

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)
ELECTRIC SERVICE FROM JUNE 1, 2008) ORDER NO. 30563
THROUGH MAY 31, 2009)**

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 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 cost) varies from year to year depending on changes in Snake River streamflows and the market price of power. 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 requests a PCA rate increase. The rate increase would increase existing rates by approximately \$87.1 million or 12.8% on average. The Company's request is composed of a small forecast credit, a large true-up to last year's forecast surcharge and a small true-up of the true-up surcharge. The large true-up surcharge is due to an extremely poor forecast last year.

On April 25, 2008, the Commission issued a Notice of Modified Procedure soliciting public comment regarding the PCA Application. The Commission received written comments from nine residential customers, the Industrial Customers of Idaho Power (ICIP), Idaho Irrigation Pumpers Association, Inc., Micron Technology, the Department of Energy, and the Commission Staff. On May 23, 2008, Idaho Power filed a reply to the Staff and intervenor comments. After reviewing the Application and the comments, we approve an increase of existing rates by \$73.3 million which produces an average increase to Idaho Power's customers of 10.7%. We authorize the new rates to be effective on June 1, 2008.

THE PCA MECHANISM

The annual PCA mechanism is comprised of three major components. First, PCA rates are adjusted to compensate for the forecast in Snake River streamflows and storage. In years of abundant snowpacks and streamflows, the Company's power supply costs are usually

lower because of correspondingly plentiful, relatively inexpensive, hydro-generation. Conversely, when streamflows or snowpacks 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 natural 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 "true-up" to account for actual costs. Third, is the "true-up of the true-up." Idaho Power uses "normalized" power sales (measured in kilowatt hours (kWh)) from the ensuing PCA year as the denominator to computing the true-up of the true-up. Over- or under-recovery is balanced with the following year's true-up. Consequently, ratepayer reimbursement to Idaho Power is based on actual power supply costs incurred – no more and no less. Thus, ratepayers receive a rate credit when power costs are low, and are assessed a surcharge when power costs are high.

THE PCA APPLICATION

In its filing the Company proposes a "one-year deviation" from the Commission-approved 90/10 "sharing" of abnormal power supply costs. The Company proposes that the entire variation be assigned to customers. For the remainder of this PCA year, the Company is requesting that all deviations in net power supply and PURPA project expenses be recoverable "at 100 percent for both forecast and true-up purposes." Said Dir. at 6. Under the Company's proposed 100% alternative, the forecast rate component would represent a decrease of 0.1314 cents per kWh. Schwendiman Dir. at 9. If approved, the Company's proposal not to share the forecast cost savings would result in a one-time credit to customers of \$1.8 million more than the traditional 90/10 sharing. However, neither the Staff nor the Company can determine the impact of not sharing next year's true-up because the impact cannot be completely known until the end of the true-up period next March. The amount deferred for next year's true-up could either increase or decrease customer rates.

Idaho Power also proposes an administrative change to its tariff format. The change would remove the PCA rate currently shown on each schedule where it applies, but would reference Schedule 55 where the PCA rate is shown. It would also reference other rate schedules

that adjust the rates shown on that schedule. This change would allow the Company to avoid re-filing all of its schedules each time the PCA rate changes.

A. The PCA Components

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 2006-2007 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). Staff reports the average inflow at Brownlee (1928-2005) to be 5.39 maf. In other words, this year's water forecast is slightly more than average. Staff Comments at 3.

1. The Water Forecast. Based upon the projected water inflow and expected power prices, the Company calculates that the projected power supply costs are \$108.8 million for the 2008-2009 PCA year (April 1, 2008 to March 31, 2009). The projected power costs equal 0.7641 cents per kWh. The 0.7641 cents per kWh estimate is 0.1314 cents per kWh below the Commission-approved normalized base of 0.8955 cents per kWh. Consequently, the Commission-approved (90/10 sharing) methodology would allow for a credit of 0.1183 cents per kWh (90% of 0.1314 cents) for the power cost projection component. Application at 3. A 100% one-year deviation would allow for a credit of the entire 0.1314 cents per kWh for the power cost projection component. *Id.* at 4.

2. The True-Up. Idaho Power calculates the true-up component of the PCA as 0.9844 cents per kWh (excluding SO₂ credit) reflecting actual net PCA costs above last year's forecast. *Id.* at 4.

