HARDY MYERS
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DEPARTMENT OF JUSTICE
GENERAL COUNSEL DIVISION

May 20, 2005

Public Utility Commission of Oregon
Attn: Filing Center
550 Capitol Street, NE
Suite 215
PO Box 2148
Salem, Oregon 97308

Re: UE 167

Dear Filing Center:

Enclosed for filing please find the Stipulation entered into by Idaho Power Company, staff of the Public Utility Commission of Oregon, the Oregon Industrial Customers of Idaho Power and the Citizens' Utility Board, accompanied by joint supporting testimony of these parties. The signatures of representatives of the Citizens' Utility Board, the Oregon Industrial Customers and Idaho Power will be filed with the Commission under separate cover.

Thank you for your attention.

Very truly yours,

Stephanie S. Andrus
Assistant Attorney General

Enc.
c. Service list

1162 Court Street NE, Salem, OR 97301-4096 Telephone: (503) 378-6322 Fax: (503) 378-5300 TTY: (503) 378-5938

PUBLIC UTILITY COMMISSION
OF
OREGON

UE 167

JOINT STAFF TESTIMONY

OF

CARLA OWINGS
DON READING, PH.D.
LOWREY BROWN
BOB JENKS
JOHN R. GALE

In the Matter of IDAHO POWER COMPANY'S Application for General Rate Increase in the Company's Oregon Annual Revenues of $4,418,908, or 17.52 Percent Overall

MAY 19, 2005

Q. PLEASE STATE YOUR NAMES, OCCUPATIONS AND BUSINESS ADDRESSES.

A. My name is Carla Owings. My business address is 550 Capitol Street NE Suite 215, Salem, Oregon 97301-2551. I am a Senior Revenue Requirements Analyst for Electric & Natural Gas Revenue Requirements in the Utility Program of the Public Utility Commission of Oregon. My qualifications are shown on Staff Exhibit 101.

My name is John R. Gale. My business address is 1221 Idaho Street, Boise, Idaho 83702. I am the Vice President of Regulatory Affairs for Idaho Power Company. My qualifications are shown on Idaho Power Exhibit 43T.

Our names are Bob Jenks and Lowrey Brown. Our business address is the Citizens' Utility Board of Oregon, 610 SW Broadway, Suite 308, Portland, Oregon 97205. Our qualifications are listed in our opening testimony in CUB Exhibits 101 and 102 respectively.

My name is Dr. Don Reading. My business address is Ben Johnson and Associates, 6070 Hill Road, Boise, Idaho 83703. My qualifications are as listed on Appendix A of my direct testimony filed on March 15, 2005.

Q. ARE YOU THE SAME WITNESSES THAT PRESENTED DIRECT TESTIMONY IN THIS PROCEEDING?

A. Yes.

Q. WHAT IS THE PURPOSE OF THIS TESTIMONY?

A. To describe the Stipulation entered into by Idaho Power Company ("Idaho Power"), staff of the Public Utility Commission ("staff"), the Citizens' Utility Board ("CUB") and the Oregon Industrial Customers of Idaho Power Company ("Industrial Customers"), hereinafter referred to as "the Parties," and to recommend that the Commission adopt the agreement contained therein. With the exceptions described below, the Stipulation resolves all of the issues arising from and relating to Idaho Power's Application for

General Rate Increase in the Company's Annual Revenues of $4,418,908 or 17.52 percent overall ("the Application"). The Stipulation described in this testimony is being submitted to the Commission as IdahoPower/Staff/CUB/Industrial Customers Exhibit 101.

Q. WHAT ISSUES WERE NOT RESOLVED BY THE STIPULATION?

A. The Parties did not agree on the amount of power costs that should be included in Idaho Power's Oregon revenue requirement. Accordingly, staff, the Industrial Customers and CUB each submitted testimony on this issue on March 15, 2005. Idaho Power filed rebuttal testimony on this issue on April 8, 2005. That rebuttal testimony has been followed by an additional two rounds of testimony, with a hearing scheduled to begin on May 23, 2005.

