BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF IDAHO POWER COMPANY FOR AUTHORITY TO IMPLEMENT POWER COST ADJUSTMENT (PCA) RATES FOR ELECTRIC SERVICE FROM JUNE 1, 2005 THROUGH MAY 31, 2006	**CASE NO. IPC-E-05-15** **ORDER NO. 29793**

On April 15, 2005, Idaho Power Company filed its annual power cost adjustment (PCA) Application. Since 1993 the PCA mechanism has permitted Idaho Power to adjust its rates upward or downward to reflect the Company's annual "power supply costs." Because of its predominant reliance on hydroelectric generation, Idaho Power's actual cost of providing electricity (its power supply costs) varies from year-to-year depending on changes in Snake River streamflow and the market price of power among other factors. The annual PCA surcharge or credit is combined with the Company's "base rates" to produce a customer's overall energy rate.

In this year's PCA Application, Idaho Power calculates that its annual power costs have increased by approximately $28 million, or 4.75% higher than the current PCA rates. To mitigate the effects of such a substantial rate increase, the Company proposed two PCA rate alternatives. The Commission could either approve the proposed PCA rate increase of 4.75%, or maintain the current PCA rates thereby avoiding any increase to PCA rates this year. This latter alternative is the Company's preferred option. The resulting unrecovered PCA costs would be deferred for recovery in the next PCA year (June 1, 2006 to May 31, 2007).

On April 25, 2005, the Commission issued a Notice of Modified Procedure soliciting public comments regarding the PCA Application and the rate design alternatives. The Commission received comments from the Commission Staff and more than 40 customers. Idaho Power did not submit reply comments. After reviewing the Application and the comments, we direct Idaho Power to maintain the current PCA rates as conditioned below.

BACKGROUND

A. The PCA Mechanism

The annual PCA mechanism is comprised of three major components. First, PCA rates are adjusted to reflect forecast power supply costs based upon Snake River streamflows. In years of abundance of 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 purchased power from the regional market. The Company's other 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 "trued-up" to actual costs. A rate to recover the true-up amount is calculated based upon expected energy sales. Third, is the "true-up of the true-up." Over or under recovery is balanced with the following year's true-up. Thus, ratepayers will pay the actual amount of normal power supply costs incurred by Idaho Power to meet native load requirements, not more or no less. Order No. 29334 at 4.

In summary, ratepayers receive a rate credit when power costs are below amounts included in base rates, but are assessed a surcharge when power costs exceed amounts included in base rates. Since its inception in 1993, the PCA has resulted in a monthly credit in three years and a monthly surcharge in ten years. Six of those ten years have been the last six years of drought conditions.

B. The Two Base Rate Cases

In addition to this PCA case, Idaho Power filed two other cases that affect customer base rates – the tax settlement case (IPC-E-05-14) and the Bennett Mountain Power plant case (IPC-E-05-10). The former case relates to a settlement that resolved the Company's federal income tax expense in its last general rate case, No. IPC-E-03-13. As approved in last year's settlement and implemented in Order No. 29789, the Company's base rates will increase by an average of 4.45% (or about $23 million annually) on June 1, 2005. The 4.45% increase is comprised of two components: a temporary base rate increase of 2.2% for one year and a permanent base rate increase of 2.25%. In other words, after 12 months (on June 1, 2006), base rates should decrease by 2.2% (approximately $11.6 million). *Id.* at 4.

In the second case filed in March 2005, Idaho Power seeks to recover its capital costs of constructing the new Bennett Mountain generating facility located in Mountain Home, Idaho. In Order No. 29790 the Commission authorized the Company to rate base $57,971,071 for the cost of the plant and the transmission and interconnection facilities. This results in an increase in the annual revenue requirement of $9,391,958. To recover this amount of revenue, the Company was authorized to increase its base rates by a uniform percentage of approximately 1.83% effective June 1, 2005.

THE 2005 PCA APPLICATION

This year's PCA Application included the forecasted costs based on water condition; a true-up of last year's forecasted costs to reflect actual costs; and the true-up of the 2004-2005 PCA year true-up (the true-up of the true-up). This year's water forecast for April through July inflows at Brownlee Reservoir was 2.18 million-acre feet (maf). The 30-year average inflows at Brownlee are 6.3 maf. This year's water forecast is roughly 67% below the 30-year average, or the third worst year in the last 30 years.