3. The True-Up of the True-Up. The third PCA rate element is the "true-up of the true-up." Last year the Company under-collected \$4.9 million of the PCA deferral balance. *Id.* at 4. This results in a PCA true-up of the true-up rate component of 0.0361 cents per kWh. *Id.*

Combining the three components – the forecast rebate, the true-up surcharge and the true-up of the true-up surcharge – results in a proposed PCA rate for the 2008-2009 PCA year. The calculation using a 90/10 sharing methodology results in a proposed PCA surcharge of 0.9022 (-.1183 + .9844 + .0361) cents per kWh. The calculation based on a 100% one-year deviation results in a proposed PCA surcharge of 0.8891 (-.1314 + .9844 + .0361) cents per kWh.

4. The Rate Proposal. Idaho Power proposes to implement the PCA rates on June 1, 2008.

THE COMMENTS

1. Public Comments. The Commission received nine comments from customers. All nine customers opposed the rate increase. One customer suggested that a portion of the increase be used to purchase time-of-day metering equipment to allow customers the option of adjusting their use around peak load times and offsetting their bills accordingly.

2. Staff Comments. Staff's calculation of the forecast rate component agrees with Idaho Power's calculation when the abnormal costs are not shared but assigned 100% to ratepayers (i.e., 100% one-year deviation). However, Staff recommends that the 90/10 sharing be continued. Staff maintains that the 90/10 methodology represents a type of Performance Based Ratemaking (PBR) that aligns the interests of shareholders and ratepayers. In Staff's opinion, it keeps the Company economically involved in power supply decisions.

Although Staff calculates the same forecast rates, with and without sharing, that the Company calculates, Staff recommends that this year's power supply cost forecast be assumed to be normal. Therefore, the forecast rate would be zero. The forecast for Brownlee inflow is very near normal (i.e., 5.4 maf versus 5.39 maf). Staff believes it is counterproductive to return money to ratepayers based on a forecast that may prove to be inaccurate and then have to put an increased true-up rate in place the following year to recover the money previously credited.

The Staff's true-up calculation differed with Idaho Power regarding distribution of the base power supply costs in the PCA deferral and true-up calculations. Staff recommends a flat distribution. A flat or level distribution for the PCA deferral reduces earnings volatility and, in Staff's opinion, minimizes arguments to eliminate the 90/10 sharing. In addition, the true-up amount used by the Company to calculate the true-up rate did not include the SO₂ sales credit of approximately \$16.5 million which was determined after it filed.

Staff's calculation of the true-up of the true-up matched that submitted by the Company.

Based on the foregoing, Staff calculated that the 2008-2009 PCA rate should be 0.7864 (0.000 + 0.7503 + 0.0361) cents per kWh. Staff also suggested that issues such as sharing methodology, forecasting methodology, the distribution of power cost deferrals, and load growth adjustment rates would be appropriate topics for workshops following this case.

3. Industrial Customers' Comments. The Industrial Customers of Idaho Power (ICIP) opposed the use of a 100% recovery mechanism. ICIP emphasizes that the 90/10 sharing methodology is utilized to "achieve the goal of earnings stability while still providing an adequate incentive for efficiency." Order No. 24086. ICIP maintains that it would be unfair to shift 100% of the risk associated with power supply decisions on to the ratepayers.

In addition, ICIP suggests, based on the large increase in the PCA rate and its impact on high load factor customers, that the Commission spread this year's PCA balance over a three-year period. ICIP argues that because the current year's PCA is driven by the true-up from last year's inaccurate projection of power supply costs, it is reasonable "to spread the impact of that aberration over a three year time frame." ICIP Comments at 7.

4. Irrigators' Comments. The Idaho Irrigation Pumpers Association, Inc. (Irrigators), oppose the use of a 100% recovery mechanism absent a more thorough review of the consequences of such a decision. The Irrigators stress that 90/10 sharing serves as both a stick and a carrot to ensure that costs are maintained as low as reasonably possible. They emphasize that a change to the long-standing 90/10 methodology is not appropriate for Modified Procedure in a PCA rate case. However, the Irrigators support the idea of a workshop to further explore alternative methodologies.

5. Micron Comments. Micron Technology, Inc. (Micron) opposes Idaho Power's request for 100% recovery of power supply and PURPA expenses. Micron argues that 90/10 sharing ensures that Idaho Power is properly motivated to minimize power supply costs. Micron further insists that a one-year deviation, allowing Idaho Power to pick-and-choose 100% recovery on a case-by-case basis, is the worst of all possible outcomes for ratepayers and makes no sense as a matter of regulatory policy.