CUB did not agree to the seasonal rates proposed for residential customers taking service under Schedule 1, and both Idaho Power and CUB have submitted testimony addressing this issue. The Industrial Customers did not agree to the time-of-use rates proposed for customers taking service under Schedule 19, and testimony on this issue has been submitted by Idaho Power and the Industrial Customers.

Finally, the Industrial Customers have raised three issues that were not addressed by Idaho Power in its original filing and that have not been resolved in settlement. More specifically, the Industrial Customers contend that (1) Idaho Power's power supply quality in Idaho Power's Oregon service territory is insufficient; (2) the OPUC should order Idaho Power to work with interested parties to investigate the potential of integrating emergency generators into Idaho Power's system for additional generating capacity; and (3) costs for the Danskin generating plant should be excluded from rate base because they are unreasonable. Idaho Power disputes each of these contentions and both Idaho Power and the Industrial Customers have filed testimony on these three unresolved issues.

Q. WHAT ISSUES ARE RESOLVED BY THIS STIPULATION?

A. The Parties resolved issues related to rate of return, net to gross factor, known and measurable changes to rate base, cloud seeding costs, non-labor and A&G expense, employee incentive pay, payroll salary structure, wage and salary, Hells Canyon Complex legal costs, rate base additions, prepaid pension expenses, marginal costs, rate spread, certain filing requirements and conservation.

Q. WHAT IS THE OVERALL EFFECT OF THE STIPULATION ON IDAHO POWER'S REQUESTED REVENUE REQUIREMENT?

A. Idaho Power's 2003 test year revenue requirement in Oregon was $25,220,299. In the Application, Idaho Power requested to increase its revenue requirement by $4,418,908, or a 17.52 percent overall increase. The adjustments agreed to by Idaho Power in the Stipulation reduce the requested increase to $ 3,048,000, or a 12.09 percent overall increase.

Q. PLEASE DESCRIBE THE PARTIES' AGREEMENT REGARDING RATE OF RETURN.

A. The Parties agree that for Oregon regulatory purposes, the Company's weighted cost of capital will be assumed to be 7.83% and that for Oregon regulatory purposes, the cost of equity will be assumed to be 10.0%, which includes a 10 basis point adjustment for flotation costs. The embedded cost of long-term debt will be assumed to be 5.99%. Also, for all Oregon regulatory purposes, the capital structure will be assumed to be composed of 54.03% debt and 45.97% equity. These adjustments result in a downward adjustment to Idaho Power's Oregon revenue requirement in the amount of $670,000. The Parties may not agree with the individual components of the rate of return (e.g., Idaho Power does not agree that 10% correctly reflects its cost of equity) but, all have agreed to these numbers, and their use for Oregon regulatory purposes, in the settlement. From Staff's perspective, this portion of the settlement reduces Oregon customers' rates and, when taken as part of the overall settlement agreement, results in just and reasonable rates. Further, Staff believes that flotation costs (the costs associated with issuing common stock) are more appropriately reflected in the cost of equity.

Q. PLEASE DESCRIBE THE PARTIES' AGREEMENT REGARDING NET TO GROSS FACTOR.

A. Staff pointed out that the net to gross factor originally proposed by Idaho Power did not include any amount attributable to uncollectible accounts. The Parties agree that it is appropriate to include such amounts in the net to gross factor and that incorporating these amounts results in an adjustment of .3938%, setting the overall factor at 1.648%. This adjustment to Idaho Power's net to gross factor results in an upward adjustment in Idaho Power's requested revenue requirement of $14,000.

Q. PLEASE DESCRIBE THE PARTIES' AGREEMENT REGARDING KNOWN AND MEASURABLE CHANGES TO RATE BASE.

A. Idaho Power originally proposed a revenue requirement that included expenses for major transmission additions for the first five months of 2004, without an adjustment for offsetting revenue. Based on the Commission's treatment of such costs in previous ratemaking dockets, staff recommended that Idaho Power impute revenues for that period to better match the company's expenses and revenues. Staff argued that the transmission additions will give the Company opportunity to provide transmission to others and also, will decrease the Company's maintenance costs. Staff further argued that including a revenue offset for the rate base additions is consistent with the Commission's treatment of similar costs in previous dockets. Idaho Power argued that potential transmission wheeling revenues were not quantifiable, however, all Parties agreed to this recommended adjustment. This agreed-to adjustment results in a downward adjustment to revenue requirement of $23,000.