1. The Forecast. Based upon the projected water inflow to Brownlee Reservoir, the Company calculated projected power supply costs of $155,390,795 for the 2005-2006 PCA year (June 1, 2005 to May 31, 2006). The projected power costs equal 1.2080¢ per kWh. The 1.2080¢ per kWh estimate for projected power costs is 0.4765¢ per kWh higher than the Commission's approved base of 0.7315¢ per kWh. Consequently, the Company proposed to collect 0.4288¢ per kWh (90% of 0.4765¢) for the power cost projection component. Application at 3-4; Schwendiman Dir. at 4.

2. The True-Up. Idaho Power reported in its Application that the unrecovered difference between last year's forecast costs and actual costs (the true-up) was $36,285,912. Schwendiman Dir. at 4. The PCA true-up component included several additional items previously approved by the Commission. Application at 4. These additional items included the customer benefits associated with settlement of the Valmy outage, non-recurring tax credit issues, and the Bonneville Power Administration water option agreement credit. The true-up also included cloud seeding expenses authorized by the Commission in Order No. 29670 ($690,550) and the recovery of the Company's "lost revenue" ($13,482,882) as ordered by the

Idaho Supreme Court in Case No. IPC-E-01-34. Netting the subcomponents to the true-up balance equals $49,768,794 to be collected. This amount is then divided by the normalized total jurisdictional sales in CY 2004. Idaho Power witness Celeste Schwendiman calculated that the true-up portion of the PCA rate is 0.3996¢ per kWh. Dir. Test. at 7.

3. The True-Up of the True-Up. The Company stated that last year it collected all but $635,653 of the PCA deferral balance. Dividing this amount by the 2004 Idaho jurisdictional sales results in a PCA true-up of the true-up rate element of 0.0051¢ per kWh. Combining the three components – the projected power costs of 0.4288¢, the true-up component of 0.3996¢, and the true-up of the true-up of 0.0051¢ – results in a PCA rate for the 2005-2006 PCA year of 0.8335¢ per kWh. This represents an increase of .2296¢ above the existing PCA rate of 0.6039¢ per kWh.

A. The Two PCA Rate Proposals

Idaho Power proposed two PCA rate alternatives. Under its preferred alternative, the Company would continue the current PCA rates without any increase. Thus, the overall PCA rate would remain at the current level of 0.6039¢ per kWh. Application at 5. Idaho Power is proposing this "unique rate treatment" to avoid having both its base rates (from the two previously mentioned Orders) and PCA rates increase in 2005. *Id.*

Under the preferred alternative, Idaho Power proposed to defer recovery of a portion of this year's PCA increase ($28.6 million) until next year. Application at 5-6. Idaho Power's vice-president, John Gale, stated two reasons for the deferral. First, deferring the PCA expenses until next year would reduce the overall rate increase that customers would experience on June 1, 2005. If the Commission only approves the base rate increases for Bennett Mountain and the rate case settlement, he estimated that overall energy rates would increase by 6.29%, instead of an 11.71% increase if the PCA rate is also increased. Gale Dir. at 4. Second, there are offsetting rate changes scheduled to occur next year. As mentioned above, the 2.2% increase in base rates will expire on June 1, 2006. In addition, the 2005 PCA carry-over of $28.6 million will be offset by the rate case credit of $9.65 million. Consequently, the actual deferral amount for the next PCA year (with all other factors remaining the same) would be approximately $19 million. Gale Dir. at 8.

The other PCA rate alternative would increase the current PCA rate by .2296¢ for all classes, or an average increase of 4.75% effective on June 1, 2005. Although the overall percentage increase would be 4.75%, each customer class would actually receive a different percentage increase due to previously approved PCA rate design methodology. Some class rates would increase by about 3% and other classes would increase by 5% to 6.6%. Under the second alternative, the proposed PCA rates for Idaho Power's three special contract customers would be: 7.41% for Micron; 7.84% for Simplot; and 7.71% for the Department of Energy. Schwendiman Exh. 6.

THE COMMENTS

In response to the Notice of Modified Procedure, the Commission received comments from the Commission Staff and more than 40 customers. Idaho Power did not file any reply comments.

A. Public Comments

In the printed notice to its customers, Idaho Power discussed the overall rate effects of the two base rate cases and the PCA case. In response, Idaho Power customers offered a wide range of comments, often times addressing all three cases. Most customers opposed any rate increase for a variety of reasons. Ten customers suggested that residents on fixed income cannot afford any rate increase at this time. Three customers suggested that Idaho Power should trim its costs or "tighten its belt" thereby avoiding any rate increase. Two other customers comment that Idaho Power might avoid any rate increase by reducing the salaries of its executives.