6. Department of Energy. The Department of Energy (DOE) opposes use of a 100% recovery mechanism. DOE maintains that a more thorough discussion of Idaho Power's proposal is appropriate for its general rate case filing. DOE recommends scrutinizing the magnitude of the increased costs that the waiver would shift to customers, the role of hedging, the possible multi-year effect, and the time of some of the Company's perceptions and actions. DOE asserts that, absent additional information regarding the full effect of Idaho Power's requested deviation, the request should be denied.

7. Idaho Power Reply. In its reply comments, Idaho Power restates the merit of its 100% one-year deviation proposal. The Company maintains that the 90/10 methodology is not currently providing symmetry because of the prolonged drought. The Company further asserts that when power supply expenses are not symmetrical over time then the PCA is not providing just, reasonable, and sufficient rates as required by *Idaho Code* § 61-502.

Idaho Power emphasizes that the 90/10 sharing is not its only incentive to act prudently. The Company is bound by statute to establish just and reasonable rates, charges, rules and regulations. *Idaho Code* §§ 61-301 and 61-303. The Company points out that its risk management policies exist to ensure that Idaho Power makes prudent power purchase decisions. At a minimum, Idaho Power supports continuing the dialogue regarding PCA methodology in a workshop setting.

Idaho Power also replied to Staff's recommendation to levelize and redistribute base power supply expenses included in the PCA true-up calculations. Although the Company does not oppose Staff's recommendation, Idaho Power suggests distribution of the annual power supply expenses to months based on the 2007 monthly-normalized loads. The Company contends that this approach would match the monthly shape of power supply expenses to the monthly shape of revenues resulting from normalized loads.

COMMISSION FINDINGS

After reviewing the PCA Application and the comments filed in this case, we find it is reasonable to grant Idaho Power's Application to increase the PCA rate. We find a PCA rate of 0.7864 cents per kWh is fair, just, and reasonable. (The PCA rate represents an "overall" average percentage increase but, due to the fixed-cents adjustment, each customer class will receive a different percentage increase.) See Attachment A.

We decline Idaho Power's proposal for a one-year deviation from the 90/10 sharing methodology. While we agree that the Company has other incentives to keep its power supply costs as low as possible, sharing has been a feature of the PCA since its inception. A change of this magnitude should not be considered as part of the annual PCA review. Therefore, the Commission finds the continued use of 90/10 sharing an appropriate feature of the PCA.

We also decline ICIP's recommendation to spread the PCA balance over a three-year period. As stated by the parties in this case, Idaho has experienced unprecedented drought and

forecasts for water are, at best, uncertain. It is simply too risky, and potentially compounds the problem, to seek recovery from ratepayers across three future years.

The Commission further finds a zero forecast rate appropriate. Rather than pass a *de minimus* rate decrease on to customers through a forecast rate, we find it more advantageous to wait until power supply cost savings actually occur. These savings can and will be captured in next year's true-up.

We decline Idaho Power's suggestion, at this time, to distribute base power supply expenses based on 2007 monthly-normalized loads (i.e., true-up calculation). The Company submitted this proposal for the first time in its reply comments, and did not submit any of the necessary documentation to perform the proper calculations. The Commission finds that level distribution for the PCA deferral is reasonable in the interim, until the issue can be more fully evaluated. The level distribution adequately reduces earnings volatility and reduces arguments to eliminate 90/10 sharing. In addition, the level distribution for deferral reduces the true-up surcharge in this PCA period by \$15 million. This is in addition to the \$16.5 million reduction due to SO2 credits previously ordered by this Commission. Order No. 30529.

The Commission remains concerned about the increased use of the natural-gas-fired peaking plants, as indicated in Idaho Power's filings in this case. In previous Orders, the Commission has noted concerns with the volatility of natural gas prices. We are also increasingly concerned with the persistent high price of natural gas this year. Recognizing the interplay between running gas-fired plants and purchasing power in the market, where gas-fired generation is on the margin, the Commission desires more detailed information about Idaho Power's daily decisions to run its gas-fired peakers or purchase wholesale power in order to meet load and/or make off-system sales. Thus, the Commission directs Idaho Power to either provide this information in its monthly PCA Deferral Report or devise an alternative way of making this information available to the Commission.

The Commission further finds that Idaho Power's proposed administrative tariff changes are appropriate. Referencing Schedule 55 instead of including the actual PCA rate on each schedule avoids unnecessary schedule re-filing each time the PCA rate changes.

With respect to further evaluation of the PCA mechanism, Staff, Idaho Power, and the Irrigators all proposed workshops to address issues such as sharing methodology, forecasting methodology, the distribution of power cost deferrals, and load growth adjustment rates. We

support these proposals and direct Idaho Power to schedule such workshops as soon as practicable.

