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July 13, 2012

VIA ELECTRONIC AND U.S. MAIL

PUC Filing Center
Public Utility Commission of Oregon
PO Box 2148
Salem, OR 97308-2148

Re: UM 1562 & UM 1582 – In the Matter of IDAHO POWER COMPANY Deferral of Recognized Tax Benefits

Enclosed for filing in Docket UM 1562 is an original and five copies of Idaho Power Company's Direct Testimony of Gregory W. Said and Gene W. Marchioro. A copy of this filing has been served on all parties to this proceeding as indicated on the attached certificate of service.

Please contact this office with any questions.

Very truly yours,

Wendy McIndoo

Wendy McIndoo
Office Manager

Enclosures

cc: Service List

CERTIFICATE OF SERVICE

I hereby certify that I served a true and correct copy of the foregoing Testimonies of Gregory W. Said and Gene W. Marchioro, in Docket UM 1562, on the following named person(s) on the date indicated below by email and/or first-class mail addressed to said person(s) at his or her last-known address(es) indicated below.

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DATED: July 13, 2012

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Wendy McIndoo
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BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON

UM 1562 & UM 1582

In the Matter of	)
IDAHO POWER COMPANY	)
Deferral of Recognized Tax Benefits. (UM 1562)	)
and	)
CITIZENS UTILITY BOARD OF OREGON and OREGON INDUSTRIAL CUSTOMERS OF IDAHO POWER	)
Application for Deferral of Tax Benefits Recognized by Idaho Power Company. (UM 1582)	)

IDAHO POWER COMPANY

DIRECT TESTIMONY

OF

GREGORY W. SAID

July 13, 2012

Q. Please state your name and business address.

A. My name is Gregory W. Said and my business address is 1221 West Idaho Street, Boise, Idaho.

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

A. I am employed by Idaho Power Company ("Idaho Power" or "Company") as the Vice President of Regulatory Affairs.

Q. Please describe your educational background and business affiliations.

A. In May of 1975, I received a Bachelor of Science Degree in Mathematics with honors from Boise State University. In 1999, I attended the Public Utility Executives Course at the University of Idaho and am now on the faculty of that program covering "Regulation and Ratemaking." I have attended numerous additional educational conferences throughout my career at Idaho Power and am an active member of the Edison Electric Institute's Rates and Regulatory Affairs Committee.

Q. Please describe your work experience with Idaho Power.

A. I was hired by Idaho Power in 1980 as an analyst in the Resource Planning Department. In 1985, the Company applied for a general revenue requirement increase. I was the Company witness addressing power supply expenses.

In August of 1989, after nine years in the Resource Planning Department, I was offered and I accepted a position in the Company's Rate Department. With the Company's application for a temporary rate increase in 1992, my responsibilities as a witness were expanded. While I continued to be the Company witness concerning power supply expenses, I also sponsored the Company's rate computations and proposed tariff schedules in that case.

Because of my combined Resource Planning and Rate Department experience, I was asked to design a Power Cost Adjustment ("PCA") that would impact customers' rates based upon changes in the Company's net power supply expenses. I presented my recommendations to the Idaho Public Utilities Commission ("IPUC") in 1992, at which time the IPUC established the PCA as an annual adjustment to the Company's rates. The Company now has a power cost adjustment mechanism in Oregon as well, which resulted from years of discussion with Oregon Staff and the parties prior to the Public Utility Commission of Oregon's ("Commission") approval. I was involved in those discussions.

In 1996, I was promoted to Director of Revenue Requirement. I managed the preparation of revenue requirement information for regulatory proceedings until 2008.

In 2008, I was promoted to Director of State Regulation, overseeing the management of both cost-of-service and rate design.

In 2010, I was promoted to General Manager of the Regulatory Affairs Department and, in 2011, I was promoted to Vice President of Regulatory Affairs.

As the Vice President of Regulatory Affairs, I oversee and direct the activities of the Regulatory Affairs Department. These activities include the development of jurisdictional revenue requirements, the oversight of the Company's rate adjustment mechanisms, the preparation of cost-of-service studies, the preparation of rate design analyses, and the administration of tariffs and customer contracts. I also have the primary responsibility for corporate policy regarding matters related to the economic regulation of Idaho Power. I have submitted testimony to the Commission on numerous occasions.

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

A. The purpose of my testimony is to address the proposed deferral of one-time tax benefits recognized by the Company in 2010 and 2011 associated with the Capitalized Repairs ("Repairs") and Uniform Capitalization ("UNICAP") income tax method changes as presented in the opening testimony of Citizens' Utility Board of Oregon ("CUB") witnesses Gordon Feighner and Bob Jenks. Specifically, I will discuss the earnings sharing agreement that was in place in the Company's Idaho jurisdiction during the years of 2009 through 2011, and how CUB's proposal in this docket is significantly different from and based upon different circumstances than existed in Idaho at the time the mechanism in Idaho was established. Further, I will explain why the Company filed for a revenue sharing rate adjustment in its Idaho jurisdiction following the close of 2011. My testimony will conclude with a discussion of the Company's historical Oregon jurisdictional earnings over the previous twenty years, and demonstrate that even if the Commission determines that the amounts in question should appropriately be considered for deferral per CUB's proposal, the Company's Oregon jurisdictional earnings over the applicable time period fail the Commission-approved earnings test in nearly every year, and therefore should not result in a deferral to benefit customers.

IDAHO SHARING MECHANISM

Q. CUB's testimony discusses a sharing mechanism that Idaho Power entered into under which the Company has shared a portion of earnings with Idaho customers.[1] Is this sharing mechanism relevant to CUB's request in this case?

A. No. The sharing mechanism that existed in Idaho during the years 2009 through 2011 is not relevant to CUB's request in this case. The Idaho sharing mechanism CUB is referring to was a mutually beneficial earnings sharing mechanism that was negotiated as part of a comprehensive settlement agreement approved by the IPUC in 2010. In addition to establishing earnings sharing potential in Idaho, that comprehensive settlement also resolved a number of other issues and resulted in an increase in annual Idaho base rate revenues of approximately $89 million and the implementation of a general rate case moratorium for the calendar years of 2009 through 2011.[2] In this case, CUB is not recommending "sharing" of any kind, but rather a one-sided "taking" of one-time tax benefits. CUB is requesting that the Commission order Idaho Power to defer and amortize

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[1] CUB/100, Feighner-Jenks/5, ll. 4-7 and 16, ll. 14-20.