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Q. PLEASE DESCRIBE THE PARTIES' AGREEMENT REGARDING CLOUD SEEDING COSTS.

A. Idaho Power originally proposed a revenue requirement that would include capitalized costs from years prior to the test year, as well as expenses incurred in the test year, for a cloud seeding program undertaken by Idaho Power in Idaho. Idaho Power believes cloud seeding provides demonstrable benefits, but other parties asserted that the experimental nature of this process warranted disallowance of the capitalized costs and expense related to cloud seeding. All parties agreed to a downward adjustment to revenue requirement of $52,000.

Q. PLEASE DESCRIBE THE PARTIES' AGREEMENT WITH RESPECT TO NON-LABOR AND A&G EXPENSE.

A. Idaho Power originally proposed a revenue requirement that included shareholder costs and costs related to FAS adjustments and insurance. Staff recommended disallowance of these costs because the Commission historically has not allowed such costs in a utility's revenue requirement. For settlement purposes, the Parties agreed to this recommendation. This adjustment results in a downward adjustment to revenue requirement of $187,000.

Q. PLEASE DESCRIBE THE PARTIES' AGREEMENT REGARDING EMPLOYEE INCENTIVE PAY.

A. In its proposed revenue requirement, Idaho Power included an adjustment for employee incentive pay as a known and measurable change to test year costs. Staff recommended removal of this test year adjustment because Idaho Power is not obligated make this proposed pay increase and accordingly, it is not properly classified as a "known and measurable change." The Parties agreed to reduce the revenue requirement by $288,000.

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Q. PLEASE DESCRIBE THE PARTIES' AGREEMENT REGARDING PAYROLL SALARY STRUCTURE.

A. Idaho Power originally proposed a 3% salary increase to its 2003 annualized gross payroll. Such an increase did not occur in 2003. Accordingly, the Parties agree that Idaho Power's payroll will be adjusted to eliminate the proposed 2003 payroll increase but also, to reflect a 3.5% general wage adjustment which did occur effective January 2005. The Parties agreed to a 3% known or measurable adjustment and no change to Idaho Power's proposed revenue requirement.

Q. PLEASE DESCRIBE THE PARTIES' AGREEMENT REGARDING IDAHO POWER'S TEST YEAR WAGES AND SALARIES.

A. Staff proposed to adjust Idaho Power's test period wages and salaries to make them consistent with guidelines followed by the Commission in previous rate proceedings. Under these guidelines, staff projects wages and salaries increase based on published CPI projections, and then allows the company to share 50/50 a 10% band around staff's calculated projection. This adjustment results in a downward adjustment to revenue requirement of $32,000.

Q. PLEASE DESCRIBE THE PARTIES' AGREEMENT REGARDING HELLS CANYON COMPLEX LEGAL COSTS.

A. Idaho Power included in its 2003 test year, capitalized costs for legal services related to the Hells Canyon Biological Opinion. These costs were incurred in 2001 for the purpose of defending current licensing and operations for dams in Hells Canyon. Staff recommended excluding these costs because they should not have been capitalized, but should have been treated as expense in the year they were incurred. The Parties agreed to this recommendation. This adjustment results in a downward adjustment to revenue requirement of $4,000.

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Q. PLEASE DESCRIBE THE PARTIES' AGREEMENT REGARDING RATE BASE ADDITIONS.