On the question of the PCA rate alternatives, four customers recommended that the Commission authorize Idaho Power to defer its PCA costs until next year. Three other customers suggested that the rate increase be put upon new customers and finally, four customers simply expressed concern about any rate increase.

B. Staff Comments

The Staff's comments analyzed the Company's PCA calculations and recommended two adjustments to the calculations. In general, the Staff recommended that the Commission adopt the Company's proposal to continue the current PCA rates but suggested that the rates for residential customers and irrigation customers be adjusted as discussed in greater detail below.

1. Reviewing the Calculations. The Staff first examined the Company's calculations regarding the three PCA components. The Staff confirmed the Company's water forecast calculations and reported that the forecast power supply costs are more than $61 million above normal on a total Company basis. Staff confirmed the Company's forecast rate calculation to be

0.4288¢/kWh. The Staff next reviewed Idaho Power's calculations for the PCA true-up rate. This year's PCA has two separate components: true-up deferral amounts and "lost revenue" from Case No. IPC-E-01-34. The lost revenue amount with interest is $13,482,882 as per Order No. 29669.

In reviewing the deferral accounting data, Staff recommended two adjustments that would reduce the Company's true-up amount. First, in responding to a Staff audit request, the Company discovered a discrepancy in its February 2005 account for "Fuel Expense – Coal." The Staff and Company agreed that the February 2005 coal expenditure should be reduced by $295,546 to correct for a data entry error. Staff Comments at 3-4. The corrected amount is included in Staff's true-up calculation found in Attachment D.

The second Staff adjustment addressed the allocation of intervenor funding expenses. Staff recommended that intervenor funding allocated to all classes be reduced from $50,365 to $5,030. After analyzing all intervenor funding Orders and discussing this issue with the Company, Staff determined that some intervenor funding awards had been assigned to all customer classes instead of the Commission directed specific customer classes pursuant to *Idaho Code* § 61-617A(3). More specifically, in Order Nos. 29371, 29505, and 28927 the Commission had directly assigned $25,000 in intervenor funding to residential customers (Schedule 1) and $20,335 to irrigation customers (Schedules 24 and 25). The Staff's intervenor funding adjustment is shown in Staff Attachment D at line 43.

Staff's adjusted true-up amount is $49,472,607 as compared to the Company's calculation of $49,768,794. Staff calculated the true-up rate component as 0.3973¢/kWh as shown on line 13 of its Attachment C.

Staff and the Company agreed on the calculation of the PCA true-up of the true-up. The Staff and the Company calculated that last year's PCA under-recovered the true-up by $635,652. This true-up of the true-up results in a rate component of 0.0051¢/kWh.

In summary, the Staff's calculated PCA rate of 0.8312¢/kWh is the sum of the three components listed above (0.4288 + 0.3973 + 0.0051 = 0.8312). The difference between the Staff's PCA calculation and the Company's PCA calculation is attributable to the coal adjustment and the intervenor funding adjustment.

2. PCA Rates Alternatives. The Staff also agreed with the Company's preferred rate alternative to continue the existing PCA rates except for adjustments to Schedules 1, 24, and 25

caused by Staff's intervenor funding recommendation. Staff proposed that PCA rates for the June 1, 2005 through May 31, 2006 PCA year be set at 0.6045¢/kWh for the residential class (Schedule 1); 0.6052¢/kWh for the irrigation classes (Schedules 24 and 25); and 0.6039¢/kWh for all other classes and the three special contract customers.

Staff calculated that continuation of the PCA rates is expected to cause the Company to defer approximately $28.3 million to next year's PCA. Staff maintained that this carry over is a reasonable action given the proposed increase in base rates caused by the Bennett Mountain and tax settlement cases. Staff also noted that the proposed PCA rate is relatively large and that there are offsetting adjustments next year. These offsetting adjustments include the expiration of the temporary base rate increase and the rate case settlement credit of $9.65 million.