ORDER

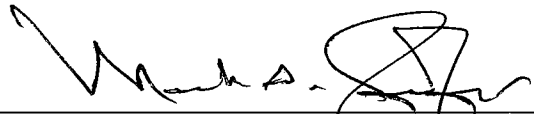
IT IS HEREBY ORDERED that from June 1, 2008 through May 31, 2009, the PCA rate shall be 0.7864 cents per kWh for all customer classes and the three special-contract customers.

IT IS FURTHER ORDERED that the PCA rate contained in this Order shall be effective for service on June 1, 2008. The Company must submit a revised tariff consistent with this Order.

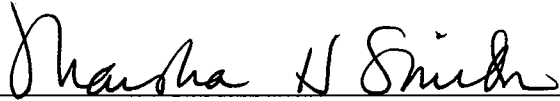
IT IS FURTHER ORDERED that Idaho Power schedule workshops at its earliest convenience to address the issues discussed herein.

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-08-07 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-08-07. 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 29th
day of May 2008.



MACK A. REDFORD, PRESIDENT

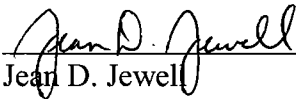


MARSHA H. SMITH, COMMISSIONER



JIM D. KEMPTON, COMMISSIONER

ATTEST:



Jean D. Jewell
Commission Secretary

O:IPC-E-08-07_ks_dh

COMMISSION DECISION
IPC-E-08-07

Idaho Power Company
Summary of Revenue Impact
State of Idaho

Normalized 12-Months Ending December 31, 2007
6/1/07 PCA to 6/1/08 PCA

Line No	Tariff Description	(1) Rate Sch. No.	(2) 2007 Avg. Number of Customers	(3) 2007 Sales Normalized (kWh)	(4) 03/01/08 Base & PCA Revenue	(5) 06/01/08 PCA Adjustment	(6) Total Revenue	(7) Average \$/kWh	(8) Percent Change
<u>Uniform Tariff Rates:</u>									
1	Residential Service	1	386,118	4,961,656,042	319,763,525	27,016,217	346,779,742	6.989	8.45%
2	Residential Service Energy Watch	4	73	1,096,793	69,073	5,972	75,045	6.842	8.65%
3	Residential Service Time-of-Day	5	86	1,344,209	85,486	7,319	92,805	6.904	8.56%
4	Small General Service	7	31,133	208,043,392	16,754,180	1,132,796	17,886,976	8.598	6.76%
5	Large General Service	9	24,919	3,450,030,959	155,198,210	18,785,419	173,983,629	5.043	12.10%
6	Dusk to Dawn Lighting	15	-	5,902,712	997,999	32,140	1,030,139	17.452	3.22%
7	Large Power Service	19	116	2,145,340,040	74,783,339	11,681,377	86,464,716	4.030	15.62%
8	Agricultural Irrigation Service	24	15,375	1,539,304,092	78,474,681	8,381,511	86,856,192	5.643	10.68%
9	Unmetered General Service	39	0	0	0	0	0	0.000	0.00%
10	Unmetered General Service	40	1,701	16,337,412	969,800	88,957	1,058,757	6.481	9.17%
11	Street Lighting	41	125	20,675,782	2,222,252	112,580	2,334,832	11.293	5.07%
12	Traffic Control Lighting	42	<u>131</u>	<u>5,474,735</u>	<u>212,436</u>	<u>29,810</u>	<u>242,246</u>	<u>4.425</u>	<u>14.03%</u>
13	Total Uniform Tariffs		459,777	12,355,206,168	649,530,981	67,274,098	716,805,079	5.802	10.36%
<u>Special Contracts:</u>									
14	Micron	26	1	702,140,245	21,390,040	3,823,154	25,213,194	3.591	17.87%
15	J R Simplot	29	1	188,325,624	5,376,769	1,025,433	6,402,202	3.400	19.07%
16	DOE	30	<u>1</u>	<u>215,500,001</u>	<u>6,210,512</u>	<u>1,173,398</u>	<u>7,383,910</u>	<u>3.426</u>	<u>18.89%</u>
17	Total Special Contracts		3	1,105,965,870	32,977,321	6,021,985	38,999,306	3.526	18.26%
18	Total Idaho Retail Sales		459,780	13,461,172,038	682,508,302	73,296,083	755,804,385	5.615	10.74%