A. Idaho Power proposed an annualizing adjustment of $22,813,055 (system) for plant additions made in December 2003 for the Bridger Rewind project and the Brownlee-Oxbow Transmission line. Staff proposed an adjustment that would remove annualization of these costs consistent with costs of other additions made in the test year. Staff agreed to Idaho Power's counter-proposal to offset the additions with imputed revenues consistent with the other major rate base additions in this docket. Other Parties agreed to the proposed adjustment. The adjustment results in a downward adjustment to revenue requirement of $34,000.

Q. PLEASE DESCRIBE THE PARTIES AGREEMENT WITH RESPECT TO PREPAID PENSION EXPENSE.

A. Idaho Power's proposed revenue requirement included costs for prepaid pension expense. Staff proposed that this expense should be excluded because it is not an asset necessary for the provision of electricity service. The Parties agreed to a downward adjustment to revenue requirement of $93,000.

Q. PLEASE DESCRIBE THE PARTIES' AGREEMENT REGARDING MARGINAL COST ADJUSTMENTS.

A. Staff recommended an adjustment to Idaho Power's marginal costs to, in staff's view, more appropriately allocate uncollectible expense among Idaho Power's customer classes. Currently, Idaho Power uses actual uncollectible expense for each customer class in its marginal cost study. In order to mitigate a disproportionate amount of uncollectible expense incurred from the irrigation class in 2003, staff recommended and the Parties agreed that uncollectible expense should be recalculated based on a four-year average of uncollectibles per customer class.

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Q. PLEASE DESCRIBE THE PARTIES' AGREEMENT REGARDING THE IDAHO POWER'S PROPOSED $20 SERVICE ESTABLISHMENT CHARGE.

A. Staff recommended that Idaho Power eliminate its proposed $20 Service Establishment Charge. The Parties agreed to staff's recommendations.

Q. PLEASE DESCRIBE THE PARTIES' AGREEMENT REGARDING CONSERVATION.

A. The Parties' agreement regarding conservation is based on CUB's observation that Idaho Power's spending on conservation has historically been well below that of the other two investor-owned utilities in Oregon. CUB noted in its testimony that the Company was expecting an order from the Idaho Public Utilities Commission (IPUC) establishing a 1.5% rider on rates to fund energy efficiency programs and recommended that the Company voluntarily implement a similar program in Oregon. The details of CUB's proposal are as follows:

- Idaho Power will request authority from the OPUC to add a 1.5% rider to all its customers' bills to fund energy efficiency programs such as those listed in the Attachment to the Stipulation.
- Industrial customers would be allowed to self-direct their funds in the same manner as is currently provided under the Oregon Department of Energy's self-direction program that currently applies to PGE, PacifiCorp and Emerald PUD.
- If the IPUC increases the amount of the Idaho rider (the IPUC is currently considering 2.4% for 2007), Idaho Power would request authority from the OPUC to make the same increase to the Oregon rider.

On May 13, 2005, in Order No. 29784, the IPUC approved a 1.5 % rider to fund energy efficiency programs. Idaho Power and the other Parties agree that Idaho Power shall make a filing with the Commission requesting authority to implement a conservation funding mechanism commensurate to that approved by the IPUC in that order.

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Q. PLEASE DESCRIBE THE PARTIES' AGREEMENT REGARDING STAFF'S AUDIT RECOMMENDATIONS.

A. Staff made several recommendations to Idaho Power regarding various reporting and filing requirements found in Oregon statute or rule or Commission precedent. The Parties agreed to the recommendations.

Q. DO THE PARTIES RECOMMEND THAT THE COMMISSION ACCEPT THEIR AGREEMENT AS EMBODIED IN THE STIPULATION?

A. Yes. In order to reach this Stipulation, each of the parties agreed to compromise their positions on various of the issues presented. As a result, the Stipulation's resolution of the issues covered differs in various respects from the original recommendations of each of the parties. However, all of the parties believe that the settlement, viewed in its entirety, represents a reasonable resolution of the issues and that rates based on this agreement would be fair, just and reasonable. As a result, it is the joint recommendation of the Parties that their agreement, as embodied in the Stipulation, be accepted by the Commission without change or condition.

Q. **DOES THIS CONCLUDE YOUR TESTIMONY?**

A. Yes.