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IDAHO PUBLIC UTILITIES COMMISSION

BARTON L. KLINE  
Lead Counsel

October 14, 2008

**VIA HAND DELIVERY**

Jean D. Jewell, Secretary  
Idaho Public Utilities Commission  
472 West Washington Street  
P.O. Box 83720  
Boise, Idaho 83720-0074

Re: Case No. IPC-E-08-19  
*IN THE MATTER OF IDAHO POWER COMPANY'S PETITION FOR  
APPROVAL OF CHANGES TO ITS POWER COST ADJUSTMENT ("PCA")  
MECHANISM*

Dear Ms. Jewell:

Enclosed please find for filing an original and seven (7) copies of Idaho Power's Petition in the above matter.

In addition, enclosed are an original and eight (8) copies of the testimony of Gregory W. Said submitted in support of Idaho Power's enclosed filing. One copy of Mr. Said's testimony has been designated as the "Reporter's Copy." In addition, a disk containing the Word version of Mr. Said's testimony has been provided for the Reporter and has been marked accordingly.

Finally, I would appreciate it if you would return a stamped copy of this letter for Idaho Power's file in the enclosed stamped, self-addressed envelope.

Very truly yours,

Barton L. Kline  
Lead Counsel for Idaho Power Company

BLK:csb  
Enclosures

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UTILITIES COMMISSION

Attorneys for Idaho Power Company

Street Address for Express Mail:

1221 West Idaho Street  
Boise, Idaho 83702

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF IDAHO POWER	)	
COMPANY'S PETITION FOR	)	CASE NO. IPC-E-08-19
APPROVAL OF CHANGES TO ITS	)	
POWER COST ADJUSTMENT ("PCA")	)	PETITION
MECHANISM	)	
_____	)	

COMES NOW, Idaho Power Company ("Idaho Power" or "Company") and, in accordance with Idaho Code §§ 61-503 and RP 053, hereby requests that the Commission issue its Order authorizing the Company to modify its Power Cost Adjustment mechanism ("PCA") consistent with the terms of the settlement Stipulation enclosed herewith. This Petition is based on the following:

1. This Petition is the outgrowth of several Commission Orders addressing the need to modify the Company's current PCA methodology. The most recent Order

addressing this issue was Order No. 30563 issued in Case No. IPC-E-08-07, which was the Commission's final Order in the Company's 2008-2009 PCA case. In that Order, the Commission stated, "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, 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 No. 30563 at page 6-7, Case No. IPC-E-08-07.

2. In response to the Commission's Order, Idaho Power hosted workshops and settlement discussions addressing a number of issues related to the PCA. As a result of those settlement discussions, the Commission Staff, Micron Technology, the Industrial Customers of Idaho Power, the United States Department of Energy, and the Idaho Irrigation Pumpers Association (the "Parties") have agreed to support this Petition to modify the PCA in accordance with the provisions of the settlement Stipulation, which is enclosed as Attachment No. 1 to this Petition.

3. Filed concurrently with this Petition, is the direct testimony of Idaho Power witness Gregory W. Said. Mr. Said's testimony provides additional detail regarding the rationale underlying the changes to the PCA reflected in the Stipulation. Commission Staff has advised the Company that they intend to file supporting testimony as well.

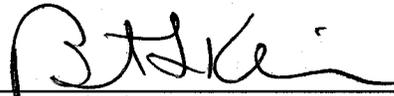
4. The Parties recommend that the Commission issue its Order approving the Stipulation in its entirety, without material change or condition, and authorizing Idaho Power to modify the PCA methodology in the manner set out in the Stipulation.

5. As noted in paragraph 1 of the Stipulation, all of the Parties agree that the Stipulation is in the public interest and that all of its terms and conditions are fair, just, and reasonable.

6. Idaho Power believes that a hearing is not necessary to consider the issues presented herein and therefore respectfully requests that this Petition be processed under modified procedure, i.e., by written submissions rather than by hearing. RP 201, *et seq.* If, however, the Commission determines that a technical hearing is required, the Company stands ready to present its testimony and support this Petition at hearing.

