

BEFORE THE

IDAHO PUBLIC UTILITIES COMMISSION

CASE NO. IPC-E-05-28

IDAHO POWER COMPANY

EXHIBIT NO. 10

DENNIS C. GRIBBLE

RATING AGENCIES REPORTS



Moody's Investors Service

Global Credit Research  
Rating Action  
3 DEC 2004

Rating Action: IDACORP, Inc.

**MOODY'S DOWNGRADES RATINGS OF IDACORP, INC. (SR. UNSEC. TO Baa2) AND IDAHO POWER COMPANY (SR. SEC. TO A3); RATING OUTLOOK FOR BOTH COMPANIES IS STABLE**

**Approximately \$1.1 Billion of Securities Affected**

New York, December 03, 2004 -- Moody's Investors Service downgraded the long-term ratings of IDACORP, Inc. (senior unsecured to Baa2 from Baa1). Also downgraded were the long-term and short-term ratings of IDACORP's wholly-owned utility subsidiary, Idaho Power Company (IPC; senior secured to A3 from A2, and short-term debt rating to Prime-2 from Prime-1). The rating outlook for both companies is stable. This action concludes a review for possible downgrade.

Concurrently, Moody's assigned a Baa2 rating to IDACORP's three-year \$150 million senior unsecured bank credit facility and assigned a Baa1 rating to IPC's three-year \$200 million senior unsecured bank credit facility. Both facilities expire on March 16, 2007.

The downgrade of IPC's ratings reflects: 1) expected weaker cash flow coverage of interest and debt; 2) the likelihood for continued negative free cash flow over the next few years, with internally generated funds falling short of meeting the dividend requirements of IDACORP and significant utility-related capital spending; 3) persistent drought conditions that are likely to result in higher supply costs, not all of which are recoverable under the utility's power cost adjustment mechanism; 4) the final resolution this fall of the company's rate case, which resulted in a revenue increase of a little more than half of the company's updated request; and 5) the likely need for additional support from the Idaho Public Utility Commission (IPUC) in future rate proceedings as IPC adds new generation and transmission infrastructure to help meet customer and load growth and ensure reliability of service.

The downgrade of IDACORP's ratings reflects the weaker credit profile of IPC, which is by far the largest source of cash flow in the form of dividends to the parent company. With the continuing negative free cash flow trend for the utility, IDACORP may need to depend more on dividends from its riskier non-utility subsidiaries to meet its own fixed obligations and common dividend to shareholders, even though management has committed to a "back-to-basics" strategy of focusing on its regulated business.

The Baa2 rating assigned to IDACORP's bank credit facility reflects the pari-passu ranking of the facility with IDACORP's other senior unsecured obligations. The facility, which expires March 16, 2007, serves as part of the alternate liquidity for IDACORP's commercial paper program. The facility contains a maximum 65% debt to total capitalization ratio covenant and has a material adverse change (MAC) clause as part of representations and warranties relating to each credit extension. In Moody's view, the existence of the MAC clause detracts from the quality of the facility since it could preclude access to funds at IDACORP's greatest time of need. The facility also contains a minimum required EBITDA to interest coverage covenant for the trailing four quarters of 2.75 times. There was a substantial cushion with respect to the financial covenants as of September 30, 2004 when IDACORP's leverage was 56% and its EBITDA to interest coverage (as defined in the bank credit facility) was 4.23 to 1.

The Baa1 rating assigned to IPC's bank credit facility reflects the pari-passu ranking of the facility with the utility's other senior unsecured obligations. The facility, which expires March 16, 2007, serves as part of the alternate liquidity for IPC's commercial paper program. The three-year facility represents an enhancement in the quality of alternate liquidity over IPC's prior facility, which was for a 364-day term. The current facility does not contain any rating triggers that would cause default, accelerations or puts. It does, however, contain a maximum 65% debt to total capitalization ratio covenant and has a MAC clause as part of the representations and warranties for each credit extension. The existence of the MAC clause detracts from the quality of IPC's credit facility since it could limit access to funds during IPC's time of greatest need. There was a substantial cushion with respect to the maximum debt ratio as defined in the credit facility as IPC's leverage ratio was 55% as of September 30, 2004.

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The stable outlook for IPC reflects its continued focus on regulated electric utility operations, which have a relatively low business risk profile and tend to be a stable source of earnings and cash flow. The outlook also assumes that IPC will adequately cope with its remaining challenges, including through the prudent management of its large capital program, such that state regulators are likely to be supportive of IPC's future requests for recovery of an adequate return on those investments.