[2] *See* IPUC Case No. IPC-E-09-29.

a tax benefit without any consideration of Oregon jurisdictional earnings. The tax benefits received by the Company are appropriately allocable to years in which the Company failed to earn its authorized rate of return ("ROR").

Q. CUB's testimony focuses on Company sharing of earnings with Idaho jurisdictional customers when earnings exceeded 10.5 percent return on equity in the Idaho jurisdiction. Was there more to the Idaho sharing mechanism that CUB has failed to mention?

A. Yes. The IPUC issued Order No. 30978 in January 2010 approving the settlement stipulation that established a mechanism through which the Company was authorized to additional accumulated deferred investment tax credits ("ADITC") if the Company's actual Idaho jurisdictional year-end return on equity ("ROE") fell below 9.5 percent in any year from 2009 through 2011. This mechanism also included a provision for revenue sharing if the Company's actual Idaho jurisdictional year-end ROE exceeded 10.5 percent in any year over the same three-year period. Per the terms of the stipulation, 50 percent of the Idaho jurisdictional year-end ROE in excess of 10.5 percent was to be shared with customers in the form of a reduction in rates. IPUC Order No. 32424 modified and extended the revenue sharing mechanism through the 2014 fiscal year, continuing authorization for the Company to amortize additional ADITC while modifying and extending the revenue sharing provision of the agreement.

Q. Did the sharing mechanism result in Idaho Power sharing the Idaho-allocated portion of the tax benefits with its Idaho customers?

A. No, not directly. The Idaho sharing mechanism was based solely upon the Company's actual Idaho jurisdictional earnings as measured against its Idaho authorized ROE for the years 2009 through 2011. While it is true that the one-time tax benefits at issue in this case impacted the Company's 2010 and 2011 Idaho jurisdictional earnings that were ultimately shared with Idaho customers, there was not a direct pass through of the tax benefits to customers as suggested by CUB. The Idaho sharing mechanism was established through a collaborative process among the Company, IPUC Staff, and a number of intervening parties before the one-time tax benefits realized by the Company in 2010 and 2011 were known. As such, the mechanism was not designed or intended to specifically provide for the sharing of these one-time tax benefits.

Q. Would Commission approval of CUB's deferral proposal in this case result in sharing of tax benefits similar to sharing that occurred in Idaho?

A. No. The Idaho sharing mechanism provided both the Company and customers a portion of earnings above the threshold set forth in the mechanism—in other words, it constituted actual "sharing." This mechanism was symmetrical in that it provided benefits to both the Company and customers, allowing the Company to bolster earnings through the accelerated amortization of ADITC if earnings fall below the 9.5 percent ROE threshold, while allowing for customers to benefit through the sharing of earnings if the Company's earnings exceed the 10.5 percent ROE threshold.

In this case CUB has not requested that the Commission approve a revenue sharing mechanism anything like the one that was or is in place in Idaho. Instead, with no corresponding benefit to Idaho Power's shareholders, CUB has asked the Commission to require Idaho Power to refund to customers the entirety of the Oregon-allocated one-time tax benefits. Needless to say, CUB has not proposed a symmetrical mechanism that would benefit the Company when it fails to earn its authorized ROR in the Oregon jurisdiction, which, as described below, occurs the vast majority of the time.

EARNINGS TEST ANALYSIS

Q. Is an earnings test required before the Commission can authorize the deferral requested by CUB?

A. No, an earnings test is not required to authorize the deferral, but it is required prior to including the deferred amounts in rates. Under ORS 759.259(5) deferred amounts can be included in rates only after a review of the utility's earnings during the deferral period.[3]

Q. Why do you believe it is appropriate to conduct the earnings test now, when CUB is requesting that the Commission only authorize the deferral?

A. Because of the timing of this case—the deferral period is already over—the Commission can decide now whether to authorize the deferral and whether to amortize the deferred amounts (if the deferral is authorized). It makes sense to conduct the earnings test now so that if the Commission determines that the Company's earnings are insufficient and that amortization is improper, that decision can inform its finding on the underlying deferral request. It makes little sense to grant the deferral if the Commission does not intend to authorize amortization of the deferred amounts. Including the earnings test here will resolve these issues in this docket and eliminate the need for additional proceedings in the future.

Q. Please describe the purpose of an earnings test.

A. As I understand it, in the context of a deferral, the earnings test is designed to allow the Commission to determine whether the utility could absorb the deferred amounts (or refund the deferred amounts) during the deferral period while still maintaining a reasonable ROR.[4] In this case, CUB has requested that the Commission defer the one-time tax benefits related to the Repairs and UNICAP method changes. Therefore, the earnings test will examine whether Idaho Power can refund to customers these one-time

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[3] ORS 757.259(5) states: "Unless subject to an automatic adjustment clause under ORS 757.210 (1), amounts described in this section shall be allowed in rates only to the extent authorized by the commission in a proceeding under ORS 757.210 to change rates and upon review of the utility's earnings at the time of application to amortize the deferral. The commission may require that amortization of deferred amounts be subject to refund. The commission's final determination on the amount of deferrals allowable in the rates of the utility is subject to a finding by the commission that the amount was prudently incurred by the utility."

[4] *Re PacifiCorp*, Dockets UE 121/UM 995, Order No. 02-410, 2002 WL 1773021 at *6 (June 20, 2002).

tax benefits while still maintaining a reasonable ROR.

