

The annual PCA mechanism is comprised of three major components. First, PCA rates are adjusted to compensate for the forecast in Snake River streamflows and storage. In years of abundant streamflows with correspondingly plentiful, relatively inexpensive hydro-generation, the Company's power supply costs are usually lower. Conversely, when streamflows or snow packs are low, Idaho Power must rely increasingly upon its other thermal generating resources and off-system power purchased in the regional market. The Company's thermal generating resources (coal and gas plants) and purchased power, are typically more costly than the Company's hydro-generation. Under the PCA mechanism, the Company may recover 90% of the difference between the projected power costs and the approved base power costs. Order No. 25880.

Second, because the PCA includes forecasted costs, the preceding year's forecasted costs are subsequently "trued-up" to account for actual costs. Third, in last year's Order No. 29334, the Commission added a third component to the PCA mechanism. Beginning with this PCA year, Idaho Power will calculate its total Idaho jurisdictional power sales made during the ensuing PCA year rather than use the sales figure from the Company's last general rate case in 1993. In essence, using normalized sales data will eliminate the under-collection, over-collection, under-refunding, and over-refunding by "truing-up the true-up." Order No. 29334 at 4. Consequently, ratepayers will pay for the actual amount of power sold by Idaho Power to meet native load requirements—no more or no less. This third mechanism is commonly referred to as the "true-up of the true-up."

THE PCA APPLICATION

In this year's PCA Application, Idaho Power forecasts inflows at Brownlee Reservoir at approximately 3.13 million acre feet (maf). This is approximately 50% below the 30-year average of 6.3 maf. Based upon the projected water flow and replacement power costs, the Company calculated that the projected power supply costs for the 2004-2005 PCA year are \$129,823,425. This equals 1.0092¢ per kWh. The projected power cost is 0.2777¢ per kWh higher than the Commission's approved base of 0.7315¢ per kWh. Consequently, the Company proposes to collect 0.2499¢ per kWh (90% of 0.2777¢).

The Company also calculated that the difference between last year's forecasted costs and the actual costs (the true-up) is 0.3661¢ per kWh. Finally, the third PCA rate element is the new "true-up of the true-up." Last year Idaho Power collected all but \$556,693 of the deferral

balance. Dividing this amount by the 2003 Idaho jurisdictional sales of approximately 12,096,872 MWh results in a PCA true-up of the true-up rate element of 0.0046¢ per kWh. Combining the projected power cost of 0.2499¢, the true-up component of 0.3661¢ and the true-up of the true-up of 0.0046¢, results in a total PCA rate for the 2004-2005 PCA year of 0.6206¢ per kWh. If approved, this would be an increase of 0.0167¢ above the existing PCA rate of 0.6039¢ per kWh.

Although the Company determined that the 2004-2005 calculated PCA rate could slightly increase, customers in Schedules 7, 19 and 24 would experience a decrease in existing rates. Last year's PCA included recovery of deferred costs from prior years for these three customer classes. Elimination of all but a small portion of prior year deferral recovery means that their PCA rates should decrease.

Because the Company anticipates that its general rate case (Case No. IPC-E-03-13) will result in an increase in the Company's base rates, Idaho Power requested that the Commission "keep the overall PCA rate at the same level as last year (0.6039¢ per kWh)." App. at 5. Idaho Power proposed this "unique rate treatment" to avoid the adverse consequences for most customers of having both their base rates and PCA rates increase in 2004. Consequently, the Company is proposing that the current PCA rate schedule remain the same except for the proposed decreases for Schedules 7, 19 and 24 customers. The table below shows most of the Company's proposed PCA rates.

<u>Customer Group</u>	<u>Current PCA</u>	<u>Proposed* PCA</u>
Residential (Schedule 1)	0.6039	0.6039
Small Commercial (Schedule 7)	0.8477	0.5850
Large Commercial (Schedule 9)	0.6039	0.6039
Industrial (Schedule 19)	0.8217	0.5817
Irrigation (Schedule 24)	1.3159	0.5228

*All prices shown in cents per kWh.

THE COMMENTS

In response to the Notice of Modified Procedure, the Commission received comments from the Commission Staff and one customer. On May 18, 2004, Idaho Power filed a Reply to the Staff's Comments. The one customer stated that there should not be a PCA increase this year

but also argued that there should be a rate reduction for all customers. The Staff Comments and Reply Comments are discussed in greater detail below.