The stable rating outlook for IDACORP reflects its relatively low business risk profile, as IPC represents over 90% of its assets. IPC will be the predominant source of cash flow in the form of dividends for the foreseeable future. Furthermore, the outlook assumes that management will not diverge from its "back-to-basics" strategy by making further material investments in nonutility businesses and will continue to consider periodic common equity issuance to help meet external funding requirements, while supporting a balanced capital structure.

Ratings downgraded are as follows:

IDACORP, Inc.: senior unsecured medium-term note program and Issuer Rating to Baa2 from Baa1; shelf registration for senior unsecured debt to (P)Baa2 from (P)Baa1.

IDACORP Trust I, II, and III: shelf registration for trust preferred securities to (P)Baa3 from (P)Baa2

Idaho Power Company: senior secured debt rating to A3 from A2; senior unsecured debt and Issuer Rating to Baa1 from A3; shelf registration for senior secured debt to (P)A3 from (P)A2; shelf registration for senior unsecured debt to (P)Baa1 from (P)A3; shelf registration for preferred stock to (P)Baa3 from (P)Baa2; and short-term debt rating to Prime-2 and VMIG-2 from Prime-1 and VMIG-1, respectively.

Ratings assigned include:

IDACORP: Baa2 rating for three-year \$150 million senior unsecured bank credit facility expiring on March 16, 2007

Idaho Power Company: Baa1 rating for three-year \$200 million senior unsecured bank credit facility expiring on March 16, 2007

IDACORP's Prime-2 short-term debt rating for commercial paper, which was not under review, is affirmed.

IDACORP, Inc. is a holding company, whose primary operating subsidiary is Idaho Power Company, a regulated electric utility company. IDACORP, Inc. also has several other unregulated subsidiaries, engaged in a variety of different businesses. Its headquarters is in Boise, Idaho.

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### IDACORP and Unit Ratings Lowered, Removed From CreditWatch Negative

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**Credit Rating:** BBB+/Stable/A-2

#### Rationale

On Nov. 29, 2004, Standard & Poor's Ratings Services lowered its corporate credit ratings on IDACORP and its subsidiary Idaho Power Co. to 'BBB+' from 'A-' and removed the ratings from CreditWatch with negative implications.

In addition, Standard & Poor's lowered its rating on Idaho Power's senior secured debt to 'A-' from 'A' and its ratings on IDACORP's and Idaho Power's senior unsecured debt to 'BBB' from 'BBB+' and removed the ratings from CreditWatch with negative implications.

Standard & Poor's affirmed its 'A-2' short-term corporate credit and commercial paper ratings on IDACORP and Idaho Power. The short-term ratings were not on CreditWatch.

The outlook is stable.

The rating change reflects weakened financial ratios that have resulted from a combination of sustained drought conditions on the Snake River that have depressed hydro production and increased deferred power costs; a disappointing general rate case ruling in

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Idaho partly mitigated by approval of a settlement on Sept. 29, 2004, that granted the company's position on income tax issues; and more than \$600 million of expected capital requirements by the utility. These pressures resulted in a financial profile that is weak even for the 'BBB+' rating. Management is attempting to reduce costs and is planning to file a general rate case in 2006 to strengthen IDACORP's financial profile.

The 'BBB+' rating reflects the stability provided by a generally supportive state regulatory regime, including a strong power cost adjustment (PCA) mechanism, an efficient, low-cost generating fleet, and the divestiture of higher risk unregulated businesses, tempered by significant exposure to hydrological variations in the Snake River and significant capital expenditure requirements for new generation and hydro relicensing. Idaho's PCA mechanism allows Idaho Power to set annual power costs and pass 90% of the cost that exceeds this amount on to customers. Resource planning rules allow the company to use 70th percentile water and load levels for planning, rather than a median level approach. This means that water and load conditions will be worse than planned only 30% of the time, on average, rather than 50%.