Q. What is the appropriate time period over which to examine the Company's earnings?

A. The earnings test should examine the Company's earnings in each of the years to which the one-time tax benefits are attributed. As discussed in the testimony of Gene Marchioro,[5] the one-time tax benefits recorded by the Company in 2010 and recognized in 2010 and 2011 are attributable to tax years 1987-2009. Because portions of the net tax benefits are attributable to earlier tax years, it is proper to view the deferral periods for this case as every historical tax year that was impacted as a result of the new methods. The earnings review should examine whether in these years the Company would have exceeded its authorized ROR if it had received the allocable portion of the tax benefit in that year. If, during each of those years where Idaho Power's taxes were modified, the Company did not earn its authorized ROR, then the Company should not be obligated to refund to customers the amounts received as a result of the recalculation of its income taxes in that particular year.

Q. Does CUB's testimony or application discuss the application of an earnings test?

A. No. Although CUB acknowledges that "pursuant to ORS 757.259(1)(a)(A), the Commission may move directly to the question of amortization,"[6] CUB makes no mention of applying an earnings test to its tax deferral proposal.

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[5] Idaho Power/200.

[6] CUB/100, Feigner-Jenks/5, ll. 12-14.

Q. Has the Company performed an earnings test analysis regarding the historical time period associated with the Repairs and UNICAP method changes?

A. Yes. I requested the preparation of an earnings test analysis for the years 1989 through 2009. The results of this analysis are provided as Idaho Power/101.

Q. Please describe Idaho Power/101.

A. Idaho Power/101 contains the Company's earnings test analysis, which compares the Company's authorized ROR for each year 1989 through 2009 to actual historical earnings achieved over the same time period adjusted to reflect the estimated net tax benefits of the income tax method changes associated with each historical year. Column A contains the Company's authorized ROR in its Oregon jurisdiction in each historical year, while Column B contains the actual earned Oregon jurisdictional ROR on a Type I-Adjusted[7] basis as filed in the Company's annual Results of Operations Reports. Columns C through G calculate the estimated Oregon-allocated portion of net tax benefits from both the Repairs and UNICAP income tax method changes allocated to each historical year. The values contained in Columns C and D were calculated by Mr. Marchioro as described on pages 7 and 8 of his testimony, with the corresponding values detailed in Idaho Power/201, an exhibit to Mr. Marchioro's testimony. Because both the UNICAP and Repairs method changes are related to utility plant, the "P101P" allocation factor was utilized to determine the Oregon-allocated share of the total system tax benefits. This allocation factor, listed in Column F, reflects the Oregon jurisdiction's share of total plant in each historical year as filed in the Company's annual Results of Operations Reports.

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[7] The Company's annual Results of Operations Reports are compiled utilizing a two-stage adjustment process as requested by Staff. The first stage in this process, referred to as "Type I-Adjusted" or "Earnings Test-Adjusted," takes into account certain ratemaking adjustments to appropriately determine the Company's financial performance for use in the development of earnings tests. The details of this adjustment process are outlined in Staff's letter to Oregon investor-owned utilities dated March 25, 1992, attached as Idaho Power/102.

Columns H through K estimate what the Company's actual Type I-Adjusted ROR would have been in each historical year had the Company realized the Oregon-allocated net tax benefits listed in Column G in each historical year. Column H contains the actual Type I-Adjusted operating income filed in the Company's annual Results of Operations Reports, while Column I adjusts the operating income upward to reflect the estimated Oregon-allocated net tax benefits associated with each year. Column J contains the Type I-Adjusted rate base for the Company's Oregon jurisdiction for each historical year. Column K calculates the ROR the Company would have achieved in its Oregon jurisdiction given the allocated Repairs and UNICAP income tax method benefits by dividing the modified operating income in Column I by the combined rate base figure in Column J.

Q. Please describe the results of the earnings test analysis provided in Idaho Power/101.

A. As previously mentioned, column K of Idaho Power/101 lists the Company's historical earned ROR in each year 1989 through 2009 had the Company realized the net tax benefits allocated to each historical year as estimated by Mr. Marchioro. By comparing Column K to Column A, it can be seen that even after receiving the allocated benefits associated with the Repairs and UNICAP income tax method changes, the Company would have achieved its authorized ROR only twice between 1989 and 2009. With the allocated net tax benefits added to actual earned operating income, the Company exceeded its authorized ROR by 21 basis points in 1989 and 5 basis points in 2000. ***In contrast, in the remaining 19 years between 1989 and 2009, the Company failed to earn its authorized ROR by an average margin of 234 basis points after taking into account the net tax benefits associated with the UNICAP and Repairs income tax method changes.***

Q. Do the results of the earnings test analysis warrant a deferral of benefits associated with the Repairs and UNICAP tax method changes affecting the 1989 through 2009 time period?

A. No. The results of the earnings test analysis provided in Idaho Power/101 demonstrate that the Company consistently failed to earn its authorized ROR during the time period to which these one-time tax benefits are attributed. The deferral of tax benefits associated with the Repairs and UNICAP method changes would be counter to ORS 759.259(5) and Commission precedent and worsen the already negative impacts associated with the Company's inability to earn its authorized ROR over the corresponding historical time period.

Q. Did the Company earn its authorized ROR on a Type I-Adjusted basis in 2010, the year it received the one-time tax benefits associated with the Repairs and UNICAP income tax methodology changes?

A. No. As reported in the 2010 edition of the Company's Results of Operations Report, the Company achieved a 6.047 percent ROR on a Type I-Adjusted basis, compared to its authorized ROR of 8.061 percent.

Q. Should the Commission approve CUB's request for deferral of tax benefits proposed in this docket?

A. No. Based upon the earnings test provided in my testimony, the Company failed to earn its authorized ROR in 19 of 21 applicable historical years by an average margin of 234 basis points, which should result in the denial of CUB's deferral request. Further, CUB's comparison to the Company's sharing agreement in its Idaho jurisdiction is invalid and does not support its argument for sharing with the Company's Oregon customers. The Company's revenue sharing filing in its Idaho jurisdiction was the result of a mutually beneficial mechanism with both earning support when returns are low and earnings sharing when returns are high that was established prior to the realization of the one-time tax benefits experienced by the Company in 2010 and 2011, while CUB's proposal reflects a one-time taking of 100 percent of the Oregon-allocated tax benefits to customers. Based on the absence of any sort of sharing mechanism in Oregon, and the Company's perpetual inability to attain its authorized ROR over the applicable historical time period, any deferral associated with these benefits would result in rates that are unfair, unjust, and unreasonable. CUB's request for deferral should be denied.

