

DECISION MEMORANDUM

**TO: COMMISSIONER KJELLANDER
COMMISSIONER SMITH
COMMISSIONER HANSEN
COMMISSION SECRETARY
LEGAL
WORKING FILE**

FROM: ALDEN HOLM

DATE: MAY 6, 2005

RE: CASE NO. IPC-E-05-14; COMPLIANCE FILING.

On April 13, 2005, Idaho Power Company (Company, IPC) filed an Application to increase its rates and charges for electric service to take into account income taxes in compliance with the Commission's Order No. 29601. In that Order, the Commission directed the Company to utilize statutory tax rates to determine the Company's revenue requirement as proposed in a Joint Motion for Acceptance of Settlement, and also approved the Stipulation that memorialized the settlement agreement.

The settlement and ensuing Order required three things:

1. The ongoing revenue requirement was increased by \$11,504,677 above the level approved in Order Nos. 29505 and 29547.
2. For the period of June 1, 2004 through May 31, 2005, the Company was ordered to compute and record each month in a regulatory asset account with interest, the additional revenue the Company would have received had the statutory tax methodology been approved in the final rate case Order. The asset was to accrue at a rate of \$0.92209 per MWh. The regulatory asset would be recovered during June 1, 2005 through May 31, 2006 with a one-year rate adjustment.
3. Finally, the Company's rates would be adjusted to recover the \$11,504,677 incremental income tax impact of using the statutory income tax rates to become effective on June 1, 2005.

In its filing, Idaho Power complies with each of the above requirements and proposes a recovery methodology.

Computation of the Regulatory Asset

Exhibit 3 of the Company's Application shows the calculation of the regulatory asset. The \$11,638,229 Idaho Power has accrued at a rate of \$.92209 per MWh includes interest at one percent. Because April and May 2005 are projections, Idaho Power proposes to true up the actual recovery and accrual of the regulatory asset. This true up will be reflected in the PCA next year (June 2006).

Recovery of Regulatory Asset


To recover the regulatory asset of \$11,638,229, Idaho Power has calculated a rate based on the projected Idaho jurisdictional sales of 12,453,880 MWh. In order to arrive at a uniform percentage increase to each class, the Company allocated the income tax expenses to customer classes based on revenues associated with the specific class sales. Therefore, each class received a different rate that was equal to an increase of 2.20% over base rates. This temporary base rate change will expire on May 31, 2006. Staff recommends that Idaho Power's tariff schedules reflect this expiration date.

Calculation of the Ongoing Base Rate Change

To recover the permanent base rate change of \$11,504,667 on a going-forward basis, the Company proposes to apply a uniform percentage increase of 2.25% to each customer class with a uniform percentage increase to the demand and energy billing components where applicable. The Company uses the same 2003 normalized test year sales that were used in the prior rate case. This base rate change is permanent and will not be changed until the Company's next rate case.

STAFF RECOMMENDATIONS

The overall impact of these adjustments is an average 4.44% increase. Staff will calculate the final rates to customers for the period beginning June 1, 2005 when the results for Case Nos. IPC-E-05-10 and IPC-E-05-15 are also known. Staff has reviewed the filing and the Company's proposals and agrees that the Company's filing complies with and implements the Commission's decision to recover the income tax settlement in Order No. 29601. Therefore, Staff recommends that the Commission accept the proposed rate changes as filed. Staff recommends that the expiration date for the temporary rate be clearly stated in the tariff.



Alden Holm