NOW, THEREFORE, Idaho Power respectfully request the Commission issue a final Order: (1) accepting Attachment No. 1, the Stipulation, in its entirety, without material change or condition and (2) authorizing the Company to implement the changes to the PCA mechanism consistent with the terms of the Stipulation.

Respectfully submitted this 14<sup>th</sup> day of October 2008.



---

Barton L. Kline  
Attorney for Idaho Power Company

## CERTIFICATE OF SERVICE

I HEREBY CERTIFY that on this 14<sup>th</sup> day of October 2008 I served a true and correct copy of the within and foregoing PETITION upon the following named parties by the method indicated below, and addressed to the following:

**Commission Staff**

Weldon B. Stutzman  
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**Micron Technology**

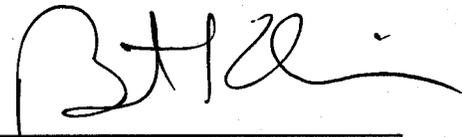
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\_\_\_\_\_  
Barton L. Kline

**BEFORE THE**

**IDAHO PUBLIC UTILITIES COMMISSION**

**CASE NO. IPC-E-08-19**

**IDAHO POWER COMPANY**

**ATTACHMENT NO. 1**

BARTON L. KLINE (ISB No. 1526)  
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Attorneys for Idaho Power Company

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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF IDAHO POWER	)	
COMPANY'S PETITION FOR	)	CASE NO. IPC-E-08-19
APPROVAL OF CHANGES TO ITS	)	
POWER COST ADJUSTMENT ("PCA")	)	STIPULATION
MECHANISM	)	
_____	)	

This stipulation ("Stipulation") is entered into by and among Idaho Power Company ("Idaho Power" or the "Company"), the Staff of the Idaho Public Utilities Commission ("Staff"), the Idaho Irrigation Pumpers Association, Inc. ("IIPA"), the Industrial Customers of Idaho Power ("ICIP"), Micron Technology, Inc. ("Micron"), and the United States Department of Energy ("DOE"). These entities are collectively referred to as the "Parties."

## I. INTRODUCTION

1. The terms and conditions of this Stipulation are set forth herein. The Parties agree that this Stipulation represents a fair, just and reasonable compromise of the issues raised in this proceeding and that this Stipulation is in the public interest. The Parties maintain that this Stipulation and its acceptance by the Idaho Public Utilities Commission ("IPUC" or the "Commission") represent a reasonable resolution of multiple issues identified in this matter. The Parties, therefore, recommend that the Commission, in accordance with RP 274, approve the Stipulation and all of its terms and conditions without material change or condition.

## II. BACKGROUND

2. In the settlement Stipulation for Idaho Power's 2007 general rate case, the Parties agreed that they would "make a good faith effort to develop a mechanism to adjust or replace the current Load Growth Adjustment Rate (LGAR) to address cost of serving load growth between rate cases." Stipulation at p.4, Case No. IPC-E-07-08. In the Commission's final Order for the 2008-2009 Power Cost Adjustment ("PCA") case the Commission stated:

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 No. 30563 at p.6-7, Case No. IPC-E-08-07.

3. Idaho Power held three workshops where issues related to the PCA mechanism were discussed. All of the Parties to this Stipulation participated in the

workshops. The first workshop, held on July 30, 2008, introduced the issues. The second and third workshops, held on August 13, and September 3, 2008, respectively, consisted of continued dialogue on the relevant issues, as well as discussions regarding the consensus of the Parties, which is represented by the terms of this Stipulation.

4. Idaho Power, like other regulated public utilities in Idaho, is compensated for historically “normal” power supply expenses through its base electricity rates established by the Commission in general rate cases. Because the Company’s actual power supply expenses have significant variation from year to year, while the power supply expense component embedded in base rates is static, the Commission has adopted a PCA that is intended to mitigate, but not entirely eliminate, the impact of power supply expense variability on the Company’s earnings. Net power supply expenses vary from year to year in inverse correlation to the amount of electricity generated by the Company’s hydro generation facilities.