Q. Is there any other reason why the Commission should deny CUB's request?

A. Yes. The Company believes that, as a matter of law, the statute under which CUB seeks to include the tax benefit in rates in this docket is inapplicable. The Company will address this issue in legal briefing.

Q. Does this conclude your testimony?

A. Yes.

IDAHO POWER COMPANY
DOCKET NO. UM 1562/1582
ESTIMATED OREGON-ALLOCATED IMPACT OF
CAPITALIZED REPAIRS AND UNIFORM CAPITALIZATION METHODOLOGY CHANGES

	OREGON RESULTS OF OPERATIONS		ESTIMATED NET TAX BENEFIT								
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)
	Authorized ROR	Actual ROR (After Type 1 Adjustments)	Repairs	UNICAP	SYSTEM NET TAX BENEFIT	P101P PLANT ALLOCATOR	OREGON ALLOCATED NET TAX BENEFIT	TYPE I OPERATING INCOME	OPERATING INCOME AFTER TAX BENEFIT	TYPE I COMBINED RATE BASE	TYPE I ROR AFTER TAX BENEFIT
1989	10.102%	10.305%	$0	$61,517	$61,517	4.76%	$2,928	$6,051,240	$6,054,168	$58,721,397	10.310%
1990	10.102%	9.812%	$0	$173,482	$173,482	4.77%	$8,275	$5,828,784	$5,837,059	$59,402,227	9.826%
1991	10.102%	8.918%	$0	$417,809	$417,809	4.82%	$20,138	$5,504,938	$5,525,076	$61,730,300	8.950%
1992	10.102%	9.728%	$0	$279,917	$279,917	4.92%	$13,772	$6,361,941	$6,375,713	$65,399,237	9.749%
1993	10.102%	8.306%	$0	$1,024,190	$1,024,190	4.56%	$46,703	$5,264,321	$5,311,024	$63,382,767	8.379%
1994	10.102%	8.693%	$0	$920,629	$920,629	4.28%	$39,403	$5,416,261	$5,455,664	$62,306,090	8.756%
1995	10.102%	8.952%	$0	$852,987	$852,987	4.59%	$39,152	$6,138,925	$6,178,077	$68,579,294	9.009%
1996	8.950%	7.714%	$0	$1,017,817	$1,017,817	4.77%	$48,550	$5,537,383	$5,585,933	$71,779,872	7.782%
1997	8.950%	7.216%	$0	$1,334,749	$1,334,749	4.88%	$65,136	$5,329,886	$5,395,022	$73,858,653	7.305%
1998	8.950%	7.235%	$0	$2,183,313	$2,183,313	5.09%	$111,131	$5,603,893	$5,715,024	$77,451,684	7.379%
1999	8.950%	6.820%	$3,946,579	$3,137,391	$7,083,970	5.16%	$365,533	$5,274,329	$5,639,862	$77,340,405	7.292%
2000	8.950%	8.668%	$1,548,932	$3,332,395	$4,881,327	5.02%	$245,043	$6,489,745	$6,734,788	$74,870,700	8.995%
2001	8.950%	6.619%	$2,738,439	$2,735,996	$5,474,435	5.01%	$274,269	$5,115,925	$5,390,194	$77,288,629	6.974%
2002	8.950%	6.221%	$2,554,616	$1,432,557	$3,987,174	4.98%	$198,561	$4,974,004	$5,172,565	$79,949,296	6.470%
2003	8.950%	5.794%	$1,244,385	$2,560,032	$3,804,417	4.94%	$187,938	$4,666,222	$4,854,160	$80,537,321	6.027%
2004	8.950%	5.169%	$1,097,735	$4,552,197	$5,649,932	5.05%	$285,322	$4,332,761	$4,618,083	$83,814,135	5.510%
2005	7.830%	4.982%	$1,772,518	$6,887,805	$8,660,323	5.11%	$442,543	$4,504,468	$4,947,011	$90,419,802	5.471%
2006	7.830%	3.784%	$1,088,278	$10,572,083	$11,660,362	4.99%	$581,852	$3,545,086	$4,126,938	$93,689,208	4.405%
2007	7.830%	3.129%	$2,319,203	$4,654,602	$6,973,805	4.91%	$342,414	$3,060,223	$3,402,637	$97,791,754	3.479%
2008	7.830%	1.062%	$3,229,002	$10,586,189	$13,815,191	4.85%	$670,037	$1,145,665	$1,815,702	$107,853,874	1.683%
2009	7.830%	1.758%	$11,627,711	$6,615,023	$18,242,734	4.78%	$872,003	$1,986,107	$2,858,110	$113,005,175	2.529%

Oregon

PUBLIC
UTILITY
COMMISSION

March 25, 1992

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RE: Semiannual Adjusted Results of Operations Reports

My letter of February 17, 1989, outlined several principles for making adjustments to your semiannual results of operations reports. Based on our review of recent filings, I believe it would be useful to restate those principles along with the rationale behind them.

As you know, we have asked each energy company to file its semiannual report using a two-stage adjustment process. Each stage provides operating results which can be evaluated for a specific purpose.

Earnings Test Adjusted Results

The first stage takes into account certain normalizing and rate-making adjustments and results in "Earnings Test Adjusted" results of operations. The purpose of this stage is to produce an earnings picture that can be used to perform earnings

Barbara Roberts
Governor

350 Winter St. NE
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tests required by ORS 757.259. Such tests are necessary for evaluating potential amortization of deferred costs and revenues. Accordingly, the operating results at this stage of the report should reflect as closely as possible the company's actual earnings for the reporting period and its ability to absorb a deferred cost or its need to retain deferred revenues.

Under current policy, therefore, **the first stage of the report should include adjustments to actual recorded results as follows:**

1. Normalizing for weather, streamflows, and plant availability;

2. Incorporating significant rate-making adjustments adopted in your most recent Oregon rate order if not reflected on your books (for example, advertising, memberships, payroll escalation, bonuses, and nonoperating expenses); and

3. Removing entries relating to prior period activity, and including subsequent period transactions clearly related to the test period. Examples include corrections of estimates or errors, and removal of credits or charges associated with other periods.

