

DECISION MEMORANDUM

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

FROM: DON HOWELL

DATE: APRIL 13, 2006

**SUBJECT: IDAHO POWER'S PCA APPLICATION FOR ELECTRIC SERVICE
FROM JUNE 1, 2006 THROUGH MAY 31, 2007, CASE NO. IPC-E-06-7**

On April 12, 2006, Idaho Power Company filed its annual Power Cost Adjustment (PCA) Application. This Application concerns the Company's PCA component of the energy rates charged to its Idaho customers.¹ The Company's PCA filing would reduce the Company's PCA revenues by more than \$123 million from existing rates and result in an overall average PCA rate reduction of 19.34%. The actual rate reduction varies from class to class.

THE PCA MECHANISM

The PCA annually adjusts the Company's rates based primarily upon three components: (1) Snake River stream flows and storage; (2) the true-up of forecast costs for the preceding 12 months to account for actual costs; and (3) the true-up of the true-up. The Company reports this year's water forecast April-July inflows at Brownlee Reservoir is 8.38 million acre feet (maf). Application at 3. The 30-year average inflows at Brownlee are 6.3 maf (1971-2000). In other words, this year's water forecast is roughly 33% above the 30-year average. Idaho Power calculated a net effect of the water forecast of approximately \$63.3 million, or 0.4691 cents per kilowatt hour (kWh). After the 90-10 sharing, this results in a credit of 0.2507 cents per kWh.

Next, Idaho Power estimates that the projected power costs from the proceeding PCA year will produce a credit of approximately \$39.5 million for customers through the PCA true-up

¹ Retail energy rates for Idaho Power customers have two components: the PCA rates and the Company's "base" rates. All the parties in the Company's pending rate case have urged the Commission to approve a settlement Stipulation to increase base rates by 3.2%. See Case No. IPC-E-05-28.

component. This component also includes additional items that inure to the benefit of customers including: reduce power supply costs from Bennett Mountain Power plant; an adjustment to reflect the settlement of the Valmy outage; last year's non-recurring tax credit addressed in Order No. 29600; and one year of interest on the income tax assets (Order No. 29789). *Id.* at 4. This results in a 0.3113 cents per kWh credit.

The third component is the true-up of the true-up. During the true-up period, the Company collected all but approximately \$24.5 million of the 2005/2006 PCA true-up balance. This large carry-over balance was primarily due to the Commission's decision last year to defer \$28.6 million to this PCA year. This results in a true-up of the true-up rate of 0.1931 cents per kWh. Combining the three PCA rate elements produces a PCA rate credit of 0.3689 cents per kWh or \$46.8 million below the normalized PCA base.

Last year's PCA rate was 0.6039 cents per kWh, or \$76.6 million above the normalized PCA threshold. Consequently, the proposed PCA rates represent a \$123.5 million decrease in revenues from last year's PCA rates.

Offsetting the proposed PCA reduction with the Company's proposed base rate increase of 3.2% would result in a proposed overall rate reduction averaging 16%. The average residential customer using 1200 kWh per month during both the summer and non-summer seasons would experience a \$10.00 billing reduction per month. The proposed class reductions are: 15.3% for residential (Schedule 1); 12.8% for small commercial (Schedule 7); 21.8% for large commercial (Schedule 9); 27% for industrial (Schedule 19); and 19.3% for irrigation (Schedules 24-25). The PCA rates for special contract customers would decrease by about 31%. Exhibit 8.

CUSTOMER NOTICE AND CASE PROCESSING

The Company has prepared and distributed a PCA press release to media outlets. In addition, the Company will notify existing customers by means of bill stuffers. The press release and bill stuffer were attached to the Application. The Company has also provided an electronic copy of its PCA Application to the parties in the pending rate case.

The Company requests that the Commission process this Application via Modified Procedure so that new PCA rates (and new base rates) would become effective on June 1, 2006. Application at 5. Company witness Celeste Schewendiman has prefiled testimony and exhibits in support of the Application.

STAFF RECOMMENDATION

The Staff agrees with the Company's request that this case be processed via Modified Procedure.

The settlement Stipulation in the Company's pending rate case provides that "the PCA load growth rate issue will be addressed contemporaneously" with the Company's PCA Application. Today the Company filed a new docket (IPC-E-06-8) to examine the PCA load growth rate so that any change in the PCA load growth rate methodology will become effective with next year's PCA.

Staff recommends that comments regarding the PCA Application be due May 12, 2006. This matter could then be placed upon the Commission's May 24 decision meeting agenda.

COMMISSION DECISION

1. Does the Commission wish to process this case via Modified Procedure?
2. Does the Commission wish to adopt Staff's suggested comment schedule?
3. Anything else?



Don Howell

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