A. Staff Comments

The Staff's Comments reviewed the Company's PCA calculations and contained two other recommendations. In general, the Staff recommended that the Commission adopt the Company's proposal to continue current PCA rates but adjust the PCA credits for the Schedules 7, 19 and 24 customers as discussed below.

1. Reviewing the Calculations. First, the Staff examined the Company's calculations regarding the three PCA elements. The Staff confirmed the Company's forecast calculation to be 0.2499¢/kWh. The Staff next reviewed Idaho Power's calculation of the PCA true-up. The Staff agreed that Idaho Power under-collected power supply costs by \$44,285,289. The true-up rate component for the PCA was calculated by both the Staff and the Company to be 0.3661¢/kWh. The Staff also agreed with the Company's calculation regarding the true-up of the true-up. Including the appropriate carrying charge, the Staff and Company calculated that last year's PCA rates under-recovered the true-up amount by \$556,693. This results in a true-up of the true-up component of 0.0046¢/kWh.

The sum of these three components listed above produces a calculated PCA rate of 0.6206¢/kWh. (0.2499 + 0.3661 + 0.0046). Staff Comments at 3. The Staff agreed with the Company that customers in Schedules 7, 19 and 24 are entitled to a credit as a result of last year's stipulation. Staff Comments at 3, Atch. C, ll. 16-18. The Staff also agreed with the Company's proposal to continue the existing PCA rate in light of the pending rate case.

2. Adjusting the Credits. In Order No. 29478 the Commission granted the Company's request to continue the existing PCA rates for two weeks until May 31, 2004. Continuing the existing rate for two weeks would allow the new PCA rates to become effective at the same time that the Company's base rates are to become effective on June 1, 2004. Thus, customers will only experience one change in rates. However, by continuing the existing rates for this two-week period, PCA costs for customers in the three schedules (7, 19 and 24) will be over-collected. Staff estimated the total amount of over-collection for this two-week period to be \$605,689. Staff Comments at 4, Atch. C, Col. b, ll. 22-24. This "over-collection" will not be captured in the true-up of the true-up. Consequently, Staff recommended slightly greater decreases (more credits) for customers in these three schedules for the 2004-2005 PCA year.

3. Valmy Investigation. During the Staff's PCA audit, it became aware that a significant amount of power purchased last year was attributable to an unexpected outage at Valmy's Unit 2. The Valmy Power Plant is jointly owned by Idaho Power and Sierra Pacific but is operated by Sierra Pacific. After the Valmy unit was taken off-line for routine maintenance, Sierra Pacific personnel modified the control wiring which defeated specifically engineered protections intended to prevent accidental energization of the generator. After the maintenance repairs were completed, the unit was energized without reconnecting the generator breaker control wiring. The generator sustained severe damage in excess of \$2.5 million.

The accident caused the generator unit to be out of service from June 26 through September 8, 2002. Because of the outage, Idaho Power was required to purchase replacement power at rates significantly higher than the variable costs for Valmy. As outlined in the Staff's Comments and the Company's confidential audit report, the incident was caused by an apparent failure to follow established safety procedures, a lack of proper supervision and training, and poor communications between project personnel.

According to the Staff, the outage forced Idaho Power to purchase approximately 133.5 MW every hour, or forego additional power sales between June 26 and September 9. In response to a Staff production request, the Company estimated that it spent approximately \$6.9 million for Valmy replacement power. However, Staff stated that this estimate was calculated by simply using the average daily Mid-C index price during the outage period. The Company's estimate was not based on the actual price it paid for term purchases, running Danskin, or real-time purchases used to replace Valmy power. Staff contended that the PCA was established to adjust for changes in water conditions and variable energy market prices, but was not intended to "automatically flow through costs associated with this type of event. Absent the PCA, these costs would not even be considered without special application from the Company." Staff Comments at 8. The Staff recommended that the Commission initiate an investigation to determine whether the costs for the Valmy replacement power should be calculated and credited as an adjustment to next year's PCA.

In summary, the Staff recommended that the existing PCA rates be continued except for the credits due Schedules 7, 19 and 24. The Staff proposed that the PCA rates for the three schedules be adjusted to account for the over-collection of PCA rates due to the two-week extension. Finally, the Staff recommended that the Commission open an investigation to review

the financial impacts of the Valmy incident. Staff proposed that the PCA rates become effective June 1, 2004, as proposed by the Company.

