

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UM _____

In the Matter of)
)
IDAHO POWER COMPANY'S)
)
Request for Authorization to Defer Costs)
Associated with a Long Term Program)
Contract with Siemens Energy, Inc.)
_____)

**IDAHO POWER COMPANY
REDACTED DIRECT TESTIMONY
OF
COURTNEY E. WAITES**

June 5, 2015

1 **Q. Please state your name and business address.**

2 A. My name is Courtney E. Waites and my business address is 1221 West Idaho
3 Street, Boise, Idaho 83702.

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

5 A. I am employed by Idaho Power Company ("Idaho Power" or "Company") as a Senior
6 Regulatory Analyst in the Regulatory Affairs Department.

7 **Q. Please describe your educational background.**

8 A. In December of 1998, I received a Bachelor of Arts degree in Accounting from the
9 University of Alaska in Anchorage, Alaska. In 2000, I earned a Master of Business
10 Administration degree from Alaska Pacific University. I have attended New Mexico
11 State University's Center for Public Utilities and the National Association of
12 Regulatory Utility Commissioners "Practical Skills for the Changing Electric Industry"
13 conference, the Electric Utility Consultants, Inc., "Introduction to Rate Design and
14 Cost of Service Concepts and Techniques for Electric Utilities" conference, Edison
15 Electric Institute's "Introduction to Public Utility Accounting" course, Edison Electric
16 Institute's Electric Rates Advanced course, and SNL Knowledge Center's "Essentials
17 of Regulatory Finance" course.

18 **Q. Please describe your work experience with Idaho Power.**

19 A. I began my employment with Idaho Power in December 2004 in the Accounts
20 Payable Department. In 2005, I accepted a Regulatory Accountant position in the
21 Finance Department where one of my tasks was to assist in responding to regulatory
22 data requests pertaining to financial issues. In 2006, I accepted my current position,
23 Regulatory Analyst, in the Regulatory Affairs Department. My duties as a Regulatory
24 Analyst include providing support for the Company's various regulatory activities,
25 including tariff administration, regulatory ratemaking and compliance filings, and the
26 development of various pricing strategies and policies.

1 **Q. What is Idaho Power requesting in this case?**

2 A. Idaho Power is requesting approval of the Company's proposed accounting
3 treatment for costs associated with a Long Term Program ("LTP") Contract with
4 Siemens Energy, Inc. ("Siemens"). Concurrent with this Application, Idaho Power is
5 requesting approval of the LTP Contract and the transfer and sale of certain assets
6 to Siemens in Docket No. UP _____. The Company is not requesting to change
7 customer rates at this time.

8 **I. BACKGROUND**

9 **Q. Please describe the LTP Contract with Siemens.**

10 A. The LTP Contract with Siemens is fully detailed in the Company's Application and
11 Testimony of Power Plant Area Maintenance Leader Trevor Mahlum in Docket No.
12 UP _____. Generally, under the LTP Contract, Siemens will provide maintenance at
13 all three of the Company's natural gas-fired facilities including scheduled
14 maintenance of the combustion turbines, comprising of program parts or repairs,
15 shipping, services, labor, engineering services, and program management services.
16 Siemens will also perform unscheduled maintenance on all three combustion
17 turbines to the extent such work is not covered by Siemens' other warranties under
18 the contract. The pricing structure under the LTP Contract involves per unit initiation
19 fees combined with periodic milestone amounts due at or near the actual outage
20 events. Leveraging Siemens' pool of regional inventory, outage resources, and
21 technical expertise, will result in lower overall costs to Idaho Power and its
22 customers.

23 **Q. What is the Company's request in Docket No. UP _____?**

24 A. In Docket No. UP _____, Idaho Power is requesting approval of a LTP Contract with
25 Siemens and the transfer and sale of certain assets to Siemens pursuant to ORS §
26


1 757.480. With a LTP Contract, the Company has no need for its current inventory of
2 gas plant spare parts (referred to as "initial spare parts"); Siemens will provide all
3 parts necessary for maintenance and repair of Idaho Power's gas fleet. Under the
4 terms of the LTP Contract, Siemens will take title to Idaho Power inventory of initial
5 spare parts for each combustion turbine and is expected to remove them from Idaho
6 Power's facilities soon after approval of the LTP Contract.