Idaho Power's service territory exhibits average economic characteristics overall. Growth in the customer base has been strong at more than 2.5% annually. Idaho Power served a peak load of 2,944 MW in 2003 from 17 hydroelectric plants on the Snake River and its tributaries, with a total nameplate capacity of 1,731 MW. The company also owns 1,023 MW of coal-fired generation and a 90 MW gas-fired peaking resource, and is building a \$61 million 160 MW gas-fired generating plant to be commissioned in 2005. In an average year, hydroelectric sources provide about 60% of total generation needs, thus significantly exposing Idaho Power to water flow variations. The 2002 integrated resource plan (IRP), which provides for planning based on 70th percentile load and water levels rather than average conditions, and the PCA mechanism are important risk mitigants for Idaho Power.

A combination of factors have contributed to IDACORP's weakened financial profile. The drought that has affected stream flows in the Snake River is in its fifth year and has raised costs substantially for customers by depressing low-cost hydro output. This has meant that deferred revenues (\$71 million as of Dec. 31, 2003) never decreased to zero since the time of the western U.S. power crisis. Although 90% of the Idaho jurisdiction costs are recovered through the PCA, these higher costs may have contributed to a reluctance on the part of the Idaho Public Utilities Commission (IPUC) to raise rates even higher in its recent general rate case ruling.

Given the general rate case ruling and upcoming capital expenditures, Standard & Poor's expects that IDACORP should achieve funds from operations (FFO) interest coverage of over 4.0x. Although this is strong for the 'BBB+' rating, FFO coverage of debt and debt to total capitalization are expected to be slightly weak at about 18.5% and 53%, respectively. Moreover, FFO interest coverage could

decline in the coming years as interest rates rise and debt-financed capital expenditures increase. Cash flows may also be affected if the current drought continues, since the forecast assumes a return to median water flows by 2006.

#### *Short-term credit factors.*

The short-term rating on IDACORP is 'A-2', which incorporates adequate liquidity, limited need to access external capital to fund capital expenditure requirements, and the expectation for Idaho Power to continue to generate stable cash flow.

The PCA mechanism in Idaho and the IRP that allows Idaho Power to plan based on 70th percentile load and water levels rather than average conditions, as was the policy in 2000 and 2001, significantly mitigate the risks that price spikes could result in another build-up of deferred power costs and deplete liquidity. The 90 MW peaking plant built in 2001 and the new gas-fired combined cycle plant, which will be in service in 2005, also contribute to decreased exposure to wholesale power prices and mitigate short-term risks.

IDACORP's liquidity position is comfortable. In March 2004, IDACORP replaced a \$175 million one-year revolver and a \$140 million three-year revolver with a single \$150 million three-year facility, reflecting the lower liquidity requirements at IDACORP following its exit from energy trading. Idaho Power replaced its \$200 million one-year credit facility with a three-year facility also in March 2004. Cash on hand totaled \$17.2 million as of June 30, 2004. Debt maturities are small, at \$68 million in 2004 (already completed) and \$77.3 million in 2005. However, IDACORP has more than \$600 million in capital requirements in the next two years for which modest external funding will be required.

## **Outlook**

The stable outlook reflects expectations for stable cash generation from the utility and the absence of any significant unregulated businesses. Two key issues that would determine future ratings movement are water flows in the Snake River and future rate case rulings by the IPUC.

## **Ratings List**

	To	From
IDACORP Inc.		
Corporate credit rating	BBB+/Stable/A-2	A-/Watch Neg/A-2
Sr unsecd debt	BBB	BBB+/Watch Neg
Commercial paper	A-2	

Idaho Power Co.

Corporate credit rating	BBB+/Stable/A-2	A-/Watch Neg/A-2
Senior secured debt	A-	A/Watch Neg
Sr unsecd debt	BBB	BBB+/Watch Neg
Preferred stock	BBB-	BBB/Watch Neg
Commercial paper	A-2	

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Global Power/North America  
Credit Analysis

## Idaho Power Company

Subsidiary of IDACORP, Inc.

### Ratings

Security Class	Current Rating	Previous Rating	Date Changed
Senior Secured	A-	A	1/24/05
Senior Unsecured	BBB+	A-	1/24/05
Preferred Stock	BBB	BBB+	1/24/05
Commercial Paper	F2	F1	1/24/05

Rating Watch.....None  
Rating Outlook.....Stable

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### Profile

IPC, the primary operating subsidiary of IDA, provides integrated electric utility service to more than 440,000 customers in southern Idaho and eastern Oregon. The negative effect of the prolonged drought on hydro generation output has weakened the utility's credit profile, despite the mitigating effect of its Idaho jurisdictional PCA clause.

