

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

**IN THE MATTER OF THE APPLICATION)
OF IDAHO POWER COMPANY FOR) CASE NO. IPC-E-08-07
AUTHORITY TO IMPLEMENT POWER)
COST ADJUSTMENT (PCA) RATES FOR) NOTICE OF APPLICATION
ELECTRIC SERVICE FROM JUNE 1, 2008)
THROUGH MAY 31, 2009) NOTICE OF
) MODIFIED PROCEDURE
)
) NOTICE OF
) PUBLIC WORKSHOPS
)
) ORDER NO. 30540**

On April 15, 2008, Idaho Power Company filed its annual power cost adjustment (PCA) Application. Since 1993, the PCA mechanism has permitted Idaho Power to adjust its PCA rates upward or downward to reflect the Company's annual "power supply costs." Because about 52% of the Company's generation is from hydropower facilities, Idaho Power's actual cost of providing electricity (its power supply cost) varies from year to year depending on changes in Snake River streamflows, the market price of power, and other factors. The annual PCA surcharge or credit is combined with the Company's "base rates" to produce a customer's overall energy rate.

On April 14, 2008, the Commission issued Order No. 30529 in the sulfur dioxide (SO₂) case, No. IPC-E-07-18. In Order No. 30529 the Commission directed that the majority of SO₂ revenue that Idaho Power received in 2007 from the sale of SO₂ emission allowances be included in this year's PCA case. The SO₂ proceeds of about \$16 million will reduce the PCA deferral balance. Given the timing of the SO₂ Order, Idaho Power's PCA Application did not include the \$16 million offset in SO₂ proceeds.¹ Application at ¶ 18.

In this PCA Application Idaho Power calculates that its annual power costs have increased above the normalized PCA rates. To recover the increased power costs, the Company

¹ For purposes of this Notice, the Commission has incorporated the applicable SO₂ proceeds in the "true-up" component discussed below.

estimates that the existing PCA rates must increase about \$70,698,000, or an average increase in the existing PCA rates of approximately 10.36%.

In this Order the Commission decides to process the PCA Application using Modified Procedure and establishes a deadline for written comments. Interested persons are invited to comment on the PCA Application.

THE PCA MECHANISM

The annual PCA mechanism is comprised of three major components. First, PCA rates are calculated to reflect the forecast in Snake River streamflows and storage. The streamflow forecast is provided by the National Weather Service Northwest River Forecast Center and based upon the April-July river inflow to Brownlee Reservoir. In years of abundant snowpacks and streamflows, the Company's power supply costs are usually lower because of relatively inexpensive hydro-generation. 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 account for the actual costs incurred in the prior years. Third, is the "true-up of the true-up," or "adjusted true-up." This third component is designed to ensure the Company recovers the actual approved costs. Idaho Power uses "normalized" power sales (measured in kilowatt-hours (kWh)) from the ensuing PCA year as the denominator to computing the adjusted true-up. Over- or under-recovery is balanced with the following year's true-up. Consequently, ratepayers will pay for the actual amount of power sold by Idaho Power to meet native load requirements – no more or no less. Order No. 29334 at 4. Thus, ratepayers receive a rate credit when power costs are low, but are assessed a surcharge when power costs are high.

NOTICE OF PCA APPLICATION

A. The PCA Components

YOU ARE HEREBY NOTIFIED that this year's PCA Application includes the forecasted costs based on water conditions; a true-up of last year's forecasted costs to reflect actual costs; and the true-up of the 2007-2008 PCA year true-up (the true-up of the true-up). This year's water forecast for April through July inflows at Brownlee Reservoir is 5.4 million acre-feet (maf). Application at 3, Exh. 2. Last year's water forecast for inflows to Brownlee was 3.3 maf; however, the actual inflows through July 31 were only 2.8 maf. The 78-year average of (1928-2005) inflows to Brownlee is 5.39 maf. Exh. 1.

YOU ARE FURTHER NOTIFIED that based upon the projected water inflow and replacement power costs, the Company calculates that the projected power supply cost is \$108.8 million for the 2008-2009 PCA year (June 1, 2008 to May 31, 2009). The projected power cost is 0.7641 cents per kWh. The 0.7641 cents per kWh estimate is 0.1314 cents per kWh less than the Commission-approved normalized PCA base of 0.8955 cents per kWh. Thus, the Company calculated a decrease of 0.1314 cents per kWh for the power cost projection component.² Application at 4; Schwendiman Dir. at 4-5.