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

8 A. My testimony will describe Idaho Power's request for approval of the Company's
9 proposed accounting treatment for costs associated with a LTP Contract with
10 Siemens including (1) the deferral of the initiation fees to a regulatory asset, (2) the
11 transfer of the net book value of the initial spare parts and associated net tax
12 expense to a regulatory asset, and (3) a carrying charge on a portion of the
13 regulatory asset balance.

14 **II. PROPOSED ACCOUNTING TREATMENT**

15 **Q. Why does the Company seek to defer the initiation fees?**

16 A. While the LTP Contract provides significant benefits to customers over the life of the
17 contract, absent the requested accounting treatment, the financial impact to the
18 Company in the first few years is considerable, primarily attributable to the initiation
19 fees and net tax expense. The initiation fees serve as a prepayment toward services
20 that will be performed by Siemens over the life of the agreement. Because the
21 expense is for work performed throughout the duration of the contract, Idaho Power
22 is proposing to establish the initiation fees, approximately **[BEGIN CONFIDENTIAL**
23 **MATERIAL]**  **[END CONFIDENTIAL MATERIAL]** on an Oregon
24 jurisdictional basis, as a regulatory asset. The Company is proposing to amortize
25 that balance, on a straight-line basis, over the length of the contract, commencing on
26 payment of the initiation fee to Siemens. The deferral and subsequent amortization

1 of initiation fees will more closely match the expense recognition with the work being
2 performed.

3 **Q. What is the length of the amortization period the Company's is requesting?**

4 A. Idaho Power is requesting an amortization period of 20 years. The estimated
5 expiration date of the LTP Contract varies by combustion turbine but ranges 18-22
6 years. Using a 20- year period will align the length of the amortization with the range
7 of the estimated contract duration.

8 **Q. What is Idaho Power's proposed accounting for the deferral and amortization
9 of the initiation fees in a regulatory asset?**

10 A. Idaho Power proposes to record the deferred initiation fee amounts to Federal
11 Energy Regulatory Commission ("FERC") Account 182.3, Other Regulatory Assets.
12 The Company will record amortization of the deferred amounts to FERC Account
13 407.3, Regulatory Debits.

14 **Q. If approved, how would the Company transfer the net book value of the initial
15 spare parts to a regulatory asset?**

16 A. If approved, the LTP Contract will provide for the transfer and sale of the initial spare
17 parts to Siemens which, in turn, provides customers the benefit of lower contract
18 costs over the life of the LTP Contract. The Company is requesting to transfer the
19 unrecovered portion, or net book value, of the initial spare parts, \$1.0 million on an
20 Oregon jurisdictional basis subject to true-up at closing. The Company also
21 proposes to amortize the amounts on a straight-line basis over the estimated life of
22 the LTP Contract, or 20 years, commencing on the execution of the LTP Contract.
23 The deferral and subsequent amortization of the unrecovered portion of the initial
24 spare parts over the contract life will more closely align the benefits received from
25 the LTP Contract with the costs associated with transfer and sale of the assets.

26

1 **Q. How does the amortization period of 20 years compare to the current**
2 **depreciable life of the initial spare parts?**

3 A. The initial spare parts have a remaining depreciable life of 30 years so a 20-year
4 amortization period is an acceleration of the remaining depreciable life of the initial
5 spare parts.

6 **Q. What is Idaho Power's proposed accounting for the deferral to and**
7 **amortization of the unrecovered amounts of the initial spare parts in a**
8 **regulatory asset?**

9 A. Idaho Power proposes to record the deferral of unrecovered initial spare parts
10 amounts to FERC Account 182.3, Other Regulatory Assets and record amortization
11 of the deferred amounts to FERC Account 407.3, Regulatory Debits.

12 **Q. Will deferred taxes result from the transfer and sale of the initial spare parts to**
13 **Siemens?**

14 A. Yes. The transfer and sale of the initial spare parts to Siemens will create a net tax
15 expense of approximately \$80,000 on an Oregon jurisdictional basis. Similar to the
16 transfer of the unrecovered portions of the initial spare parts, because the tax
17 expense is a result of the transaction that will provide customers benefits over the life
18 of the LTP Contract, the Company is proposing to (1) record the net tax expense to
19 FERC Account 282, Accumulated Deferred Income Taxes (debit Account 282,
20 Accumulated Deferred Income Taxes and credit Account 410.1, Deferred Income
21 Tax Expense) and (2) amortize the amounts on a straight-line basis over the
22 estimated life of the LTP Contract, or 20 years (debit Account 410.1, Deferred
23 Income Tax Expense and credit Account 282, Accumulated Deferred Income Taxes).

