

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

**IN THE MATTER OF THE APPLICATION OF)
IDAHO POWER COMPANY FOR AUTHORITY) CASE NO. IPC-E-04-9
TO IMPLEMENT POWER COST ADJUSTMENT)
(PCA) RATES FOR ELECTRIC SERVICE FROM) NOTICE OF APPLICATION
MAY 16, 2004 THROUGH MAY 31, 2005.)
) NOTICE OF MODIFIED
) PROCEDURE
)
) ORDER NO. 29478
)**

On April 15, 2004, Idaho Power Company filed an Application for authority to implement its annual power cost adjustment (PCA) rates. 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 costs) varies from year-to-year depending on changes in Snake River streamflow and the market price of power. The annual PCA surcharge or credit is combined with the Company's "base rates"¹ to produce a customer's overall energy rate.

Idaho Power's PCA Application contains two recommendations. First, the Company requests that the existing PCA rates that are scheduled to expire on May 16, 2004 be extended until May 31, 2004. Second, the Company is proposing to continue the current PCA rates for the 2004-2005 PCA year except for anticipated decreases in PCA rates for Schedule 7 (small general service), Schedule 19 (large power service), and Schedule 24 (irrigation service) customers.

In this Order the Commission decides to process this Application under Modified Procedure and establishes a schedule for written comments. In addition, the Commission shall suspend the expiration of the current PCA rates on May 16 and continue these rates until May 31, 2004.

¹ Base rates are authorized by the Commission in a general rate case. The Commission expects to establish new base rates effective June 1, 2004, as a result of the Company's current general rate case, No. IPC-E-03-13.

THE PCA MECHANISM

The annual PCA mechanism is comprised of two major components. First, PCA rates are adjusted to compensate for the forecast in Snake River streamflows and storage. In years of abundance of streamflows with correspondingly plentiful, relatively inexpensive hydro-generation, the Company's power supply costs are usually lower. Conversely, when streamflows or snow packs are low, Idaho Power must rely increasingly upon its other thermal generating resources and purchased power in 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 actual costs. Thus, under the PCA mechanism ratepayers receive a credit when power costs are low, but are assessed a surcharge when power costs are high.

RECENT CHANGES TO THE PCA MECHANISM

Last year the Commission issued Order No. 29334 that implemented several changes to the PCA methodology. These changes are effective with the 2004-2005 PCA year. Briefly, the Commission implemented three modifications to the PCA mechanism. First, the initial PCA methodology used "normalized" power (measured in kilowatt hours (kWh)) sales from 1993 as the denominator to computing the true-up. Commensurate with this PCA Application, Idaho Power will calculate its total Idaho jurisdictional kWh sales made during the ensuing PCA year rather than using a sales figure from 1993. In essence, using normalized sales data will eliminate the under-collection, over-collection, under-refunding, and over-refunding by "truing up the true-up." Order No. 29334 at 4. Consequently, ratepayers will pay for the actual amount of power sold by Idaho Power to meet native load requirements – no more or no less. *Id.*

Second, because payments of the prior true-up amounts for their rate schedules were deferred over a two-year period, customers receiving service under Schedule 7 (small commercial), Schedule 19 (industrial), and Schedule 24 (irrigation) had additional class-specific rate elements. Customers taking service from these three schedules have completed deferral

payments and will return to the overall PCA adjustment during this 2004-2005 PCA year. Order No. 29334 at 5. Third, the prior PCA methodology did not allow computation of carrying charges during the true-up collection or true-up refund period. Beginning with this PCA Application, the Commission found that it was reasonable to include a carrying charge on the unamortized balance during true-up collections and refunds. The carrying charge will be the same interest rate the Commission annually determines to be appropriate for the true-up deferral balance accumulation. *Id.* at 5-6.

NOTICE OF APPLICATION

YOU ARE HEREBY NOTIFIED that this year's PCA Application includes the forecasted costs based on water condition; a true-up of last year's forecasted costs to reflect actual costs; and the true-up of the 2002-2003 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 3.13 million acre feet (maf). The 30-year average inflows at Brownlee are 6.3 maf. In other words, this year's water forecast is roughly 50% below the 30-year average. Based upon the projected water flow and replacement power costs, the Company calculates that the projected power supply costs are \$129,823,425 for the 2004-2005 PCA year. The projected power costs equal 1.0092¢ per kWh. The 1.0092¢ per kWh estimation for projected power cost is 0.2777¢ per KW higher than the Commission's approved base of 0.7315¢ per kWh. Consequently, the Company is proposing to collect 0.2499¢ per kWh (90% of 0.2777¢).

The difference between last year's forecast costs and actual costs (the true-up) is estimated by the Company to be 0.3661¢ per kWh. Finally, the third PCA rate element is the new "true-up of the true-up." Last year the Company collected all but \$556,693 of the deferral balance. Dividing this amount by the 2003 Idaho jurisdictional sales of approximately 12,096,872 MWh results in a PCA true-up of the true-up rate element of 0.0046¢ per kWh. Combining the projected power costs of 0.2499¢, the true-up component of 0.3661¢ and the true-up of the true-up of 0.0046¢, results in a PCA rate for the 2004-2005 PCA year of 0.6206¢ per kWh. This represents an increase of 0.0167¢ above the existing PCA rate of 0.6039¢ per kWh.

