DECISION MEMORANDUM

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

FROM: LISA NORDSTROM

DATE: AUGUST 22, 2003

RE: PROPOSED SETTLEMENT OF PCA ISSUES AND IDAHO POWER'S MOTION FOR ACCEPTANCE OF SETTLEMENT. CASE NO. IPC-E-03-5.

On August 20, 2003, Idaho Power Company filed a Motion for Acceptance of Settlement on behalf of itself, Commission Staff, the Industrial Customers of Idaho Power (ICIP), and the Idaho Irrigation Pumpers Association (Irrigators). If approved by the Commission, the proposed settlement would resolve the outstanding issues in this PCA docket.

PROCEDURAL BACKGROUND

On April 15, 2003, Idaho Power Company filed an Application to decrease its electric rates under the annual Power Cost Adjustment (PCA) mechanism first approved by the Commission in 1993. In Order No. 29243, the Commission approved the rates proposed in the Company's Application (with one adjustment) effective May 16, 2003, subject to refund and interest. In addition, the Commission set a prehearing conference to schedule six disputed issues valued at approximately $5.1 million for evidentiary hearing. These six issues included: 1) pricing of real-time transactions between Idaho Power and IDACORP Energy (IE); 2) recovery of IE-Tri State Transmission costs; 3) Company sharing of the anticipated FERC settlement; 4) continuance of payment for IE management contract benefits; 5) the proper amount of normalized energy to compute the true-up rate; and 6) the proper amount of normalized energy to compute the rates to be paid on PCA amounts deferred from the prior PCA period. Order No. 29243 at 10.

At the prehearing conference on May 30, 2003, Idaho Power, Staff, the Irrigators, and ICIP entered appearances. Although the Commission had intended to immediately set a date for an evidentiary hearing at the prehearing conference, the parties proposed an alternative with the hope that an evidentiary hearing could be avoided.

To further explore the possibility of settlement and achieve a quicker resolution than may be available through an evidentiary hearing, the Commission adopted the parties' proposal to move the following four issues to Case No. IPC-E-01-16 for further proceedings: 1) pricing of real-time transactions between Idaho Power and IE; 2) recovery of IE-Tri State Transmission costs; 3) Company sharing of the anticipated FERC settlement; and 4) continuance of payment for IE management contract benefits. Order No. 29258. Because real-time affiliate pricing, transmission costs, and resolution of outstanding IE matters are already part of ongoing settlement discussions in Case No. IPC-E-01-16, the parties felt it would be more efficient to consolidate these issues under that case number. The Commission directed the remaining two issues involving the proper amount of normalized energy to calculate true-up and class deferral rates to continue under this case number (IPC-E-03-5). *Id.*

PROPOSED SETTLEMENT

According to the Stipulation, the parties discussed three major issues. First, the parties sought to determine the appropriate kWh sales level to use as the denominator for computing the true-up rate for this case and future PCA periods. Second, Idaho Power proposed inclusion of a symmetrical carrying charge on the unamortized balances during future true-up collection and refund periods. The ICIP and Irrigators were also concerned that collection of their allocated true-up amounts may be too great if 1993 normalized sales were used rather than the 2000 normalized sales levels initially used to compute the deferral amount.

In the signed settlement document, all four parties agreed that:

1. The currently-approved PCA rates will remain in effect thru May 15, 2004, i.e., the remainder of this 2003-2004 PCA year.

2. The PCA methodology will be modified to include a true-up of the true-up. At the time the Company makes its April 2004 PCA application, the Company will compute the amount of any under-collection or over-collection of the $38.7 million true-up amount approved by the Commission in Order No. 29243. This amount will then be applied as a credit (or debit) against the 2004-2005 PCA ("True-Up of the True-Up"). The approved PCA methodology will thereafter include a True-Up of the True-Up for each succeeding PCA year.

3. Carrying charges on the unamortized balance at the rate of 2% per annum (the currently approved rate for the true-up deferral balance accumulation) will be included during the 2004-2005 True-Up of the True-Up period. Thereafter, carrying charges will be determined for either the true-up collection period or true-up refund period, whichever occurs from year to year. Idaho Power will compute the carrying charges using the same interest rate the Commission annually determines to be appropriate for the true-up deferral balance accumulation. The methodology for computing carrying costs is more particularly described in Appendix 1 to the Settlement.

4. For Schedule 7, 19, and 24 customers, the True-Up of the True-Up will not be applied to the $16 million total of class-specific adders from the 2002-2003 PCA year. Instead, the customers in those classes will receive a credit during the 2004-2005 PCA year which will be computed based on the difference between the true-up rate credit computed under the currently-approved PCA rate (using 1993 sales data) and the rate credit that would have been computed using 2000 normalized kilowatt-hour sales for each of the three classes. Attachment 2 to the Settlement describes this process in more detail and shows the 2004-2005 rate credit on a cents per kilowatt-hour for Schedule 7, 19 and 24 customers.

5. Beginning with the April 2004 PCA application, the Company will make its annual PCA application utilizing its best estimate of the total Idaho jurisdictional sales that will be made during the ensuing PCA year rather than a sales constant set in a general revenue requirement case. The intent of this change to the approved PCA methodology is to set a firm sales denominator that will minimize the magnitude of subsequent True-Ups of the True-Up.

COMMISSION DECISION

Given that it has been signed by all the parties to this case, does the Commission wish to approve the proposed settlement?

Lisa D. Nordstrom

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