3. Staff's Rate Design for Base Rates. The Staff next addressed the combined rate design caused by the three cases. Using the Company's revenue allocations and rate designs from the three cases, Staff Attachment F revealed that the combined base rate increases range from 6.19% to 6.44% across all the customer classes. Staff explained that the rate differences among the customer classes are caused by two factors. First, Idaho Power proposed to spread the Bennett Mountain increase uniformly upon all demand and energy rate components instead of uniformly spreading the increase to customer classes based on total revenue. Second, the one-year temporary tax increase (2.20%) was spread uniformly to the customer classes based on 2004 normalized revenues but the rates were applied to normalized 2003 billing determinants. Staff determined that the class revenue relationships in 2004 were not the same as in 2003. These two factors explain why the Company's proposed rate design methodology under-recovers the approved increased revenue requirement by $389,927. Staff Comments at 10.

To spread the base rate increases more uniformly, Staff recommended that the base rate revenue requirement of $32,144,937 be spread to all customer classes on a uniform percentage basis. Under Staff's proposal, each class would experience an approximately 6.28% increase. Within each class, the Bennett Mountain and permanent income tax increases would be spread on an equal percentage basis to energy and demand components, while the temporary income tax increase would be spread to energy rates on an equal cents/kWh basis. Placing the temporary income tax rate increase on the energy rate alone makes the rate easier to adjust when the temporary base rate increase expires on May 31, 2006. Consequently, Staff recommended that the Company be directed to file new tariff schedules incorporating these rate design changes discussed above.

COMMISSION FINDINGS

Based upon our review of the PCA Application and the comments, we find it is reasonable to grant Idaho Power's request to continue the current PCA rate of 0.6039¢/kWh except for customers taking service under Schedules 1, 24, and 25. Continuing the current PCA is fair and reasonable given the increases in base rates approved in Order Nos. 29789 (Tax Settlement) and 29790 (Bennett Mountain). We also adopt the two Staff adjustments (coal expenses and intervenor funding) to the true-up calculation. We further find that it is appropriate to adjust the PCA rates for residential and irrigation customers to reflect the appropriate allocation of intervenor funding amounts. Consequently, the residential rate shall be 0.6045¢/kWh and the irrigation rate shall be 0.6052¢/kWh. Continuing the existing PCA rate (with the two adjustments noted above) results in an estimated carry-over to the next PCA year of approximately $28.3 million. We also note that the carry-over amount has offsetting credits next year that will benefit ratepayers.

We next turn to the rate design for the two base rate increases. In our Bennett Mountain and Tax Settlement Orders, we stated that we would address the overall rate design for those two cases in this Order. As Staff noted in its comments, the Company rate design methodologies do not result in a uniform percentage increase to each customer class because the Bennett Mountain increase is spread uniformly to all demand and energy components and the temporary tax increase was spread based on 2004 normalized revenues applied to 2003 normalized billing determinants. Consequently, the Staff recommended that the Company's calculated revenue requirement of $32,144,937 be spread to all customer classes on a uniform percentage basis and the Bennett Mountain and permanent income tax increases would be spread on an equal percentage basis to energy and demand components. The temporary tax increase would be spread on energy rates alone on an equal cents/kWh basis. The Company did not file a response to Staff's proposed rate methodology.

Based upon our review, we find Staff's proposed rate methodology for the base rate increases to be just and reasonable. The Staff's rate methodology more uniformly spreads the increases in base rates upon the various customer classes and the three special contract customers. We direct Idaho Power to file new tariff schedules conforming to our Orders to be effective June 1, 2005.

ORDER

IT IS HEREBY ORDERED that Idaho Power's Application to continue the existing PCA rate of 0.6039¢/kWh for all schedules except Schedules 1, 24, and 25 is granted.

IT IS FURTHER ORDERED that the June 1, 2005 through May 31, 2006 PCA rates for residential Schedule 1 customers shall be 0.6045¢/kWh and shall be 0.6052¢/kWh for the irrigation customers in Schedules 24 and 25.

IT IS FURTHER ORDERED that the PCA rates contained in this Order shall be effective for service on June 1, 2005. The Company shall file new PCA tariff schedules in conformance with this Order.

IT IS FURTHER ORDERED that the Company file new base rate schedules reflecting the approved rate design methodology as set out above. New base rates shall be effective for service on June 1, 2005.

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-05-15 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-05-15. 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 27th day of May 2005.

PAUL KJELLANDER, PRESIDENT

MARSHA H. SMITH, COMMISSIONER

DENNIS S. HANSEN, COMMISSIONER

ATTEST:

Jean D. Jewell
Commission Secretary

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