Although the PCA benefits the Company by reducing the variability associated with power supply expenses, certain elements of the PCA methodology, such as the “sharing methodology” and the “load growth adjustment rate” can reduce the Company’s ability to earn its authorized rate of return. Two primary conditions in recent years – sustained low water (and resultant low hydro production) and sustained system-wide increased demand for electricity – have amplified the adverse effect of these elements of the PCA methodology on the Company’s earnings and cash flow.

In the workshops, Idaho Power presented evidence that the Company’s inability to recover its authorized rate of return is one of the reasons for the deterioration of the Company’s credit quality as measured by the national credit rating agencies over the

last several years. The evidence presented by the Company included statements from analysts noting that this summer the Company's inability to fully recover power supply expenses, coupled with capital expansion outlays, have gradually whittled away the Company's financial strength. These factors contributed to Standard and Poors recent downgrade of IDACORP and Idaho Power debt and to Moody's placement of IDACORP and Idaho Power debt on watch for possible downgrade from its current ratings level. Deterioration of the Company's credit rating has increased the cost to access capital and resulted in increased costs to customers.

5. Based upon the discussions and consensus among the Parties at the workshops, as a compromise of the positions in this case, and for other consideration as set forth below, the Parties agree to the following terms:

### **III. TERMS OF THE STIPULATION**

6. Sharing Methodology. The PCA Sharing Methodology establishes a fixed allocation of non-PURPA power supply expenses between customers (90%) and shareholders (10%). The Parties agree to change the current 90%/10% Sharing Methodology to 95%/5%. When the 90%/10% Sharing Methodology was initially established, the 10% component represented approximately 50 basis points of the Company's earnings. Today, because of the many changed conditions referenced below, the 10% sharing component represents more than 100 basis points of Company earnings. Modifying the Sharing Methodology to 95%/5% restores the Company's risk parameter to approximately 50 basis points of earnings.

The historic rationale for the 90%/10% sharing has been to assure that the Company's interests are aligned with those of the customer, and that the Company

makes prudent decisions regarding its power supply expenses. The stated reason for the 90%/10% sharing ratio in the PCA was to incent the Company to make wise decisions with regard to the purchase or sale of energy because the Company was "on the hook" for 10% of expenditures. Two things have changed since the adoption of the Sharing Methodology that necessitate its change: (1) a substantial increase in the magnitude and volatility of power supply expenses driven by market and fuel price volatility coupled with increasing loads and (2) development of the Company's Risk Management Policy.

The more significant change is the fact that the magnitude and volatility of power supply expenses have increased substantially since the initial implementation of the PCA. Volatility from high to low water conditions has increased from the expectation of slightly over \$100 million in 1992 to over \$330 million based upon modeled scenarios. This large increase in magnitude and volatility is primarily attributable to a fundamental change in market conditions and increased loads.

The other significant change directly related to supporting a change in the Sharing Methodology is the development of the Company's prescriptive "Risk Management Policy." Before the western energy crisis of 2000 and 2001, the Company exercised considerable discretion with regard to the advance purchase of energy for anticipated future deficiencies or the advance sale of energy for anticipated future surpluses. As a direct result of high PCA rates during the energy crisis, the Commission directed the Company, Commission Staff, and customer groups to formulate a Risk Management Policy to mitigate risk associated with hydro and market price variability. The Risk Management Policy is conservatively biased to provide

adequate resources to meet anticipated demand and to protect against extremes in market electricity prices. As a result, the market purchase and sale process is now far more prescriptive in nature than when the PCA was adopted. With a prescriptive buying and selling policy driving the vast majority of energy purchases and sales, the need for the incentive provided by the Sharing Methodology is reduced.

The Parties agree that given the change in circumstances since the PCA was initially instituted, changing the 90%/10% Sharing Methodology to 95%/5% is fair, just, and reasonable, and aligns with the original intent of the Sharing Methodology. The Parties agree that the new 95%/5% Sharing Methodology should be effective on the first day of the month following Commission approval of this Stipulation.

