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March 24, 2017

VIA ELECTRONIC

PUC Filing Center
Public Utility Commission of Oregon
PO Box 1088
Salem, OR 97308-1088

**Re: Docket No. UE 316 - In the Matter of the Application of IDAHO POWER COMPANY
for Application for Authority to Increase Rates for Electric Service to Recover
Costs Associated with the North Valmy Power Plant.**

Attention Filing Center:

Attached for filing in the above-referenced docket is an electronic copy of Idaho Power Company's Supplemental Direct Testimony of Matthew T. Larkin. Please contact this office with any questions.

Very truly yours,

Wendy McIndoo
Office Manager

Attachment

BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON

DOCKET NO. UE 316

In the Matter of the Application of IDAHO)
POWER COMPANY for Authority to)
Increase its Rates for Electric Service to)
Recover Costs Associated with the North)
Valmy Power Plant.)
_____)

IDAHO POWER COMPANY
SUPPLEMENTAL DIRECT TESTIMONY
OF
MATTHEW T. LARKIN

March 24, 2017

1 **Q. Please state your name, business address, and present position with Idaho**
2 **Power Company (“Idaho Power” or “Company”).**

3 A. My name is Matthew T. Larkin. My business address is 1221 West Idaho Street,
4 Boise, Idaho 83702. I am employed by Idaho Power as the Revenue Requirement
5 Manager in the Regulatory Affairs Department.

6 **Q. Are you the same Matthew T. Larkin that previously filed direct testimony in**
7 **this matter?**

8 A. Yes.

9 **Q. What is the scope and purpose of your supplemental testimony?**

10 A. My supplemental direct testimony will present the Company’s earnings test that is
11 based on the 2016 Results of Operations (“ROO”) filed concurrently with this
12 testimony.

13 **Q. Why has Idaho Power prepared an earnings test for 2016 and presented it in**
14 **this case?**

15 A. At the prehearing conference in Docket No. UE 316 on November 30, 2016, Public
16 Utility Commission of Oregon (“Commission”) Staff (“Staff”) expressed a desire to
17 review Idaho Power’s 2016 earnings to help inform its position regarding the
18 Company’s request in this case. As a result, Idaho Power agreed to file
19 supplemental testimony on 2016 earnings by March 24, 2017, for Staff’s review as
20 part of this docket.

21 **Q. Has Idaho Power performed a 2016 earnings test?**

22 A. Yes. Concurrent with this supplemental testimony, Idaho Power is filing its 2016
23 ROO that calculates the earnings test for the year.

24 **Q. Please describe the calculation of the earnings test.**

25 A. The Company begins the preparation of the earnings test with 2016 actual financial
26 data and makes a number of adjustments, identified as Type I and Type II

1 adjustments. A description of the adjustments and the process are memorialized in
2 a letter from Commission Staff dated March 2, 2011, and attached as Exhibit No.
3 301. Type I adjustments include the removal of out-of-period transactions, including
4 the current reporting year's excess power cost deferral, to reflect expenses for the
5 period in which they are recognized. The intent of the first stage is to provide an
6 accurate determination of Idaho Power's earnings for the reporting year for earnings
7 test purposes. Type II adjustments include the normalization of revenues and
8 expenses, the reflection of end of period customer counts, tariff rates, wage rates,
9 tax rates, rate base, etc. The intent of the second stage is to provide a forward-
10 looking indication of Idaho Power's earnings on a proforma basis.

11 **Q. Has the Commission utilized the Type I-adjusted ROO when applying past**
12 **earnings tests to Idaho Power?**

13 A. Yes. As stated in the March 2, 2011, letter from Staff provided as Exhibit No. 301,
14 the intent of Type I adjustments is to provide an accurate measure of actual earnings
15 over a historical time period for use in the application of earnings tests. This letter
16 specifically indicates that the Type I-adjusted ROO should be utilized for earnings
17 test purposes relative to the Company's Power Cost Adjustment Mechanism
18 (PCAM). Further, in Docket No. UE 233, the Company's most recent general rate
19 case filing, the Commission relied upon the Company's Type I-adjusted earnings for
20 the years 1989 through 2011 when considering the possibility of amortizing tax-
21 related benefits in customer rates.¹

22 **Q. What were the results of Idaho Power's 2016 earnings upon completion of the**
23 **Type I adjustments?**

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¹ Docket No. UE 233, Order No. 13-416.

