.75% return on year-end common equity, the Company shall refund 50% of the excess commencing on May 15th of each year, in conjunction with its PCA rate adjustment.  Said refund shall be made on a uniform percentage basis to each customer class.  Furthermore, with the exception of FMC Corporation, said refund shall be allocated within each rate schedule that has a separate demand and energy charge, solely on the energy component.  FMC may, at its discretion, elect to have the refund allocated to either demand or energy or both and shall notify the Company accordingly.

Q.Please explain why a cap on the ADITC acceleration is included in the Settlement Stipulation.

A.The cap on the ADITC acceleration is included to eliminate the possibility that the ADITC will be utilized to guarantee earnings for a long period of time.  The acceleration of ADITC to stabilize earnings is intended to facilitate the Company's reorganization to maintain low rates for ratepayers in a competitive market.  The purpose of the ADITC acceleration is not to guarantee earnings for an extended period if the reorganization does not reduce costs or Idaho Power Company's management decisions are not consistent with a competitive market.

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

A.Yes, it does.