

DECISION MEMORANDUM

TO: COMMISSIONER KJELLANDER
COMMISSIONER SMITH
COMMISSIONER HANSEN
COMMISSION SECRETARY
COMMISSION STAFF

FROM: DON HOWELL

DATE: NOVEMBER 17, 2005

SUBJECT: IDAHO POWER COMPANY'S APPLICATION FOR A GENERAL RATE INCREASE, CASE NO. IPC-E-05-28

On October 28, 2005, Idaho Power filed a general rate case Application seeking authority to increase its rates an average of 7.8%. If approved, the Company's revenues would increase \$43,947,847 annually. The Company's Application includes the proposed tariffs which, unless suspended, would become effective on November 28, 2005.

THE APPLICATION

A. Revenue

Idaho Power's Application states that its overall rate of return and return on equity established in its last general rate case (No. IPC-E-03-13) are no longer reasonable given the Company's increased costs. Idaho Power asserts that additional revenue is necessary if it is to maintain a stable financial condition and continue to render reliable and adequate electric service to its customers. Application at 5. Idaho Power seeks a return on rate base of 8.42%, utilizing a return on common equity in the range of 11 to 12%. Exh. 11; Avera Prefile at 4. The Company proposes using a 2005 calendar test year. Gale Prefile at 6.

Company witness John Gale notes that the tax settlement from the Company's last general rate case resulted in a one-year base rate increase of 2.2%. See Order No. 29793 at 2-3. The one-year tax adjustment will expire on May 31, 2006 and will offset the rate increase requested by the Company in this proceeding.

B. Rate Design

In its Application, Idaho Power proposes to increase the rates for each rate schedule (except for dusk-to-dawn lighting (Schedule 15) and unmetered service (Schedule 40)) by a

uniform percentage increase of 7.84%. The rates for the three special contract customers (J.R. Simplot, Micron and the INEEL) would also increase by 7.84%. The Company acknowledges that a uniform increase is contrary to its cost-based approach to rate design but suggests that cost of service be examined in the next rate case to see if 2005 results are replicated. Gale at 15-16. The chart below shows how the proposed increase would impact the average of all rate components for certain customer groups.

| CUSTOMER GROUP | CURRENT AVERAGE BASE RATE | PROPOSED AVERAGE BASE RATE |
|-----------------------|--------------------------------------|---------------------------------------|
| Residential | 5.74¢ | 6.19¢ |
| Small Commercial | 7.16¢ | 7.72¢ |
| Large Commercial | 3.91¢ | 4.22¢ |
| Industrial | 2.99¢ | 3.23¢ |
| Irrigation | 4.42¢ | 4.76¢ |

*The PCA rate component is not reflected in the base rates above.

The Company proposes to maintain its seasonally adjusted rate design (to dampen demand in June, July and August) and maintain the 300 kWh threshold for residential and small commercial customers.

The Company is proposing several other rate design changes for other customer classes. For large commercial customers taking secondary service (Schedule 9), the Company proposes a declining-block two-tier energy charge, and blocked demand and basic charges with no charge for the first 20 kW of billing demand and basic load capacity. For industrial customers (Schedule 19), the Company proposes to increase the service charge, basic charge, and the seasonal time-of-use demand charges and energy charges. For irrigation customers (Schedule 24), Idaho Power proposes to eliminate the out-of-season demand charge and reinstate the differentiated in-season and out-of-season energy charges.

The Company also proposes to adjust its Schedule 89 rates for energy purchases under qualifying facilities (QF) contracts. The Company notes that a portion of the price it pays for energy purchased under several long-term QF contracts is based upon changes in fuel and other costs at Idaho Power's Valmy plant. The Company proposes to increase its Schedule 89 rates from 1.719¢ per kWh to 2.012¢ per kWh.

The Company also proposes to increase the monthly service charges for residential, small commercial, large commercial and industrial customers. The Company proposes to

increase the residential and small commercial service charge from \$3.30 to \$6.00 per month. For large commercial and industrial (secondary service) customers, the proposed increase in the service charge is from \$5.60 to \$12.00 per month. For industrial (primary service) customers the increase would be from \$125 to \$200 per month. App. Atch. 3.

COMMISSION DECISION

1. Does the Commission wish to issue a Notice of Application including a 14-day deadline for intervention?
2. Unless suspended, the Company's Application would be effective November 28, 2005. Does the Commission wish to suspend the proposed rates for a period of 30 days plus 5 months pursuant to *Idaho Code* § 61-622?
3. Does the Commission desire to set a prehearing conference or should the parties meet informally to discuss a proposed schedule to process this case and then notify the Commission?



Don Howell

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