7. Load Growth Adjustment Rate. The LGAR is an element of the current PCA formula intended to eliminate recovery of that component of power supply expenses associated with load growth resulting from changing weather conditions, a growing customer base, or changing customer usage patterns. The Parties agree to calculate the LGAR using three components, a return component, an expense component, and a revenue component of the production related rate base. This methodology recognizes the generation-related revenue that will be provided through base rates by load growth. The LGAR components used in the methodology will be updated with other PCA inputs at the conclusion of a general rate case. An example of the agreed upon calculation is shown in Exhibit A to this Stipulation.

Incident to the PCA true-up, LGAR is currently calculated by comparing actual system load with normalized system load established in the most recent general rate case. The difference in megawatt hours is divided by two and multiplied by \$62.79.

When actual load is greater than normalized base system load, the Company refunds the difference (subject to the sharing formula) to the customer and records increased PCA expense. Because normalized system load is determined in a general rate case using a historical test year, and because the Company continues to experience system wide growth, the LGAR has consistently had an adverse effect on the Company's earnings.

The initial LGAR rate was \$16.84 per MWh. The current effective LGAR from the IPC-E-07-0-8 rate case is \$31.40. The previous determination from the IPC-E-06-08 LGAR case was \$29.41 per MWh. The LGAR calculation, using the methodology agreed to by the Parties in this Stipulation, along with the filed data from the IPC-E-08-10 rate case is \$28.14 per MWh, as shown in Exhibit A. The Parties agree that the calculation set forth in Exhibit A is fair, just, and reasonable. The Parties agree that the new LGAR methodology should become effective when its components are established and new rates implemented as a result of the IPC-E-08-10 general rate case.

8. The Forecast. Each April the National Weather Service's Northwest River Forecast Center ("NWRFC") makes a stream flow forecast upon which the PCA forecast is based. Projected expenses are calculated by using a natural logarithmic function of a single variable – projected April through July Brownlee reservoir inflows. Variations in this forecast from actual expenditures included in rates are collected the following year. Thus, the more accurate the forecast is, the smaller the amount that accrues in the deferral for inclusion with the following year's PCA "true-up" rate. All Parties agree that it is in everyone's best interest to have the most accurate forecast of PCA year expenses for the annual April 15th PCA filings. The Parties also agree that the

regression formula used in the past is no longer the best forecast tool. Comparing forecasts used by the Company in developing its Operation Plan to historical PCA filings shows that the Operation Plan forecast is a more accurate PCA year forecast than the regression formula. The Parties agree that the Company's forecast based upon its Operation Planning tools is the current best forecast and should be utilized for annual filings. The Parties agree that the Operation Plan forecast should be utilized for the Company's next annual PCA rate filing.

9. Third-Party Transmission Expense. The Parties agree that third-party transmission expenses are a necessary component to facilitate purchases and sales of energy and are reasonably considered a power supply expense. These third-party transmission expenses are reflected in two FERC accounts: Account 555, purchased power, and Account 565, transmission of electricity by others. Third-party transmission wheeling expenses necessary to facilitate purchases and sales of energy have been recorded in Account 565. Transmission expenses paid to third-parties for replacement of their transmission losses have been recorded in Account 555. Historically, neither of these items has been reflected in PCA computations. The Parties agree that deviations in these types of expenses from levels included in base rates should reasonably be reflected in PCA computations. In the future, the entire Account 555 will be tracked by the PCA as will Account 565. The Parties agree that third-party transmission expense including losses be included when the base is established as a result of the IPC-E-08-10 general rate case.

10. Power Supply Expense Distribution. Historically, power supply expenses were reported throughout the year using an AURORA based distribution. In order to

provide the financial community more transparent and understandable financial communications, the Parties agree that for purposes of PCA deferral reporting, the Base Net Power Supply Expenses will be distributed to monthly values based upon a monthly revenue shape. This adjustment will not affect the total PCA year calculation of the deviation between actual and Base Net Power Supply Expenses but will improve comparability between interim and annual financial reporting periods. A shadow PCA report that shows the PCA impacts associated with using an AURORA based distribution of power supply expenses will be provided to Commission Staff. The Parties agree that the new Power Supply Expense Distribution will be utilized when base rates are changed as a result of the IPC-E-08-10 general rate case.