To avoid confusion, refer to these as "Type I" adjustments, as shown in the attached tables.

No other adjustments should be made at this stage of the report. Common adjustments which have been misclassified here include annualizing revenues and expenses and removing entries related to nonrecurring events. Although such adjustments are reasonable when constructing a test year, for example, they distort the company's earnings position for deciding whether a deferred amount should be amortized.

Total Pro Forma Results

The second stage of adjustments is intended to provide results of operations on a more forward-looking basis, by reflecting known and measurable changes occurring before the end of the 12-month period. These results help us to assess each company's current earnings situation and whether a rate change may be needed. The following "Type II" adjustments should be included in this stage of the report:

1. Annualizing adjustments to reflect end-of-period customers, tariff rates, employee levels, wage rates, tax rates, supply contracts, rate base, etc.

2. Restating adjustments to remove recorded entries related to significant nonrecurring events.

The most common error in this second stage has been to make adjustments for plant or expense changes occurring <u>after</u> the end of the recorded period. All "future" events--even if known and measurable--should be excluded from this report. (Note the exception above, however, for Type I adjustments to incorporate subsequently recorded error or estimate corrections.)

<u>Workpapers</u>

Each company should provide the following supporting documentation for its semiannual report:

- A table consisting of a columnar summary for the adjustments, with a total for both Types I and II. (Tables 2 and 3 of the attached sample illustrate some typical adjustments.) Also include in the same form the calculation of income taxes associated with each adjustment. (Not shown here)

- A short narrative description of each adjustment. (See attachment for sample; provide additional detail as needed.)

- Backup workpapers supporting actual recorded results by revenue, expense, income tax and rate base categories, tying Oregon allocated data to system data, if applicable. Note that the report is to be prepared showing Oregon allocated adjustments as well as summary data.

- Summary workpapers supporting each adjustment.

- The information used to calculate the cost of capital and the implied rate of return on equity--that is, average actual capital structure (describe any other formulation) and average actual debt and preferred stock costs for the 12-month period. The appropriate data may be included with the summary table as shown or by reference to a separate workpaper.

- For companies with jurisdictional allocations, a summary of the allocation factors used and a description of any material changes in the method from the prior report.

Unless we hear from you otherwise, we will expect adjustments in subsequent semiannual reports to be classified according to the above criteria. Call me, Ed Busch (378-6625), or Ed Krantz (378-6117) if you have any questions regarding these reports.

T. Ray Lambeth

T. Ray Lambeth
Manager
Energy Revenue Requirements
(503) 378-6917

18/20/3718HH

Attachment

cc: Mike Kane
Bill Warren
Phil Nyegaard
Scott Girard
Ed Busch
Ed Krantz
Les Margosian

BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON

UM 1562 & UM 1582

In the Matter of IDAHO POWER COMPANY Deferral of Recognized Tax Benefits. (UM 1562) and CITIZENS UTILITY BOARD OF OREGON and OREGON INDUSTRIAL CUSTOMERS OF IDAHO POWER Application for Deferral of Tax Benefits Recognized by Idaho Power Company. (UM 1582)	)

IDAHO POWER COMPANY

DIRECT TESTIMONY

OF

Gene W. Marchioro

July 13, 2012

Q. Please state your name and business address.

A. My name is Gene W. Marchioro and my business address is 1221 West Idaho Street, Boise, Idaho.

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

A. I am employed by Idaho Power Company ("Idaho Power" or "Company") as the Director of Corporate Tax.

Q. Please describe your educational background.

A. I graduated from Boise State University in 1989, receiving a Bachelor of Business Administration degree in Accounting. I am a Certified Public Accountant licensed in the state of Idaho. I have also completed the University of Idaho's Utility Executive Course in 2006. Over the course of my professional career I have participated in numerous seminars, conferences, and trainings related to income taxation, financial reporting for taxes, and utility industry issues.

Q. Are you a member of any professional societies or associations?

A. Yes. I am currently the Chairman of the Board for the Associated Taxpayers of Idaho. I am a member of the Taxation Committee of the Edison Electric Institute. I also serve on the Advisory Council for Boise State University's Accountancy Department. I am a member in both the American Institute of Certified Public Accountants and the Idaho Society of Certified Public Accountants.

Q. Please describe your business experience with Idaho Power Company.

A. I joined Idaho Power in June 2001 in the Corporate Tax Department as the Tax Research Coordinator. In 2003 I was promoted to Director of Corporate Tax, the position which I hold today. Prior to joining Idaho Power I was a Senior Tax Manager at Deloitte & Touche LLP.

In my position with Idaho Power I am responsible for all tax planning, compliance filings, financial reporting, regulatory filings, and examinations related to the Company's income, property, sales, and other taxes. Additionally, I am also President of IDACORP Financial Services and provide management oversight for that company.

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

A. The purpose of my testimony is to address certain issues presented in the opening testimony of Citizens' Utility Board of Oregon ("CUB") witnesses Gordon Feighner and Bob Jenks in regards to the Uniform Capitalization ("UNICAP") and Capitalized Repairs ("Repairs") income tax accounting method changes that resulted in one-time benefits recognized by the Company in 2010 and 2011. I will begin by providing an overview of each of the tax method changes, including timelines and financial impacts. I will also discuss the public disclosures the Company made regarding the tax method changes, which will demonstrate that the Company has been clear and timely in its public communications concerning the income tax consequences of both method changes. Much of the communication existed long before the fall of 2011, which is when CUB states that it, OICIP, Staff and other parties to Docket UE 233 first became aware of the financial consequences of these tax method changes.[1] I will then conclude my testimony by discussing why I do not believe that the IRS issued an "order" requiring the Company to make either of these method changes.