B. The Company's Reply

The Company first replied to the Staff's recommendation to provide additional credits to Schedule 7, 19 and 24 customers based on the over-collection during the two-week period. Based upon Staff's methodology, the Company recomputed the additional credits for Schedules 19 and 24 using actual May 2003 sales. The Company calculated that the over-collection for the two-week period totaled \$476,826 (compared to the Staff's calculation of \$605,689). Incorporating this adjustment, the Company calculated that the effective 2004-2005 PCA rates for Schedule 7 would be 0.5761¢/kWh; the Schedule 19 rate would be 0.5731¢/kWh; and the Schedule 24 irrigation rate would be 0.5054¢/kWh. Reply, Atch. 1.²

The Company's Reply Comments also addressed the Staff's request for a Valmy investigation. Although Idaho Power generally concurred with the Staff's summary of events associated with the outage, it did not agree with the Staff's characterization of the purpose of the PCA. The Company took issue with the Staff's characterization that the PCA "was established to adjust for changes in water conditions and energy market prices. In other words, whether related conditions and power supply costs were beyond the control of the Company." Reply Comments at 2, *quoting* Staff Comments at 8. Idaho Power asserted the Staff's characterization "unduly narrows the scope of the PCA, and in doing so, fails to acknowledge that the Company's generating units often perform with a reliability that exceeds industry norms. The Company believes that the PCA methodology as adopted intended to balance above-average and below-average performance." Reply at 2.

The Company offered to provide the Commission with additional information regarding last summer's outage "either informally or formally as part of a new docket." *Id.* at 3.

COMMISSION FINDINGS

Based upon our review of the Application and the comments, we find that it is appropriate to grant Idaho Power's request to continue the current PCA rate of 0.6039¢ per kWh except for customers taking service under Schedules 7, 19 and 24. Continuing the current PCA rate is fair and reasonable given the increase in base rates we approve today in Order No. 29505. We further find that it is appropriate to adopt the Staff's proposal to adjust the credits for the

² The Staff agreed with the Company's recalculation of the over-collection.

three customer classes to correct for the over-collection during the two-week period from May 16 through May 31, 2004. Given the agreement between the Staff and the Company, we find that the amount of over-collection for the two-week period totals \$476,826. Incorporating this adjustment results in 2004-2005 PCA rates for: Schedule 7 of 0.5761¢ per kWh; Schedule 19 of 0.5731¢ per kWh; and Schedule 24 of 0.5054¢ per kWh.

Attachment 1 to this Order shows the cumulative effects of the new base rates established today in Order No. 29505 and the PCA rates adopted in this Order. For example, the average rate for residential customers on June 1 will be 6.0879 cents per kWh, or an increase of 5.4%. For Schedule 24 irrigation customers the average rate is 4.7514 cents per kWh, or a decrease of 5.8% from last year. Although the base rate for irrigation increased, the reduction in the annual PCA rate resulted in an overall rate reduction.

We also believe that the issue of replacement power resulting from the Valmy plant outage between June 26 and September 8, 2003, warrants further examination. Given the expedited nature of the annual PCA cases, there is not sufficient time to adequately examine this issue in this proceeding. Consequently, we shall direct the Staff and the Company to informally examine this issue in greater detail. We encourage the parties to reach a settlement that is fair to both the Company and its ratepayers. If necessary, any adjustment in power cost recovery resulting from the Valmy outage will be carried over to next year's PCA case. Although the Commission has authorized the continuation of the existing PCA rates and reduced rates for the three classes, we specifically reserve the recovery of the replacement power due to the Valmy outage until the parties have completed their examination.

ORDER

IT IS HEREBY ORDERED that Idaho Power's request to continue the existing PCA rate of 0.6039¢ per kWh for all schedules except Schedules 7, 19, and 24 is granted as conditioned by this Order.

IT IS FURTHER ORDERED that the 2004-2005 PCA rates for customers in Schedules 7, 19, and 24 shall be as follows: Schedule 7—0.5761¢ per kWh; Schedule 19—0.5731¢ per kWh; and Schedule 24—0.5054¢ per kWh.

