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IDAHO PUBLIC
UTILITIES COMMISSION

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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION) CASE NO. IPC-E-03-13
OF IDAHO POWER COMPANY FOR)
AUTHORITY TO INCREASE ITS INTERIM) COMMENTS OF IDAHO POWER
AND BASE RATES AND CHARGES FOR) IN SUPPORT OF ACCEPTANCE
ELECTRIC SERVICE.) OF SETTLEMENT
_____)

COMES NOW, IDAHO POWER COMPANY ("Idaho Power"), and in response to the Notice of Proposed Settlement, Notice of Modified Procedure and Notice of Vacated Pre-File Dates issued on August 18, 2004, submits the following comments:

BACKGROUND

In this case, Idaho Power filed its test year income tax expense based on the current statutory income tax rates. Commission Staff advocated use of an historic five-year average to calculate income tax expense. In Order No. 29505 issued on May 25, 2004, the Commission adopted the Commission Staff's position and ordered the Company to use a historic five-year average to calculate the Company's test year income

tax expense in lieu of the statutory rates. This reduced the test year revenue requirement attributable to income tax expense by \$11,504,677. Idaho Power filed a timely Petition for Reconsideration and, in Order No. 29547 issued on July 13, 2004, the Commission decided to reconsider that portion of Order No. 29505 relating to the Commission's determination of the Company's income tax expense for revenue requirement purposes.

Following the issuance of Order No. 29547 and pursuant to notice issued in accordance with RP 272, the Parties entered into settlement discussions which resulted in the execution of the Stipulation which was enclosed with the Joint Motion of the Parties requesting that the Commission approve the settlement between the Parties. The Joint Motion and Stipulation were filed with the Commission on August 16, 2004.

Description of Settlement

In this case Idaho Power presented evidence that the use of the historic five-year average income tax rate would cause the Company to violate the normalization provisions of the Internal Revenue Code and associated Treasury Regulations and jeopardize Idaho Power's ability to continue to obtain the benefits of accelerated depreciation. If the Internal Revenue Service were to find that Idaho Power violated the normalization requirements and Idaho Power cannot continue to claim the right to use accelerated depreciation, the result would be millions of dollars of additional annual revenue requirement. As a result, it is not in dispute that it is in the public interest for Idaho Power to continue to obtain the benefits of accelerated depreciation and that the loss of accelerated depreciation would not be in the public interest.

In order to resolve the dispute and as a compromise of contested claims, the Parties negotiated the Stipulation as an integrated settlement document. As noted in the Joint Motion and Stipulation filed on August 16, 2004, the Parties have agreed that

the Stipulation is in the public interest and that all terms of the Stipulation are fair, just and reasonable.

The comprehensive settlement is summarized as follows:

1. Order No. 29505 should be modified to utilize statutory income tax rates to compute test year income tax expense. Applying the statutory rates results in a federal tax rate of 35% (net of state benefit, 32.795%) and a state tax rate of 6.3%. On a normalized basis, this change would increase Idaho Power's Idaho jurisdictional test year revenue requirement by \$11,504,677.

2. For the period June 1, 2004 through May 31, 2005, the Company will compute and record monthly in a regulatory asset account an amount equal to the additional revenue the Company would have received through its energy rates if its revenue requirement had been determined using the statutory income tax rates rather than the five-year historic average income tax rates. The energy rate to be used to compute the additional monthly revenue to be recorded in the regulatory asset account.

The monthly entry in the regulatory asset account will be computed by multiplying actual MWh sales during the month by \$0.92209/MWh. The computation of the \$.92209/MWh is specifically set out in the Stipulation and will not be repeated here.

The total amount recovered will include interest on the regulatory asset from June 1, 2004 at the PCA carrying charge rate which is currently one percent (1%).

3. In addition to the recovery of the income tax expense for the June 1, 2004 through May 31, 2005 period described in paragraph 2 above, \$11,504,677 of additional revenue requirement will be included in the Company's base rates for ongoing recovery beginning June 1, 2005.

4. The Company will not seek to recover in its revenue requirement any deficiency assessed by the Internal Revenue Service related to the one-time adjustment associated with the capitalized overhead cost tax method change for the years 1987 through 2000.

**The Settlement is Fair, Just, Reasonable
and in the Public Interest**

In light of the substantial harm to customers that would ensue if the Internal Revenue Service determines that the use of the historic five-year average method to compute Idaho Power's income tax expense violates the normalization provisions of the Internal Revenue Code and associated Treasury Regulations, Idaho Power submits that it is in the public interest for the Commission to accept the settlement embodied in the Stipulation.

Further, Idaho Power has contacted counsel for all of the Parties that participated in this case. All of the Parties have authorized Idaho Power to represent to the Commission that they do not object to the Commission's acceptance of the proposed settlement. Idaho Power believes that the lack of opposition to the settlement embodied in the Stipulation supports the conclusion that the overall settlement is fair, just and reasonable and in the public interest.

Consequently, Idaho Power urges the Commission to issue its order granting the Joint Motion and approving the settlement Stipulation.

Respectfully submitted this 1st day of September, 2004.



BARTON L. KLINE
Attorney for Idaho Power Company

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that on this 1st day of September, 2004, I served a true and correct copy of the within and foregoing COMMENTS OF IDAHO POWER IN SUPPORT OF ACCEPTANCE OF SETTLEMENT upon the following named parties by the method indicated below, and addressed to the following:

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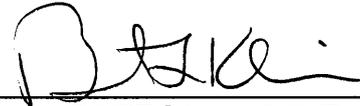
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