1 A. As can be seen in Exhibit No. 302, Idaho Power's earnings on a Type I adjusted
2 basis are 7.075 percent or well below the Company's current authorized Return on
3 Equity ("ROE").

4 **Q. What is the Company's current authorized ROE?**

5 A. Idaho Power's ROE authorized in its last general rate case is 9.9 percent, resulting in
6 an approved rate of return of 7.757 percent.

7 **Q. Please summarize your testimony.**

8 A. At the request of Commission Staff, Idaho Power is filing supplemental testimony
9 presenting the results of the Company's 2016 earnings test as prepared in the ROO.
10 Idaho Power's earnings test for 2016 indicates the Company's earnings were below
11 the Company's authorized rate of return.

12 **Q. Does this complete your testimony?**

13 A. Yes, it does.
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BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON

IDAHO POWER COMPANY

Exhibit Accompanying Supplemental Testimony of Matthew T. Larkin
March 2, 2011 Letter Memorializing Oregon Report Instructions

March 24, 2017



Oregon

John A. Kitzhaber, MD, Governor

Public Utility Commission

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March 2, 2011

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RE Agreements related to the Results of Operations Report

On December 8, 2010, Staff issued a letter to Idaho Power Company proposing the Company change the methodology used in the preparation of the Results of Operations report, which impacts the earnings test used in determining Idaho Power's power cost adjustment mechanism (PCAM) amounts. Staff proposed to meet with the Company to discuss the revisions and the merits of Staff's proposal. In response, Idaho Power met with Staff on January 4, 2011

As a result of the January 4th meeting, Staff and the Company agree to the following provisions as they pertain to the Results of Operations report beginning with the 2010 report, which is filed in May 2011, and continuing for an indefinite time period

Idaho Power Company's PCAM is a true-up mechanism that determines the difference between actual net variable power costs incurred by the Company and the actual amounts collected in rates. Before any amounts of net variable power supply true-up amounts outside of the deadbands are approved for subsequent recovery or refund, the Commission applies an earnings test as follows.

- If Idaho Power's earnings are within 100 basis points of its authorized ROE, no true-up amounts are eligible for amortization into rates.
- If earnings are more than 100 basis points below its authorized ROE, the Company will be allowed to add 90 percent of the eligible recovery amounts to a balancing account, up to an earnings level that is 100 basis points less than its authorized ROE
- If earnings are more than 100 basis points above its authorized ROE, the Company must include 90 percent of the eligible refund amounts as a

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credit to the balancing account, down to an earnings level that is 100 basis points above its authorized ROE (OPUC Order No. 08-238 at 3-4)

Currently, the first stage in the preparation of the Results of Operations report includes "Type I" adjustments. Type I adjustments are certain normalizing and rate-making adjustments such as.

1. normalizing weather, normalizing power costs, etc.,
2. adjustments to reflect significant changes in the most recent rate order,
3. removing entries related to out-of-period transactions, and
4. correcting estimates or errors.

At the January 4, 2011, meeting, Staff suggested that the normalization of revenues and power costs results in an earnings test that does not give an accurate picture of actual revenues and expenses for the period covered by the Results of Operations report. The Company agreed. The Company will now include normalization adjustments as part of the Type II adjustments in the second stage of the Results of Operations report.

Specific to Idaho Power's Results of Operations report are on-going, out-of-period revenues and expenses that relate to the amortization of excess power costs from previous years. Historically these specific out-of-period revenues and expenses have been removed as Type I adjustments. Staff and the Company agree that these specific out-of-period revenues and expenses should have no effect on the determination of an ROE to be used in an earnings test.