YOU ARE FURTHER NOTIFIED that Idaho Power reports that the difference between last year's forecast costs and actual costs (the true-up component) is \$132,648,878. *Id.* at 5. As filed, the PCA true-up component did not include the proceeds from the SO₂ emission credits (including tax benefits) of approximately \$16 million. *Id.* at 6. This year the emission credits were ordered to be included in the PCA true-up in Order No. 30529. Thus, the proposed true-up balance this year is roughly \$116 million. *Id.* at 5. Consequently, the Commission calculates the true-up portion of the PCA rate is a surcharge of about 0.8624 cents per kWh.

YOU ARE FURTHER NOTIFIED that the third PCA rate element is the "true-up of the true-up" or "adjusted true-up." Last year the Company under-collected the PCA deferral balance by \$4,862,487. Schwendiman Dir. at 6. Dividing this amount by the projected 2008

² As discussed in greater detail below, the Company is proposing to use 100% of projected power cost instead of the traditional 90% differential. See Section B.

Idaho jurisdictional sales of 13,475,244 MWh results in a PCA adjusted true-up rate surcharge of 0.0361 cents per kWh. *Id.*

YOU ARE FURTHER NOTIFIED that combining the three components – the projected power costs credit of 0.1314 cents, the true-up component surcharge (including the SO2 proceeds) of 0.8624 cents and the adjusted true-up surcharge of 0.0361 cents – results in a proposed PCA rate surcharge for the 2008-2009 PCA year of approximately 0.7671 cents per kWh. This represents an increase of 0.5252 cents from the existing PCA rate of 0.2419 cents per kWh.

B. The One-Year Deviation

YOU ARE FURTHER NOTIFIED that the Company proposes a “one-year deviation” from the standard 90% calculation for the forecast component and true-up. For this year, the Company is requesting that all deviations in net power supply and PURPA project expenses “be tracked at 100 percent for both forecast and true-up purposes.” Said Dir. at 6. Under the Company’s proposed alternative, the forecast rate component would represent a decrease of 0.1314 cents. Schwendiman Dir. at 9. The traditional 90% amount would be a decrease of 0.1183 cents. Application at ¶ 7; Schwendiman Dir. at 4-5.

YOU ARE FURTHER NOTIFIED that the prefiled testimony of Company witness Greg Said recites several reasons to justify the “one-year deviation from the standard 90% - 10% sharing of PCA costs.” Said Dir. at 6. He asserts that it would be appropriate for the Commission to allow 100% tracking of net power supply and PURPA project expenses in this PCA year based upon the “persistent drought conditions [in recent years], the lack of inclusion of prescriptive hedging activities in PCA forecast methodology, and the failure of a number of PURPA projects to come on-line as envisioned in the last approved test year.” *Id.* at 9.

C. The PCA Rate Proposal

YOU ARE FURTHER NOTIFIED that Idaho Power has proposed to implement the PCA rates on June 1, 2008. The proposed PCA rate represents an overall average percentage increase of 10.36% but due to the equal cents/kWh adjustment, each customer class will receive a different percentage increase. The table below shows the proposed increases in the PCA rates for the major customer classes:

Customer Group (Schedule)	Current PCA Rate	Proposed PCA Rate	Percentage Increase
Residential (1)	0.2419¢	0.7671¢	8.15%
Small Commercial (7)	0.2419¢	0.7671¢	6.52%
Large Commercial (9)	0.2419¢	0.7671¢	11.68%
Industrial (19)	0.2419¢	0.7671¢	15.07%
Irrigation (24)	0.2419¢	0.7671¢	10.3%

The PCA rates for Idaho Power's three special-contract customers (Micron, Simplot, and the Department of Energy (INL)) would also increase. Under the Company's proposal (adjusted for the \$16 million SO2 credits), the PCA rate for the three special-contract customers would increase 17.24% for Micron; 18.4% for Simplot; and 18.22% for the INL.

YOU ARE FURTHER NOTIFIED that the Company also proposes an administrative change to its tariffs. In particular, the Company proposes to remove the PCA rate from all tariff sheets and have only the PCA rates reflected in Schedule 55. Application at 17; Atch. 5. Also, each schedule will reference other schedules that may impact the rates paid by customers.