11. Rate Spread/Revenue Allocation. PCA expenses are currently allocated to the various customer classes based almost 100% on energy. The Parties agree that this rate spread and revenue allocation needs to be reexamined following Idaho Power's current general rate case to determine if this methodology needs to be changed.

12. The Parties agree that this Stipulation represents a compromise of the positions of the Parties in this case. As provided in RP 272, other than any testimony filed in support of the approval of this Stipulation, and except to the extent necessary for a Party to explain before the Commission its own statements and positions with respect to the Stipulation, all statements made and positions taken in negotiations relating to this Stipulation shall be confidential and will not be admissible in evidence in this or any other proceeding.

13. The Parties submit this Stipulation to the Commission and recommend approval in its entirety pursuant to RP 274. Parties shall support this Stipulation before the Commission, and no Party shall appeal a Commission Order approving the Stipulation or an issue resolved by the Stipulation. If this Stipulation is challenged by any person not a party to the Stipulation, the Parties to this Stipulation reserve the right to file testimony, cross-examine witnesses and put on such case as they deem appropriate to respond fully to the issues presented, including the right to raise issues that are incorporated in the settlements embodied in this Stipulation. Notwithstanding this reservation of rights, the Parties to this Stipulation agree that they will continue to support the Commission's adoption of the terms of this Stipulation.

14. If the Commission rejects any part or all of this Stipulation, or imposes any additional material conditions on approval of this Stipulation, each Party reserves the right, upon written notice to the Commission and the other Parties to this proceeding, within 14 days of the date of such action by the Commission, to withdraw from this Stipulation. In such case, no Party shall be bound or prejudiced by the terms of this Stipulation, and each Party shall be entitled to seek reconsideration of the Commission's order, file testimony as it chooses, cross-examine witnesses, and do all other things necessary to put on such case as it deems appropriate. In such case, the Parties immediately will request the prompt reconvening of a prehearing conference for purposes of establishing a procedural schedule for the completion of the case. The Parties agree to cooperate in development of a schedule that concludes the proceeding on the earliest possible date, taking into account the needs of the Parties in participating in hearings and preparing briefs.

15. The Parties agree that this Stipulation is in the public interest and that all of its terms and conditions are fair, just, and reasonable.

16. No Party shall be bound, benefited, or prejudiced by any position asserted in the negotiation of this Stipulation, except to the extent expressly stated herein, nor shall this Stipulation be construed as a waiver of the rights of any Party unless such rights are expressly waived herein. Execution of this Stipulation shall not be deemed to constitute an acknowledgment by any Party of the validity or invalidity of any particular method, theory, or principle of regulation or cost recovery. No Party shall be deemed to have agreed that any method, theory, or principle of regulation or cost recovery employed in arriving at this Stipulation is appropriate for resolving any issues in any other proceeding in the future. No findings of fact or conclusions of law other than those stated herein shall be deemed to be implicit in this Stipulation.

17. The obligations of the Parties under this Stipulation are subject to the Commission's approval of this Stipulation in accordance with its terms and conditions and upon such approval being upheld on appeal, if any, by a court of competent jurisdiction.

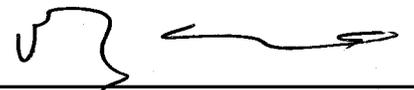
18. This Stipulation may be executed in counterparts and each signed counterpart shall constitute an original document.

DATED this 14<sup>th</sup> day of October 2008.

Idaho Power Company

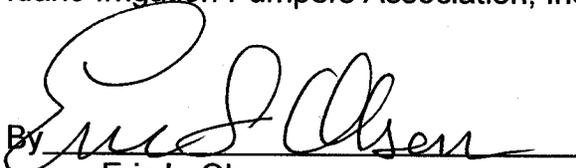
By   
Donovan E. Walker  
Attorney for Idaho Power Company

Idaho Public Utilities Commission Staff

By   
Weldon Stutzman  
Attorney for IPUC Staff

Idaho Irrigation Pumpers Association, Inc.