UNICAP AND REPAIRS

Q. Please provide an overview of the UNICAP income tax accounting method change.

A. Generally, section 263A of the Internal Revenue Code and the associated treasury regulations require the capitalization of all direct and those indirect costs, also known as "mixed service costs" or "capitalized overheads," that directly benefit or are incurred by reason of the production of property by a taxpayer. For federal income tax purposes, an

[1] CUB/100, Feighner-Jenks/4, ll. 3-5.

electric utility produces two types of property—electricity (inventory) and utility plant (self-constructed assets). A uniform capitalization tax method that allocates indirect costs to electricity production will produce a current tax deduction for costs that are otherwise capitalized into fixed assets for financial accounting purposes.

In 2002, Idaho Power filed an automatic income tax accounting method change with its 2001 federal income tax return to adopt the simplified service cost method ("SSCM") of uniform capitalization. Idaho Power used the SSCM through its 2004 tax year. In 2005 the Internal Revenue Service ("IRS") and Treasury Department issued a Revenue Ruling and new treasury regulations that took a more restrictive view of the types of property eligible to use the SSCM to capitalize indirect costs. This change in law had a negative impact on electric utilities using the SSCM. Therefore, in 2006, with the filing of its 2005 federal income tax return, Idaho Power made another uniform capitalization automatic method change moving from the SSCM and to an alternative method developed in accordance with the section 263A treasury regulations. Idaho Power continued on this new method through its 2008 tax year.

In September 2009 the IRS issued Industry Director Directive #5 ("IDD"), which discussed the compliance priorities and audit techniques related to the allocation of mixed service costs in the uniform capitalization methods of electric utilities. In that same month the IRS began its audit of Idaho Power's uniform capitalization method within the scope of its examination of the IDACORP consolidated group's 2009 tax year. Over the course of almost a year the IRS and Idaho Power jointly worked through the impacts of the IDD. In the third quarter of 2010, Idaho Power and the IRS reached an agreement to change Idaho Power's UNICAP method to one reflecting the IDD's objectives. The change was included in IDACORP's 2009 consolidated federal income tax return filed in September 2010. The IRS processed the agreement as a 2009 examination adjustment using the change in method of accounting procedures under Revenue Procedure 2002-18.

Additionally, in April 2011, the parties executed a Closing Agreement, the purpose of which was to effectively settle this issue for all years prior to 2010.

Due to the size of the Company's 2009 federal refund claim, caused largely by the UNICAP and Repairs method changes, the entire IDACORP consolidated federal income tax return and IRS examination report required the approval of the U.S. Congress Joint Committee on Taxation ("Joint Committee"). The necessary information was submitted by the IRS to the Joint Committee in April 2011. The Joint Committee completed its review and issued its acceptance letter for IDACORP's 2009 tax return in September 2011. With the 2009 return approved, and thereby all the issues contained in it, including UNICAP and Repairs, the Commissioner of Internal Revenue signed off on the UNICAP closing agreement in September 2011.

Q. To what tax years are the one-time tax benefits associated with the UNICAP income tax method change related?

A. Idaho Power's UNICAP tax method change covered prior tax years 1987-2008 and 2009, the year of change. The one-time tax benefit was created by the cumulative net catch-up adjustment produced by applying the new UNICAP method to prior tax years. This adjustment is governed by section 481(a) of the Internal Revenue Code. The general rule is that a net section 481(a) adjustment is recognized for income tax purposes in the year of change for a net deductible amount or spread over four future years for a net taxable amount. The purpose of the adjustment is to compute the net cumulative result to taxable income had the method being changed to been available to the taxpayer in prior years (the "look-back" period). Essentially, a taxpayer is taking a new calculation methodology, applying it to historical data, and accumulating the net result. It is an administratively practical way to achieve the same cumulative taxable income result but without amending years of tax returns. Idaho Power's section 481(a) adjustment was a net deductible amount and was therefore included in IDACORP's consolidated 2009 federal income tax return, as was the annual deduction for 2009 under the new method.

While the UNICAP method change adjustment was a 2009 event for tax purposes, the net section 481(a) adjustment calculations provide a net deductible amount for each year in the look-back period. Therefore, it is possible to approximate the financial accounting income tax impact of applying an allocable portion of the net deduction to the Company's historical operating results had the current method been employed in each of those years. As detailed in Idaho Power/201, I was able to use this information to allocate the net $65.3 million one-time tax benefit to each applicable prior year.

While this process is relatively simple on its face, the underlying mechanics show that the impacts truly are year-by-year. For instance, an item previously capitalized in 1987 would have delivered an annual tax deduction in the form of a depreciation benefit for each year from 1987 through 2009. When the adjustment is made to categorize that item as a deduction in 1987, the depreciation amounts are reversed for each of the years in which they had been claimed. The process recalculates the tax effect as if the new deduction methodology had been in place for each of the years impacted.

Q. Please detail the series of events that led to the timing of when the Company recognized the UNICAP tax method change income tax benefit for financial statement purposes.

A. As I discussed earlier, Idaho Power and the IRS agreed to the UNICAP change in the third quarter of 2010 and the change was included in the 2009 federal tax return, which was filed with the IRS in September 2010. Due to these events, the Company recorded the tax impacts of the method change for financial accounting purposes in September 2010, the net effect of which was a $65.3 million tax benefit to Idaho Power's earnings. However, in evaluating the attendant tax risks involved in sustaining the UNICAP method, chief among them the review by Joint Committee, the Company established a liability for uncertain tax positions, which when netted with the tax benefit, brought the 2010 net tax result to $0. At the end of 2010, $59.7 million of the UNICAP tax benefit remained because as time passes the benefit at inception becomes smaller as depreciation continues to be claimed on the property additions to which the capitalized overheads related. When the Joint Committee approved IDACORP's 2009 federal tax return in September 2011, and the IRS executed the UNICAP closing agreement, the tax risks were settled and the Company reversed the remaining $59.7 million uncertain tax position liability to its 2011 earnings.