YOU ARE FURTHER NOTIFIED that last year's PCA completed recovery of deferred PCA rates for three customer classes. Completion of the deferral recovery means that their PCA rates should decrease. The three customer classes and their respective PCA proposed

reductions are: Schedule 7 (small commercial) – a reduction of 0.0189¢ per kWh; Schedule 19 (industrial) – a reduction of 0.0222¢ per kWh; and Schedule 24 (irrigation) – a reduction of 0.0811¢ per kWh.

YOU ARE FURTHER NOTIFIED that based upon the Company’s calculations, the 2004-2005 PCA rate would result in a slight increase (0.0167¢) in the PCA rate for all classes except Schedules 7, 19, and 24. Because the Company anticipates that its general rate case will result in an increase in the Company’s base rates, Idaho Power requested “that the Commission keep the overall PCA rate at the same level as last year (0.6039¢ per kWh).” Application at 5. Idaho Power is proposing this “unique rate treatment” to avoid having both its base rates and PCA rates increase in 2004. *Id.*

YOU ARE FURTHER NOTIFIED that the Company is also proposing that the current PCA rate scheduled to expire on May 16, 2004, be extended until May 31, 2004. This will allow most PCA rates to remain the same and the proposed decreases for Schedule 7, 19, and 24 customers will serve to “off-set” the Company’s anticipated increase in base rates for these classes.

In summary, the Table* below shows the Company’s proposed PCA rates:

<u>Customer Group</u>	<u>Current PCA</u>	<u>Proposed PCA</u>	<u>Overall Energy Rate (with Current PCA)</u>	<u>Overall Energy Rate (with Proposed PCA)</u>	<u>Overall % Decrease</u>
Residential (1)	0.6039	0.6039	5.778	5.778	0%
Small Commercial (7)	0.8447	0.5850	7.179	6.916	-3.66%
Large Commercial (9)	0.6039	0.6039	4.176	4.176	0%
Industrial (19)	0.8217	0.5817	3.604	3.364	-6.66%
Irrigation (24)	1.3159	0.5228	5.035	4.242	-15.75%

* All prices shown in cents per kWh. The “Overall Energy Rate” is the current effective energy rate including both the base rate and PCA rate. As indicated in the text, the Company anticipates that the base rate will increase as a result of the current general rate case.

COMMISSION FINDINGS

As explained above, Idaho Power proposes to continue the current PCA rates set to expire on May 16, 2004 until May 31, 2004. Continuing the PCA rates until May 31 will avoid the possibility of having two rate adjustments (the PCA and base rates) in a two-week period. Commission Staff agreed with this request. Based upon our review of the Application, we find

that it is reasonable to continue the current PCA rates until May 31, 2004. We further find that continuing the existing rates will allow time for us to consider public comments concerning the Company's request to continue the existing PCA rates for the entire 2004-2005 PCA year. Customers will not be disadvantaged by continuation of the current rates because the Company had calculated that the PCA rates should increase except for the three customer classes. Accordingly, we shall grant the Company's request to continue the existing PCA rates until May 31, 2004.

NOTICE OF MODIFIED PROCEDURE

YOU ARE FURTHER NOTIFIED that the Commission has preliminarily 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. In doing so, the Commission notes that Modified Procedure and written comment have proven to be an effective means for obtaining public input and participation.

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 Application **may file a written comment in support or opposition with the Commission no later than May 14, 2004.** 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, IDAHO 83720-0074

Street Address for Express Mail:

472 W WASHINGTON ST
BOISE, ID 83702-5983

BARTON L KLINE, SENIOR ATTORNEY
MONICA MOEN, ATTORNEY II
IDAHO POWER COMPANY
PO BOX 70
BOISE ID 83707-0070
E-mail: bkline@idahopower.com
E-mail: mmoen@idahopower.com

GREGORY W. SAID
IDAHO POWER COMPANY
PO BOX 70
BOISE ID 83707-0070
E-mail: gsaid@idahopower.com

All submitted 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.state.id.us. 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 the Applicant at the e-mail addresses listed above.

YOU ARE FURTHER NOTIFIED that Idaho Power Company shall have until May 17, 2004, to file a written response to any comments, if it so desires.

YOU ARE FURTHER NOTIFIED that Idaho Power's PCA Application together with the Company's prefiled testimony and exhibits of Gregory Said can be reviewed at the Commission's office and at the principal office of Idaho Power during regular business hours. Idaho Power Company is located at 1221 West Idaho Street in Boise, Idaho ((208)388-2323). Idaho Power's Application, prefiled testimonies and exhibits are also available on the Commission's website at www.puc.state.id.us under the "File Room" icon.

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 and 61-503. 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 14, 2004.

IT IS FURTHER ORDERED that Idaho Power's request to continue the current PCA rates is granted. The rates contained in the currently approved Schedule 55 shall remain in effect until May 31, 2004.

DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this 22nd
day of April 2004.



PAUL KJELLANDER, PRESIDENT

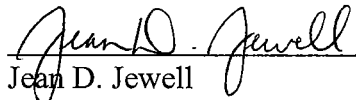


MARSHA H. SMITH, COMMISSIONER



DENNIS S. HANSEN, COMMISSIONER

ATTEST:



Jean D. Jewell
Commission Secretary

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