### Related Research

- Credit Update, IDACORP, Inc., Feb. 14 2005.

#### Key Credit Strengths

- Competitive electricity rates.
- Idaho jurisdictional PCA mechanism.
- Lower parent company business risk due to a more conservative strategy.

#### Key Credit Concerns

- Negative effects of ongoing regional drought conditions.
- Recent IPUC order may signal erosion in the state's regulatory environment.
- Increasing capital-expenditure requirements.

### Rating Rationale

The recently lowered Idaho Power Company (IPC) ratings reflect the increase in debt over the past several years, primarily due to the adverse effect of the southern Idaho drought, now in its fifth consecutive year, and the earnings volatility inherent in the utility's hydro generation system. The ratings also consider the disappointing outcome in IPC's 2004 general rate case (GRC). Favorably, the negative effect of the severe drought conditions in southern Idaho was moderated by IPC's power cost adjustment (PCA) mechanism in Idaho, which has enabled the company to maintain solid interest coverage ratios. The ratings were also positively affected by a more conservative corporate business profile at IPC's corporate parent, IDACORP, Inc. (IDA), and ongoing efforts to reduce financial leverage, including a net \$116 million common stock offering in December 2004. A portion of the proceeds from the common stock issuance were used to reduce utility debt and to fund future utility capital expenditures. The Rating Outlook Stable assumes a return to normal hydroelectric generation output by 2006.

### Recent Developments

In 2004, IPC received a disappointing rate order from the Idaho Public Utilities Commission (IPUC), which raises concern over future Idaho rate-making treatment. In its initial order, the IPUC authorized a \$25 million (5.2%) rate increase, which compares with IPC's \$70 million (14.5%) request. IPC petitioned the commission to rehear several issues, which led to the settlement. Adjustments to correct computational errors (\$3 million), in addition to a stipulated change in the way test-year income tax expense is computed (\$12 million), brought the total authorized rate increase to just less than \$40 million (8.2%). This amount represents approximately 57% of IPC's requested rate hike. The additional revenue is partially offset by a \$19 million rate credit. Under the settlement, the IPUC agreed to allow IPC to use its statutory tax rate to compute test-year income tax expense, reversing its May 2004 order in which it used an average tax rate computation.

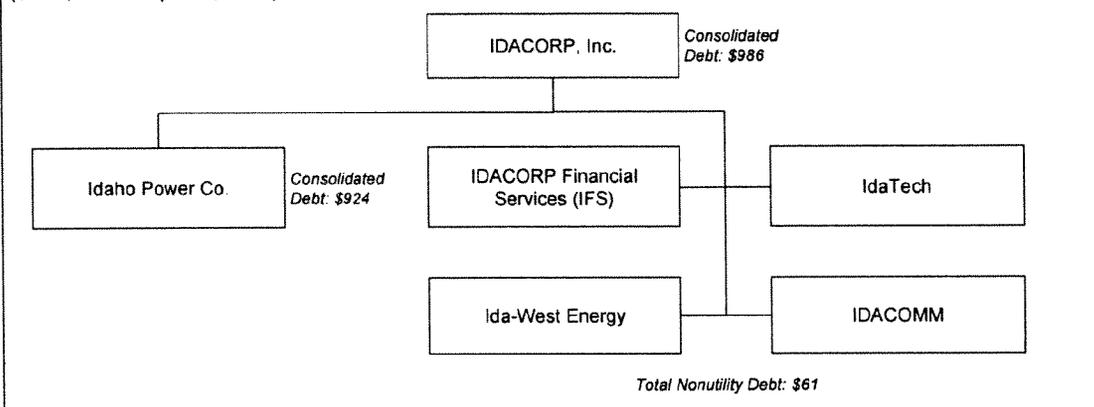
### Liquidity and Debt Structure

At the end of the third quarter 2004, IPC had \$5.5 million of cash and \$22 million of commercial paper outstanding. In 2004, IPC closed on a \$200 million three-year credit facility, which replaced a one-year facility that expired on March 17, 2004. The credit facility is primarily used to support the company's \$200 million commercial paper program. Over the past five years, IPC's debt burden rose 22% to \$1 billion at Sept. 30, 2004, from \$822 million at the end of the third quarter of 1999, driven primarily by the energy procurement costs resulting from the ongoing regional drought. The org chart on page 2 of this report depicts IPC's place within IDA's corporate structure and summarizes long-term debt outstanding as of Sept. 30, 2004.