Q. Please provide an overview of the Repairs income tax accounting method change.

A. In October 2009, Idaho Power began evaluating a capitalized repairs deduction income tax method of accounting. Capitalized repairs are those expenditures related to utility assets that are capitalized for financial accounting purposes that are currently deductible for income tax purposes. The governing federal income tax law for the deduction is sections 162 and 263(a) of the Internal Revenue Code, associated treasury regulations, and other authoritative guidance, such as case law. For income tax purposes, a repair expenditure is defined as one that neither materially adds to the value of property nor appreciably prolongs its useful life but keeps it in an ordinarily efficient operating condition. Whereas a capitalizable amount adds to the value or substantially prolongs the useful life of property or adapts it to a new or different use. The primary issue in the Repairs method was establishing the different "units of property" for income tax purposes that make up electric utility assets. The unit of property drives the determination of whether an expenditure related to that unit is deductible as a repair or capitalizable as an improvement.

In late-December 2009, Idaho Power filed a Form 3115, Application for Change in Accounting Method, with the IRS National Office. The application was made under

Revenue Procedure 2008-52, as modified by Revenue Procedure 2009-39, which governed the "automatic consent" procedures for taxpayer-requested method changes. Revenue Procedure 2008-52 provides an extensive list of income tax method changes taxpayers may apply for; repairs methods being one of them. Automatic consent means that the Commissioner of Internal Revenue grants a taxpayer permission to change to the methods enumerated in the Revenue Procedure, without prior review and approval, when the Form 3115 is included in its federal income tax return for the year of change and a companion copy is filed with the IRS National Office at the same time. It is important to note that while a taxpayer receives automatic permission to change methods, it does not insulate the method from examination by the IRS. The Company's December filing was only a protective measure as a "request for change" and the method was not adopted until the Form 3115 was included in IDACORP's 2009 consolidated federal income tax return, which Idaho Power did in September 2010.

In June 2010, Idaho Power completed its evaluation of the Repairs method change and made the decision to move forward and adopt the method with the filing of IDACORP's 2009 consolidated federal income tax return; a decision that was disclosed publicly in IDACORP second quarter 2010 Form 10-Q. During the third quarter, the Company finalized its Repairs Form 3115 and related deduction calculations, and the Application was included in IDACORP's 2009 consolidated federal tax return thereby placing Idaho Power on its Repairs method.

Q. To what tax years are the one-time tax benefits associated with the Repairs income tax method change related?

A. Idaho Power's Repairs tax method change covered prior tax years 1999-2008 and 2009, the year of change. While Repairs is a different method of accounting, the same operative section 481(a) rules that I discussed previously for the UNICAP method apply to the Repairs method. Idaho Power's section 481(a) adjustment for Repairs was a net deductible amount and was therefore included in IDACORP's consolidated 2009 federal income tax return as was the annual deduction for 2009 under the new method.

While the Repairs method change adjustment was a 2009 event for tax purposes, the net section 481(a) adjustment calculations provide a net deductible amount for each year in the look-back period. Therefore, it is possible to approximate the financial accounting income tax impact of applying an allocable portion of the net deduction to the Company's historical operating results had the current method been employed in each of those years.. As detailed in Idaho Power/201, I was able to use this information to allocate the net $33.2 million one-time tax benefit to each applicable prior year.

Q. Please detail the series of events that led to the timing of when the Company recognized the Repairs tax method change income tax benefit for financial statement purposes.

A. As I previously discussed, Idaho Power made the final decision to move forward with adoption of the Repairs method in June 2010. Concurrent with the decision, Idaho Power recorded an estimated $34.9 million income tax benefit for the cumulative method change adjustment in the second quarter of 2010. The actual amount of the benefit was finalized upon filing of the 2009 federal tax return in September 2010 and an incremental tax benefit was recorded in the third quarter, bringing the total benefit of the method change adjustment to $44.5 million. In concert with recording the tax benefit, Idaho Power also recorded an $11.9 million uncertain tax position liability that reflected its estimate of potential income tax risks associated with technical matters in the Repairs method. This brought the net income tax benefit in the Company's 2010 earnings to $32.6 million.

The IRS audited the Repairs method as part of IDACORP's 2009 tax year examination. The exam started in 2009 and continued into 2011. In April 2011, the Company and the IRS reached an agreement on the Repairs method that resulted in an $11.3 million income tax cost. Accordingly, in the second quarter of 2011, the Company recorded the settlement and reversed its uncertain tax position liability given the Repairs method was now effectively settled with the IRS. The net result of the settlement to Idaho Power's 2011 earnings was $0.6 million income tax benefit. Combining the results of the 2010 and 2011 events related to the Repairs method change adjustment yields the one-time net income tax benefit of $33.2 million.

Q. How was Idaho Power able to record the UNICAP and Repairs income tax benefits to its earnings?

A. For regulatory accounting purposes, Idaho Power is authorized to use the "flow-through" method of accounting for income taxes. Flow-through accounting allows the current tax benefit or expense of a temporary book-to-tax difference to impact income tax expense. Under Generally Accepted Accounting Principles ("GAAP"), a deferred tax is created for temporary differences thereby offsetting any current tax impacts; this is known as the "normalization" method. Thus, the flow-through method can increase or decrease financial accounting income tax expense, whereas the normalized method has no impact to income tax expense.

Idaho Power applies the flow-through method to utility plant-related tax adjustments unless normalization is required by federal income tax law, such as with accelerated tax depreciation and Contributions in Aid of Construction ("CIAC"). UNICAP and Repairs are considered flow-through differences. Being that both method change adjustments resulted in current tax deductions, a flow-through income tax benefit for each method was created. These benefits thus reduced Idaho Power's financial accounting income tax expense in 2010 and 2011, albeit related to the 2009 tax year.

PUBLIC DISCLOSURE

Q. At what point did the Company publicly disclose the UNICAP and Repairs income tax method changes in its Securities and Exchange Commission ("SEC") filings?

A. The first public disclosure related to both method changes was in IDACORP's 2009 Form 10-K filed on February 23, 2010. Disclosure continued in each quarterly and annual SEC filing for fiscal years 2010 and 2011.

Q. Did the Company disclose the UNICAP and Repairs income tax method changes elsewhere?

A. Yes. The direct testimony Steven R. Keen, Senior Vice President of Finance and Treasurer of Idaho Power, in the Company's Oregon general rate case filing, UE 233, provided a detailed discussion of both method changes, including their history, current financial impacts, and effect on the test year income taxes.[2] That testimony was filed in July 2011. Mr. Keen's testimony in Idaho Power's 2011 Idaho general rate case, which was filed in June 2011, outlined this same information.[3] Also, I understand that the Public Utility Commission of Oregon annually receives the Company's FERC Form 1, which includes supplemental information specific to Oregon. The 2010 and 2011 Form 1 filings included disclosure of these method changes.