IT IS FURTHER ORDERED that the PCA rates contained in this Order shall be effective for service on June 1, 2004. The Company shall file tariffs in conformance with this Order.

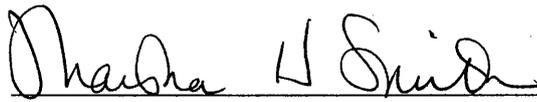
IT IS FURTHER ORDERED that the Staff and Idaho Power examine the cost of replacement power attributable to the Valmy II outage and advise the Commission whether an adjustment to next year's PCA is reasonable. Although the Commission has authorized a continuation of the PCA rates, it specifically reserves the right to make an adjustment to next year's rate pending the review of the replacement power issue.

THIS IS A FINAL ORDER. Any person interested in this Order (or in issues finally decided by this Order) or in interlocutory Orders previously issued in this Case No. IPC-E-04-9 may petition for reconsideration within twenty-one (21) days of the service date of this Order with regard to any matter decided in this Order or in interlocutory Orders previously issued in this Case No. IPC-E-04-9. Within seven (7) days after any person has petitioned for reconsideration, any other person may cross-petition for reconsideration. See *Idaho Code* § 61-626.

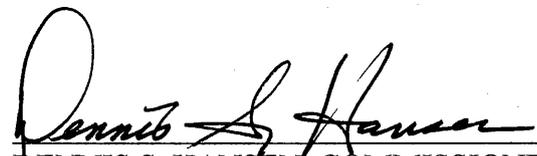
DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this 25th day of May 2004.



PAUL KJELLANDER, PRESIDENT

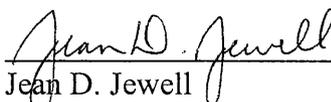


MARSHA H. SMITH, COMMISSIONER



DENNIS S. HANSEN, COMMISSIONER

ATTEST:



Jean D. Jewell
Commission Secretary

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COMMISSION FINAL ORDERS
IPC-E-03-13 - GENERAL RATE CASE &
IPC-E-04-9 - PCA
COMBINED RATE EFFECTS

APPENDIX
ORDER NO. 29506
CASE NO. IPC-E-04-9

Line No	Tariff Description	Rate Sch. No.	Current Rates			New Authorized Rates			Total Increase/ (Decrease) ² %
			Base \$/kWh	PCA \$/kWh	Base & PCA \$/kWh	Base ¹ \$/kWh	PCA \$/kWh	Base & PCA \$/kWh	
<u>Uniform Tariff Rates:</u>									
1	Residential Service	1	5.1743	0.6039	5.7782	5.4840	0.6039	6.0879	5.4%
2	Small General Service	7	6.3310	0.8477	7.1787	6.7090	0.5761	7.2851	1.5%
3	Large General Service	S9	3.6496	0.6039	4.2535	3.7220	0.6039	4.3259	1.7%
4	Large General Service	P9	2.9736	0.6039	3.5775	3.2830	0.6039	3.8869	8.6%
5	Dusk to Dawn Lighting	15	23.6541	0.6039	24.2580	15.1200	0.6039	15.7239	-35.2%
6	Large Power Service	19	2.7826	0.8217	3.6043	2.8500	0.5731	3.4231	-5.0%
7	Agricultural Irrigation Service	24	3.7261	1.3159	5.0420	4.2460	0.5054	4.7514	-5.8%
8	Unmetered General Serv.	40	5.6536	0.6039	6.2575	5.1170	0.6039	5.7209	-8.6%
9	Street Lighting	41	10.1009	0.6039	10.7048	9.3210	0.6039	9.9249	-7.3%
10	Traffic Control Lighting	42	3.0279	0.6039	3.6318	3.1120	0.6039	3.7159	2.3%
<u>Special Contracts:</u>									
11	Micron	26	2.5439	0.6039	3.1478	2.4810	0.6039	3.0849	-2.0%
12	J R Simplot	29	2.4815	0.6039	3.0854	2.3130	0.6039	2.9169	-5.5%
13	DOE	30	2.2761	0.6039	2.8800	2.3620	0.6039	2.9659	3.0%

Rates shown are based on average class revenue per kilowatt-hour.

¹ Final Order No. 29505, Case No. IPC-E-03-13

² Cumulative effect of new PCA and new Base Rates measured from current rates