February 18, 2005

www.fitchratings.com

**Organization Chart — IDACORP, Inc.**  
(\$ Mil., As of Sept. 30, 2004)



In 2004, IPC refinanced \$50 million of first-mortgage bonds (FMB) and issued \$55 million of secured medium-term notes (MTNs). The proceeds from the MTNs were used to redeem IPC's outstanding preferred securities, which totaled approximately \$52 million. Approximately \$60 million of FMBs are scheduled to mature in 2005, and no debt is scheduled to mature in 2006.

### ■ Hydro Conditions

Below normal precipitation reduced the availability of low-cost hydro energy to meet IPC's load in 2004 for a fifth consecutive year. Greater reliance on higher cost thermal and purchase power resources results in meaningfully higher variable power costs, lower cash flows and higher debt.

In a normal water year, hydro generation accounts for approximately 56% of IPC's in-house generation but averaged just 45% annually during 2001–2003 and 47% for the nine months ended Sept. 30, 2004.

Even with a return to normal precipitation trends in 2005, hydro generation output is expected to remain below normal, due to the duration and severity of the drought and the toll it has taken on ground water conditions. Current ratings anticipate a return to normal hydro levels in 2006.

Precipitation trends in southern Idaho during the crucial December–April snow pack build season are below normal levels this winter. As a result, significant snowfall will be required over the remainder of the 2004–2005 winter season to achieve snow pack conditions consistent with historic norms.

### ■ Power Cost Adjustment Mechanism

Under IPC's PCA mechanism, implemented in 1993, 90% of IPC's Idaho excess jurisdictional power supply costs/benefits are passed through to Idaho rate payers. On a systemwide basis, IPC absorbs approximately 15% of power costs in excess of amounts recovered in base rates, reflecting the 10% portion not passed through to customers in Idaho and the effect of power cost recovery caps in its Oregon jurisdiction. Although timely recovery of deferred energy costs in Idaho mitigated a significant proportion of increased production costs due to below-normal hydro conditions, the duration and severity of the drought has, nonetheless, had a significant negative effect on the company's financial condition.

### ■ Regulatory Outlook

Major components of the IPUC's final order in IPC's 2004 general rate case are summarized in the table below, along with IPC's requested amounts.

The IPUC's \$40 million rate increase represents 57% of the utility's requested amount and is partially

### Rate Case Overview

	Requested Amount	Authorized
Rate Increase (\$ Mil.)	70.7	40.0
Rate Increase (%)	14.50	8.20
Return on Equity (%)	11.20	10.25
Equity Component (%)	45.97	45.97
Rate Credit (\$ Mil.)	N.A.	19.3

N.A. – Not applicable.

offset by the \$19.3 million rate credit. The authorized return on equity (ROE) of 10.25% is less than the industry average ROE of 10.73% at year-end 2004, as compiled by Regulatory Research Associates. The GRC raises concerns that regulatory support for recovery of IPC's 2004–2006 investment in plant and equipment to meet system reliability and load growth requirements may prove inadequate. A lack of regulatory support, combined with continuing poor hydro conditions, could lead to further deterioration in IPC's creditworthiness.

In its original rate order, the IPUC adopted a test-year tax rate based on a historic five-year average, rather than using statutory federal and state tax rates. As a result, IPC would have been unable to comply with the normalization provisions of the Internal Revenue Code and would no longer qualify for accelerated depreciation benefits. In August 2004, the IPUC staff and IPC reached two separate settlement agreements that addressed tax-related issues in the company's GRC. The agreements were approved by the commission in September 2004.

The first settlement resolves the Internal Revenue Code normalization issue, adopting the utility's statutory tax rate. The change in tax accounting results in an \$11.5 million base-rate increase effective June 1, 2005. The settlement authorizes the deferral and recovery of incremental 2004 income tax expense (\$11.5 million) calculated at the statutory rate. The deferred asset will be recovered through IPC's annual PCA mechanism beginning June 1, 2005.

The second settlement addresses a 2002 IPC tax gain and the costs associated with an unplanned power plant outage in 2003. As part of the settlement, the IPUC authorized the creation of a \$19.3 million regulatory liability to facilitate a revenue credit to IPC's customers commencing in the 2005–2006 PCA year.

### Outlook Rationale:

The Rating Outlook Stable assumes a return to normal hydroelectric generation output in 2006.