The revenues collected as a result of the amortization of out-of-period expenses will be perfectly offset by the corresponding amortization expense making the net effect zero; ultimately having no impact on the earnings test results. Therefore, Staff and the Company agreed that Idaho Power will no longer adjust actual revenues to remove collection associated with these specific out-of-period expenses, nor will it remove the associated amortization expense from total power supply costs

All other out-of-period transactions, including the current reporting year's deferral amount, if any exists, will continue to be removed from power supply revenues and expenses, as it has in past editions of the Results of Operations Report, to reflect expenses for the period in which they were recognized

In the second stage of the Results of Operations report, Idaho Power will make all normalization adjustments previously categorized as Type I, in addition to all other Type II adjustments as executed in previous Results of Operations Reports. This second stage is intended to provide a forward-looking basis by

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reflecting the full effect of known and measurable changes occurring before the end of the 12-month reporting period.

Type II adjustments include adjustments to show end of period customer counts, tariff rates, employee levels, wage rates, tax rates, rate base, etc. Including these adjustments in the second stage of the preparation of the Results of Operations report will provide an indication of Idaho Power's earnings on a proforma basis.

The Commission requires each utility to file an annual financial Results of Operations report by May 1st reporting the results of operating income and rate base for the prior period



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BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON

IDAHO POWER COMPANY

Exhibit Accompanying Supplemental Testimony of Matthew T. Larkin
Idaho Power's 2016 Earnings Test

March 24, 2017

**IDAHO POWER COMPANY
STATEMENT OF OPERATIONS
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2016**

OPUC JURISDICTION

DESCRIPTION	ACTUAL ALLOCATION	TYPE I ADJUSTMENTS	ADJUSTED TOTAL - TYPE I	TYPE II ADJUSTMENTS	ADJUSTED TOTAL - TYPE I & II
OPERATING REVENUES					
Retail Sales Revenues	53,271,854	0	53,271,854	(3,289,846)	49,982,008
Sales for Resale	0	0	0	0	0
Opportunity Sales	1,176,057	0	1,176,057	661,656	1,837,713
Other Operating Revenues	4,613,177	(2,273,242)	2,339,934	(16,439)	2,323,495
Total Operating Revenue	59,061,088	(2,273,242)	56,787,845	(2,644,629)	54,143,216
OPERATING EXPENSES					
Operation & Maintenance Expense	42,151,872	(2,254,951)	39,896,921	(5,192,081)	34,704,840
Depreciation Expense	5,936,079	0	5,936,079	42,876	5,978,954
Amortization Expense	285,073	2,128	287,200	(16,698)	270,503
Accretion Expense	10,127	0	10,127	0	10,127
Taxes Other Than Income Taxes	2,317,483	0	2,317,483	(37,732)	2,279,751
Regulatory Debits/Credits	167,068	0	167,068	0	167,068
Provision for Deferred Income Taxes	1,299,323	154,007	1,453,330	51,643	1,504,973
Investment Tax Credit Adjustment	13,172	0	13,172	(100)	13,072
Federal Income Tax	(989,650)	(263,445)	(1,253,095)	782,846	(470,249)
State Income Taxes	12,686	(224,022)	(211,335)	135,749	(75,586)
Total Operating Expenses	51,203,233	(2,586,284)	48,616,949	(4,233,496)	44,383,453
OPERATING NET INCOME	7,857,855	313,042	8,170,896	1,588,867	9,759,763
Add: IERCO Operating Income	372,976	0	372,976	(2,850)	370,126
CONSOLIDATED OPERATING INCOME	8,230,830	313,042	8,543,872	1,586,017	10,129,889
RATE OF RETURN EARNED	5.917%		6.207%		7.427%
IMPLIED RETURN ON EQUITY	6.530%		7.075%		9.360%

COST OF CAPITAL - DEC 31, 2016	ACTUAL STRUCTURE	EMBEDDED COST	WEIGHTED COST
Long Term Debt	46.618%	5.214%	2.431%
Preferred Stock	0.000%	0.000%	0.000%
Common Equity	53.382%	9.900%	5.285%
Total	100.000%		7.715%