24 **Q. Is Idaho Power proposing to accrue a carrying charge on the amounts**
25 **included in the regulatory asset?**

26

1 A. Yes, the Company is proposing to accrue a carrying charge on approximately
2 **[BEGIN CONFIDENTIAL MATERIAL]** **[END CONFIDENTIAL MATERIAL]**
3 of the regulatory asset: **[BEGIN CONFIDENTIAL MATERIAL]** **[END**
4 **CONFIDENTIAL MATERIAL]** million in initiation fees and \$130,000 million of the
5 initial spare parts. Because approximately \$130,000 of the initial spare parts have
6 not yet been included in the Company's authorized rate base and therefore the
7 Company is not currently earning a return on the amounts, Idaho Power is
8 requesting to accrue a carrying charge on those amounts, using the Company's most
9 recent authorized rate of return.

10 **Q. Will approval of Idaho Power's request in this case change customer rates at**
11 **this time?**

12 A. No, the Company is not requesting to change customer rates at this time.

13 **Q. Has the Company determined what, if any, impact the LTP Contract will have**
14 **on Idaho Power's revenue requirement?**

15 A. Yes. Idaho Power completed an analysis that quantified the present value revenue
16 requirement impact of executing the LTP Contract over a 20-year period, the
17 estimated length of the agreement. The analysis compared the annual revenue
18 requirement difference between two scenarios: (1) a scenario in which there was no
19 LTP Contract (the self-manage scenario) and (2) an LTP Contract scenario.
20 Accordingly, this revenue requirement analysis looked at incremental costs
21 associated with the execution of the LTP Contract as compared to the costs that
22 would exist under continued self-management.

23 **Q. What are the results of the present value revenue requirement analysis?**

24 A. By entering into the LTP Contract, the Company's Oregon jurisdictional revenue
25 requirement would be reduced by approximately \$281,000 over a 20-year period
26 (2015-2034).

1 **Q. Have you prepared an exhibit demonstrating the estimated revenue**
2 **requirement impact?**

3 A. Yes. Exhibit 101 provides a summary of the revenue impact to the Company's
4 Oregon jurisdictional retail customers.

5 **Q. Please explain what is driving the lower annual revenue requirements.**

6 A. The annual revenue requirement under the LTP Contract generally provides for
7 lower capital expenditures and lower operating expense amounts over the estimated
8 life of the agreement, resulting in savings over 20 years.


9 **Q. If the LTP Contract provides cost reductions over the next 20 years, why is**
10 **Idaho Power not proposing to reduce customer rates at this time?**

11 A. The present value revenue requirement analysis performed by the Company
12 identified avoided costs that would exist under the LTP Contract. Absent the LTP
13 Contract, these avoided costs would be included in future rates for recovery from
14 customers. However, because the level of recovery of equivalent costs currently
15 included in rates is less than the cost that would be incurred under the LTP Contract,
16 it is not appropriate to further reduce rates at this time. The execution of the LTP
17 Contract will serve to keep future customer rates lower than they would have
18 otherwise been.

19 **Q. Please summarize Idaho Power's proposed accounting treatment of costs**
20 **associated with the LTP Contract.**

21 A. Idaho Power is requesting approval of a regulatory asset that includes the deferral of:
22 **[BEGIN CONFIDENTIAL MATERIAL]** [REDACTED] **[END CONFIDENTIAL MATERIAL]**
23 of initiation fees paid to Siemens, \$1.0 million associated with the net book value of
24 the initial spare parts being transferred to Siemens, and \$80,000 related to the net
25 tax expense resulting from the transfer and sale of the initial spare parts to Siemens.
26 The Company is proposing to amortize these amounts over the estimated life of the

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LTP Contract, or 20 years. Finally, Idaho Power is proposing a carrying charge equal to the most recent authorized rate of return on **[BEGIN CONFIDENTIAL MATERIAL]**  **[END CONFIDENTIAL MATERIAL]** of the regulatory asset balance.

Q. Does this conclude your testimony?

A. Yes, it does.

Idaho Power/101
Witness: Courtney E. Waites

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IDAHO POWER COMPANY

UM _____

Request for Authorization to Defer Costs Associated with a Long Term
Program Contract with Siemens Energy, Inc.

Exhibit Accompanying Testimony of Courtney E. Waites

Oregon Jurisdictional Present Value Revenue Requirement Impact
Long Term Program Contract - 2015-2034

June 5, 2015

