IDAHO PUBLIC UTILITIES COMMISSION
Case No. IPC-E-03-13, Order No. 29601
Case No. IPC-E-04-9, Order No. 29600
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Commission, Idaho Power announce settlements of rate case, PCA issues

Boise – The Idaho Public Utilities Commission today announced two separate settlements of issues arising out of the recently concluded Idaho Power rate case and the company's annual power cost adjustment.

The first settlement resolves a disagreement between the company and the commission over how income taxes should be expensed.

On May 25, the commission approved an average 5.2 percent rate increase for Idaho Power. The company requested 14.5 percent. After that May 25 order, Idaho Power asked the commission to reconsider the portion of the order that said income tax expenses Idaho Power can recover from customers must be calculated on an historic five-year average rather than on the statutory federal and state income tax rates. The effect of using the five-year average was to decrease Idaho Power's annual revenue requirement by $11.5 million.

The company used a new tax expense methodology that resulted in a $41 million refund in 2002 on taxes paid in prior years and pushed income tax expense to future dates. To minimize the future tax expense impact on customers, the commission ordered a five-year average of income tax expenses. Idaho Power petitioned for reconsideration, expressing concern that the Internal Revenue Service could challenge the five-year average causing the company to lose its ability to use accelerated depreciation for incomes tax purposes. If accelerated depreciation is lost, the company claimed, income taxes would be significantly higher and Idaho Power would be required to obtain additional financing. That could result in the company seeking to increase rates further to cover tax expense, the company claimed.

"Although we originally approved use of the five-year average, we are concerned about the uncertainty created by the resulting IRS challenge and the risks that litigation might pose to ratepayers, " the commission said. The benefits – including the company's use of accelerated depreciation, the potential for lower borrowing costs and the avoided litigation – outweigh the tax increase, the commission said.

Because the new rates from the rate case became effective June 1, rates to account for the $11.5 in additional revenue will not be adjusted until next year. For this year, between June 1 and next May 31, Idaho Power and the commission staff proposed a formula to compute and record monthly in a regulatory asset account an amount equal to the additional revenue that the company would have received using the statutory income tax rates rather than the five-year average. The total will then be included for recovery from customers when Idaho Power has its annual power cost adjustment process (PCA) next spring.

The second settlement agreement approved today, settles three outstanding issues, that, when totaled, will result in a $19.3 million credit given to customers over a two-year period.

The first issue involves a change in the accounting treatment associated with a 2002 income tax refund. That will result in a credit to customers of an undisclosed amount.

Customers will also receive credit for a portion of the $6 million to $7 million in additional power supply costs the company and ratepayers paid as a result of an equipment failure at the Valmy generation plant in Nevada.

Idaho Power jointly owns the Valmy plant with Sierra Pacific, a Nevada utility. The generator unit was out of service from June 26 through Sept 8, 2003. Because of the outage, Idaho Power was required to purchase replacement power at rates significantly higher than the costs for Valmy. Staff questioned whether customers should pay the above-normal costs for replacement power. In the settlement, both parties acknowledge that the outage was atypical and, in part, out of the control of Idaho Power.

In another matter related to the comprehensive settlement, staff and Idaho Power agreed to leave a PCA expense adjustment rate for growth at the current level of 1.684 cents per kWh. Idaho Power argued for a much lower expense adjustment while commission staff argued for a higher adjustment. The current rate of 1.684 cents is about the midway point between the commission's and company's recommended adjustments. The adjustment is credited against the amount of money the company is able to claim in its PCA due to growth in energy sales. During those years when Idaho Power has below-normal energy sales, the expense adjustment is added to the company's power costs.

Neither of the two settlements will impact customer bills until next June. One settlement results in an increase to base revenues for Idaho Power for $11.5 million. The second settlement results in a $9.65 million credit to Idaho Power customers over a two year-period for a total credit of $19.3 million. The impact on customer rates next spring is minimal.

The orders on both settlements as well other documents related to these cases can be accessed on the commission's Web site at www.puc.state.id.us. Click on "File Room," then on "Recent Orders and Notices," and scroll down to Order numbers 29600 and 29601.

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