NOTICE OF PUBLIC WORKSHOPS

YOU ARE FURTHER NOTIFIED that the Commission Staff will hold three public workshops for customers of Idaho Power. The purpose of the public workshops is to provide customers with an overview of the Company's PCA Application and to dispense information. Customers attending the workshops will have an opportunity to ask questions of the Staff regarding the Company's Application. Representatives of Idaho Power may also be available. The Staff will hold its Pocatello workshop on **TUESDAY, MAY 6, 2008, AT 7:00 P.M. AT THE NEWBERRY BUILDING ON THE CORNER OF CLARK AND MAIN STREETS, POCATELLO, IDAHO.** Parking is available behind the building in the Union Pacific parking lot.

The Twin Falls public workshop will be held on **WEDNESDAY, MAY 7, 2008, AT 7:00 P.M. AT THE TWIN FALLS CITY COUNCIL CHAMBERS, 305 THIRD AVENUE EAST, TWIN FALLS, IDAHO.**

The Boise public workshop will be held on **THURSDAY, MAY 8, 2008, AT 7:00 P.M. IN THE COMMISSION'S HEARING ROOM, 472 WEST WASHINGTON STREET, BOISE, IDAHO.**

NOTICE OF MODIFIED PROCEDURE

YOU ARE FURTHER NOTIFIED that the Commission has determined that the public interest may not require a formal hearing in this matter and will proceed under Modified Procedure pursuant to Rules 201 through 204 of the Idaho Public Utilities Commission's Rules of Procedure, IDAPA 31.01.01.201 through .204. The Commission notes that Modified Procedure and written comments have proven to be an effective means for obtaining public input and participation in past PCA cases.

YOU ARE FURTHER NOTIFIED that the Commission does not intend to hold a hearing in this proceeding unless it receives written protests or comments opposing the use of Modified Procedure. Persons desiring a hearing must specifically request a hearing in their written comments and state why Modified Procedure is inappropriate in this case.

YOU ARE FURTHER NOTIFIED that any person desiring to state a position on this PCA Application **may file a written comment in support or opposition with the Commission no later than May 20, 2008.** The comment must contain a statement of reasons supporting the comment. Written comments concerning this Application shall be mailed to the Commission and the Applicant at the addresses reflected below:

Commission Secretary
Idaho Public Utilities Commission
PO Box 83720
Boise, ID 83720-0074

Street Address for Express Mail:

472 W. Washington Street
Boise, ID 83702-5918

Barton L. Kline
Donovan E. Walker
Idaho Power Company
PO Box 70
Boise, ID 83707-0070
E-Mail: bkline@idahopower.com
dwalker@idahopower.com

John R. Gale
Gregory W. Said
Idaho Power Company
PO Box 70
Boise, ID 83707-0070
E-mail: rgale@idahopower.com
gsaid@idahopower.com

These comments should contain the case caption and case number shown on the first page of this document. Persons desiring to submit comments via e-mail may do so by accessing the Commission's home page located at www.puc.idaho.gov. Click the "Comments and Questions" icon, and complete the comment form, using the case number as it appears on the front of this document. These comments must also be sent to Idaho Power at the e-mail addresses listed above.

YOU ARE FURTHER NOTIFIED that Idaho Power's PCA Application together with the Company's prefiled exhibits and the testimony of Celeste Schwendiman and Greg Said can be viewed at the Commission offices and at the principal office of Idaho Power during regular business hours. Idaho Power Company is located at 1221 West Idaho Street, Boise, Idaho ((208) 388-2323). Idaho Power's Application, prefiled testimony, and exhibits are also available on the Commission's Website at www.puc.idaho.gov under "File Room" and then "Electric Cases."


YOU ARE FURTHER NOTIFIED that all proceedings in this case will be held pursuant to the Commission's jurisdiction under Title 61 of the Idaho Code and specifically *Idaho Code* §§ 61-307, 61-503, and 61-622. The Commission may enter any final Order consistent with its authority under Title 61.

YOU ARE FURTHER NOTIFIED that all proceedings in this matter will be conducted pursuant to the Commission's Rules of Procedure, IDAPA 31.01.01.000 *et seq.*

ORDER

IT IS HEREBY ORDERED that this case be processed under Modified Procedure. Interested persons wishing to file comments must do so no later than May 20, 2008.

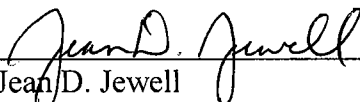
DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this 25th
day of April 2008.


MACK A. REDFORD, PRESIDENT


MARSHA H. SMITH, COMMISSIONER


JIM D. KEMPTON, COMMISSIONER

ATTEST:


Jean D. Jewell
Commission Secretary

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NOTICE OF APPLICATION
NOTICE OF MODIFIED PROCEDURE
NOTICE OF PUBLIC WORKSHOPS
ORDER NO. 30540