Industrial Customers of Idaho Power

By 

By \_\_\_\_\_

Eric L. Olsen  
Attorney for Idaho Irrigation Pumpers  
Association, Inc.

Peter J. Richardson  
Attorney for Industrial Customers  
of Idaho Power

Micron Technology, Inc.

U.S. Department of Energy

By \_\_\_\_\_

By \_\_\_\_\_

Conley E. Ward  
Attorney for Micron Technology, Inc.

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Idaho Irrigation Pumpers Association, Inc.

Industrial Customers of Idaho Power

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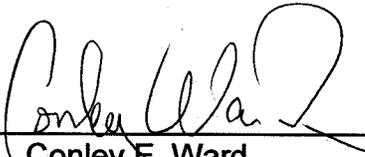
Industrial Customers of Idaho Power

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Idaho Irrigation Pumpers Association, Inc.

Industrial Customers of Idaho Power

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Lot H. Cooke  
Attorney for U.S. Department of  
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**EXHIBIT A**  
**LOAD GROWTH ADJUSTMENT RATE ("LGAR") CALCULATION**  
**SETTLEMENT AGREEMENT**

The Parties agree to use the following methodology to determine the Load Growth Adjustment Rate: The LGAR will consist of three components:

1. A return component based upon production-related rate base.
2. An expense component based upon production-related rate base.
3. A revenue component based upon production-related rate base.

**Component 1: Production-Related Rate Base**

The Production-Related Rate Base component would be the result of an IPUC order in general revenue requirement proceedings. As an example from the current Company request in Case No. IPC-E-08-10, page 1 of Exhibit No. 54 contains the demand and energy components of rate base allocated to the production function.

Demand	\$428,477,746
Energy	\$501,479,100
Total	\$929,956,845

Assuming the Commission approved cost of capital structure is 50 percent debt and 50 percent equity and the approved overall rate of return is 8.55 percent:

Rate base	\$929,956,845 @ 8.55%	= \$79,511,310
Debt	\$464,978,423 @ 5.85%	= \$27,201,125
Equity	\$464,978,423 @ 11.25%	= \$52,310,185

The Equity piece is grossed-up for taxes (1.642 multiplier)

Grossed-up Equity	\$ 85,893,324
Debt	<u>\$ 27,201,125</u>
<b>LGAR Component 1</b>	<b>\$113,094,449</b>

**Component 2: Production-Related Expenses**

The Production-Related Expenses component would be the result of an IPUC order in general revenue requirement proceedings. An example from the current Company request in Case No. IPC-E-08-10, page 2 of Exhibit No. 54 contains the demand and energy components of expenses allocated to the production function.

Demand	\$ 84,862,274
Energy	<u>\$372,833,595</u>
Total	\$457,695,869

The Parties recognize that included in this allocation are expenses related to customer service, and general and administrative expenses that are not directly associated with production and are reasonably removed. These amounts can be found in Exhibit 53 page 61, lines 467 through 485 and Exhibit 53 page 66, lines 489 through 520. The sum of these exclusions is \$40,508,666.

Total from above	\$457,695,869
Less exclusions	<u>\$ 40,508,666</u>
<b>LGAR Component 2</b>	<b>\$417,187,203</b>

**Component 3: Production-Related Revenues**

The Production-Related Revenues component would be the result of an IPUC order in general revenue requirement proceedings. An example from the current Company request in Case No. IPC-E-08-10, page 3 of Exhibit No. 54 contains the demand and energy components of revenues allocated to the production function.

Demand	\$ 950,801
Energy	<u>\$106,270,965</u>
<b>LGAR Component 3</b>	<b>\$107,221,766</b>

**LGAR Rate**

The Load Growth Adjustment Rate (LGAR) is equal to the result of adding Components 1 and 2, subtracting Component 3, and finally dividing by the Commission approved Idaho jurisdictional firm load.

Component 1:	\$113,094,449
Component 2:	\$417,187,203
Component 3:	\$107,221,766
(1) + (2) – (3)	\$423,059,886
Idaho jurisdictional load	15,036,726 MWh (Exhibit 51)
<b>LGAR Rate</b>	<b>\$28.14/ MWh</b>