### What Could Lead to Positive Rating Action?

- While a ratings upgrade in the near to intermediate term is unlikely, meaningful debt reduction supported by strong hydro conditions could lead to higher credit ratings over time.

### What Could Lead to Negative Rating Action?

- Continued drought conditions in southern Idaho.
- Increasing financial leverage.

Separately, in December 2004, the IPUC authorized recovery of \$11.6 million of lost revenues and \$1.9 million of interest associated with a commission-approved program to reduce irrigation load during 2001. In its initial order in April 2002, the commission allowed recovery of direct costs associated with the load reduction program in IPC's 2002–2003 PCA year but disallowed \$12 million of lost revenues. The company's subsequent appeal was ultimately upheld by the Idaho Supreme Court and remanded to the commission, which then determined the amount to be recovered.

### ■ Capital Investment Program

IPC's capital expenditures are estimated to rise 48% to \$643 million during 2004–2006 from the \$433 million invested in plant and equipment during 2001–2003. Increased capital requirements reflect the need for additional peaking capacity and upgrades to aging infrastructure, the latter of which has been exacerbated by incremental stress on thermal resources as a result of poor water conditions.

## Financial Summary — Idaho Power Company

(\$ Mil., Fiscal Years Ended Dec. 31)

	LTM		2003	2002	2001	2000
	9/30/04	9/30/03				
<b>Fundamental Ratios</b>						
Operating EBIT/Interest Expense (x)	1.9	2.5	2.0	2.2	1.4	2.9
Operating EBITDA/Interest Expense (x)	3.8	4.1	3.7	3.7	2.7	4.3
Debt/Operating EBITDA (x)	4.9	3.8	4.2	4.3	6.3	3.6
Common Dividend Payout (%)	66.6	192.3	110.5	78.9	89.2	53.1
Internal Cash/Capital Expenditures (%)	64.3	147.3	78.9	227.5	(85.4)	65.0
Capital Expenditures/Depreciation (%)	187.5	149.3	151.8	137.1	180.1	164.1
<b>Profitability</b>						
Revenues	795	821	780	867	912	836
Net Revenues	454	613	530	622	230	343
O&M Expense	267	319	290	376	33	73
Operating EBITDA	204	247	219	226	177	250
Depreciation and Amortization Expenses	100	97	98	94	87	80
Operating EBIT	104	150	122	133	90	170
Interest Expense	54	60	59	60	66	58
Net Income for Common	69	37	59	89	78	132
O&M Expense % of Net Revenues	58.9	52.0	54.7	60.4	14.4	21.2
Operating EBIT % of Net Revenues	22.9	24.5	22.9	21.3	39.2	49.5
<b>Cash Flow</b>						
Net Operating Cash Flow	173	287	185	367	(59)	161
Dividends	(52)	(74)	(68)	(75)	(75)	(76)
Capital Expenditures	(188)	(144)	(148)	(128)	(157)	(132)
Free Cash Flow	(67)	68	(31)	164	(291)	(46)
Net Other Investment Cash Flow	20	(7)	19	8	42	(4)
Net Change in Debt	63	(66)	(31)	(149)	212	40
Net Change in Equity	(12)	(2)	39	(51)	0	0
<b>Capital Structure</b>						
Short-Term Debt	82	64	50	91	309	90
Long-Term Debt	924	881	881	871	802	809
Total Debt	1,005	945	931	961	1,111	899
Preferred and Minority Equity	0	52	52	53	104	105
Common Equity	827	766	812	776	766	765
Total Capital	1,833	1,764	1,795	1,791	1,981	1,769
Total Debt/Total Capital (%)	54.9	53.6	51.9	53.7	56.1	50.8
Preferred and Minority Equity/Total Capital (%)	0.0	3.0	2.9	3.0	5.3	5.9
Common Equity/Total Capital (%)	45.1	43.4	45.2	43.3	38.6	43.3

LTM – Latest 12 months. Operating EBIT – Operating income before total reported state and federal income tax expense.

Operating EBITDA – Operating income before total reported state and federal income tax expense plus depreciation and amortization expense.

O&M – Operations and maintenance. Note: Numbers may not add due to rounding and are adjusted for interest and principal payments on transition property securitization certificates. Long-term debt includes debt-supporting trust preferred securities. Source: Financial data obtained from SNL Energy Information System, provided under license by SNL Financial, LC of Charlottesville, Va.

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