

IDAHO PUBLIC UTILITIES COMMISSION

Case No. IPC-E-05-10, Order No. 29790

Case No. IPC-E-05-14, Order No. 29789

Case No. IPC-E-05-15, Order No. 29793

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Idaho Power base rates to increase 6.3 percent; no change to PCA

Boise – The Idaho Public Utilities Commission has approved three orders that will result in an average base rate increase of 6.3 percent to Idaho Power customers effective June 1.

Most of the increase, about 4.5 percent, is the result of a negotiated settlement between the company and the commission over a disputed tax expense issue from the Idaho Power rate case that concluded last year. Half of that 4.5 percent increase, 2.2 percent, is for one year only and will expire June 1, 2006. The other half is added to permanent base rates.

The remaining 1.8 percent of the overall 6.3 percent increase allows the company to include \$58 million in base rates to cover the costs of the Bennett Mountain natural gas power plant in Mountain Home along with the necessary transmission and interconnection facilities.

Because of the base rate increases, the company did not seek an increase in its power cost adjustment (PCA) surcharge this year, even though its power supply costs were \$28.6 million above normal due to drought conditions. Had the PCA been included, overall customer rates, including the tax expense and Bennett Mountain adjustments, would have jumped 11.7 percent.

Idaho Power will place the \$28.6 million in a deferred account to be included in next year's PCA. Given the base rate increases, the commission ruled that deferring the PCA was reasonable. Some charges, including the 2.2 base rate decrease, expire next year and that may soften the impact of the 2006 PCA, the commission noted.

Tax settlement

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During the course of last year's Idaho Power rate case, the commission and Idaho Power disagreed over the method used to calculate Idaho Power's income tax expense.

Because of an unusually large refund the company received in 2002, commission staff advocated using a five-year average to compute the company's tax expense rather than the company's proposal to use existing statutory tax rates. The result was an \$11.5 million reduction in Idaho Power's annual revenue requirement.

Idaho Power petitioned for reconsideration, seeking to present new evidence to support its claim that use of an average tax year could violate normalization requirements of the Internal Revenue Code. Settlement discussions ensued between commission staff and the company.

The commission accepted the settlement, largely due to concern about the uncertainty created by a resulting IRS challenge and the risks litigation could pose to ratepayers. The settlement ensures that ratepayers will not be liable for any tax deficiency payments that may be assessed Idaho Power by the IRS for any of the company's tax method changes for the years 1987 through 2000. The commission also noted that avoiding a lengthy lawsuit would lower the cost ratepayers ultimately pay for Idaho Power to borrow money to finance ongoing operations.

There was no dispute that Idaho Power's income tax expense is a usual business expense to be included in the company's revenue requirement. The company would not have an opportunity to earn its authorized return if its unavoidable tax obligations were excluded from rates. The commission's objective, when evaluating a tax expense, is to ensure that tax expense is not larger than necessary to pay actual tax amounts.

Bennett Mountain

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The Bennett Mountain plant is a 162-megawatt natural gas-fired plant near Mountain Home. It is designed to help the company meet peak electrical demand, particularly during the summer months. The plant required an investment of \$50.3 million to build, which is under the commitment estimate of \$54 million made to the commission before the plant was built. In addition, the company invested \$7.7 million for transmission upgrades and to interconnect the plant with the transmission grid.

In a previous order, the commission agreed with Idaho Power's assertion that it would not be able to meet customer demand during peak conditions by summer 2005 without the addition of new generation. The Bennett Mountain plant is to meet Idaho Power customer needs. It was not constructed for out-of-state sales.

Some customers commenting in the case suggested the rate increase be restricted to Idaho Power's new customers. "Although this may appear to be a reasonable alternative," the commission said, "the Idaho Supreme Court has ruled that such a rate design would unlawfully discriminate between old customers and new customers." In a previous Supreme Court case, the court noted that each customer that has come into the Idaho Power system at any time has contributed to the demand for new facilities.

Others commenting said they wanted the company to generate from sources other than a natural gas plant, such as renewable sources or nuclear power. The commission noted that Idaho Power does plan on acquiring 400 MW from wind and geothermal generation in the next 10 years. Neither renewable nor nuclear sources could be ready in time to meet the anticipated shortfall this summer.

The commission did remove about \$75,000 in costs related to a late fee Idaho Power agreed to pay the builder of the natural gas pipeline leading from the power plant to the main gas pipeline. The commission said ratepayers should not have to pay for the delay penalty.

Power cost adjustment**IPC-E-05-15, Order No. 29793**

The power cost adjustment (PCA) is an annual adjustment to customer bills to reflect the varying costs of power supply. The power cost surcharge does not increase company earnings. The company uses the money collected in the surcharge to pay its power suppliers.

Customer rates are divided into two components. The first is the base rate, which covers typically fixed costs such as power plants, labor and equipment and infrastructure to deliver power and an average amount of power supply costs. The other rate component is the PCA, a surcharge that is added to the base rate or, in good water years, a credit that is subtracted from base rates.

Ratepayers receive a credit when power supply costs are below the amount already allocated in base rates to pay for power supply. Customers are assessed a surcharge when power supply costs exceed amounts included in base rates. Power supply costs fluctuate from year to year depending on changes in Snake River streamflow and market prices for power. Since its inception in 1993, the PCA has resulted in a credit for three years and a surcharge in 10 years. Six of those 10 years have been the last six years of drought conditions. The surcharges or credits expire at the end of each PCA year and a new surcharge or credit is established based on a true-up of the past year's water and market conditions and projections of future water and market conditions.

This year, a sixth consecutive year of drought resulted in the company spending \$28.6 million for additional power supply costs not already included in base rates. However, the commission approved the company's recommendation to defer any increase in the surcharge another 12 months so that customers would not experience a base rate increase and a PCA increase during the same year.

The power cost surcharge approved to be effective for June 1 is .6039 cents per kWh for most customer classes. The surcharge is slightly higher for residential (.6045 cents per kWh) and irrigation (.6052 cents per kWh) customers.

A full text of the commission's orders, along with other documents related to each case, are available on the commission's Web site at www.puc.idaho.gov. Click on "File Room" and then on "Electric Cases" and scroll down to the appropriate case numbers.

Interested parties may petition the commission for reconsideration by no later than June 16 on the tax settlement and Bennett Mountain orders and no later than June 17 on the power cost adjustment order. Petitions for reconsideration must set forth specifically why the petitioner contends that the order is unreasonable, unlawful or erroneous. Petitions should include a statement of the nature and quantity of evidence the petitioner will offer if reconsideration is granted.

Petitions can be delivered to the commission at 472 W. Washington St. in Boise, mailed to P.O. Box 83720, Boise, ID, 83720-0074, or faxed to 208-334-3762.