For these reasons, I find it perplexing that CUB states in its testimony in this case that it "first became aware" of both method changes in the fall of 2011. By that time, the Company had nearly a year-and-a-half of public disclosure about these methods in its SEC reports, as well as direct testimony in both its Idaho and Oregon general rates cases filed that summer, and FERC Form 1 filings as sources of information for CUB to review.

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[2] *See* Docket UE 233, Idaho Power/500, Keen/13-19.

[3] *See* IPC-E-11-08, Direct Testimony of Steven R. Keen at 21-19.

Clearly there was ample information available and sufficient time for CUB to "become aware" of these items and make inquiry to the Company for further detail if it was in fact reviewing and monitoring such Company reporting.

Q. Why were these changes not disclosed in Idaho Power's 2009 Oregon general rate case filing, Docket UE 213?

A. At the time UE 213 was filed, in July 2009, Idaho Power was not engaged in any activities related to either of these income tax accounting methods. As I previously discussed, the UNICAP examination guidance and process was not known until September 2009 and the Company did not begin evaluating the Repairs method change until October 2009. Nothing occurred related to the methods in 2009 that created any recordable financial-related income tax impacts for either Idaho Power's 2009 financial statements or the UE 213 test year. Both issues were disclosed in IDACORP's 2009 Form 10-K as I mentioned earlier.

Q. Did the Company "know" that it was going to be required to share the one-time tax benefits as CUB suggests in their testimony based on the inclusion of the cautionary statement in IDACORP's Form 10-K, filed February 23, 2011?

A. No, it did not. The statement referenced in CUB's testimony, on page 18, lines 1-5, regarding tax risks is just one of many risk factors the Company disclosed to investors in its Form 10-K for the year ended December 31, 2010. It is my understanding from securities counsel that risk factor disclosures are a required part of the report and serve to inform the investors of potential risks a company may face in its operating environment. Risk factor disclosures also serve as an important protection for the Company against claims of material omission or non-disclosure by purchasers and sellers of its publicly-traded securities. The form of disclosure that satisfies both of these goals includes a discussion of not only those risks that are known to exist and/or have measureable outcomes, but also those that are speculative in nature, both in the probability of occurrence and in the ultimate impact on the Company's operations and financial condition. In regard to the particular statement cited by CUB, Idaho Power was not making an assertion that it believed sharing for beneficial "tax-related projects" would be required in the Oregon jurisdiction, but posited that regulatory risk exists (consistent with its generic risk factor pertaining to regulatory risk early in the risk factors disclosure). The Company's uncertainty is evidenced by use of the words "could" and "may" in regards to potential sharing.

THE IRS DID NOT ISSUE METHOD CHANGE ORDERS

Q. Was the Company "ordered" by the IRS to make the UNICAP and Repairs income tax method changes?

A. No. In my opinion as a tax professional possessing more than 20 years of experience with federal tax law and procedure the IRS did not order the Company to make either method change. With UNICAP, the IRS had a compliance priority initiative regarding electric utility uniform capitalization methods the objective of which was to bring consistency to these methods on a nation-wide, industry-level basis. Neither the IRS nor Treasury Department issued authoritative guidance mandating that electric utilities make a specific uniform capitalization method change. However, when there are multiple approaches to a method of accounting and the IRS has issued such authoritative guidance, it is prudent for a taxpayer to evaluate such a "safe harbor" approach to potentially minimize ongoing disagreements with the IRS. The Company worked with the IRS to reach a negotiated settlement under the umbrella of a normal-course tax return examination. Given that this new negotiated UNICAP method provided greater on-going income tax benefits for Idaho Power's customers and shareowners, as well as eliminating tax uncertainty and increasing compliance efficiency, the Company chose to execute the change. In summary, Idaho Power chose to execute a favorable bi-lateral agreement with the IRS to settle the tax issue even though it was not required to do so. This series of events does not constitute an “order” by the IRS.

As I discussed earlier, the Repairs method change was an entirely voluntary act by the Company. Pursuant to Revenue Procedure 2008-52, Idaho Power was “pre-authorized” by the IRS under the automatic consent procedures to adopt a repairs deduction method, subject only to examination but no formal approval process. Accordingly, the IRS issued no “order” or determination regarding the Company’s right or ability to make its Repairs method change.

Q. Does this conclude your testimony?

A. Yes it does.

ESTIMATED ALLOCATION OF CAPITALIZED REPAIRS AND UNIFORM CAPITALIZATION METHOD CHANGES TO PRIOR YEARS

	ESTIMATED NET TAX		
	Repairs	UNICAP	TOTAL NET TAX BENEFIT
1987	$0	$0	$0
1988	$0	$0	$0
1989	$0	$61,517	$61,517
1990	$0	$173,482	$173,482
1991	$0	$417,809	$417,809
1992	$0	$279,917	$279,917
1993	$0	$1,024,190	$1,024,190
1994	$0	$920,629	$920,629
1995	$0	$852,987	$852,987
1996	$0	$1,017,817	$1,017,817
1997	$0	$1,334,749	$1,334,749
1998	$0	$2,183,313	$2,183,313
1999	$3,946,579	$3,137,391	$7,083,970
2000	$1,548,932	$3,332,395	$4,881,327
2001	$2,738,439	$2,735,996	$5,474,435
2002	$2,554,616	$1,432,557	$3,987,174
2003	$1,244,385	$2,560,032	$3,804,417
2004	$1,097,735	$4,552,197	$5,649,932
2005	$1,772,518	$6,887,805	$8,660,323
2006	$1,088,278	$10,572,083	$11,660,362
2007	$2,319,203	$4,654,602	$6,973,805
2008	$3,229,002	$10,586,189	$13,815,191
2009	$11,627,711	$6,615,023	$18,242,734