

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

**IN THE MATTER OF THE APPLICATION)
OF IDAHO POWER COMPANY FOR) CASE NO. IPC-E-06-7
AUTHORITY TO IMPLEMENT POWER)
COST ADJUSTMENT (PCA) RATES FOR)
ELECTRIC SERVICE FROM JUNE 1, 2006) ORDER NO. 30047
THROUGH MAY 31, 2007)**

On April 12, 2006, Idaho Power Company filed its annual power cost adjustment (PCA) Application. Since 1993 the PCA mechanism has permitted Idaho Power to adjust a portion of 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 cost) 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" to produce a customer's overall energy rate.

In this year's PCA Application, Idaho Power calculated that its annual power costs have decreased \$46.8 million below the normalized PCA rates. The Company estimated that this represents a \$123.5 million decrease in revenues from existing rates, or an average reduction in the PCA rates of 19.34%. Exhibit 8.

On April 18, 2006, the Commission issued a Notice of Modified Procedure soliciting public comments regarding the PCA Application. Only the American Association of Retired Persons (AARP) and the Commission Staff filed written comments. They urged the Commission to approve the proposed PCA rate reductions. After reviewing the Application and the comments, we approve the PCA Application and direct Idaho Power to implement the PCA rate credits to be effective on June 1, 2006.

BACKGROUND

A. The PCA Mechanism

The annual PCA mechanism is comprised of three 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 and 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 power purchased from 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 "normalized" power costs. Order No. 25880.

Second, because the PCA includes forecasted costs, the preceding year's estimated costs are "trued-up" to account for actual costs. Third, is the "true-up of the true-up." Idaho Power uses normalized power sales (measured in kilowatt hours (kWh)) from the ensuing PCA year as the denominator to computing the true-up of the true-up. Over or under recovery is balanced with the following year's true-up. Thus, ratepayers will pay for the actual amount of power sold by Idaho Power to meet native load requirements – no more or no less. Order No. 29334 at 4. In summary, ratepayers receive a rate credit when power costs are low, but are assessed a surcharge when power costs are high.

B. The Recent Rate Case

As mentioned above, a customer's overall energy rate is comprised of the PCA rate and base rate. In Order No. 30035, the Commission approved a settlement Stipulation entered into by the parties in Idaho Power's recently completed general rate case, Case No. IPC-E-05-28. Order No. 30035 increased base rates by an average of 3.2%. Consequently, the proposed PCA decrease in this case will offset the increase in base rates.

THE 2006 PCA APPLICATION

This year's PCA Application included 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 2005-2006 PCA year true-up (the true-up of the true-up). This year's water forecast for April through July inflows at Brownlee Reservoir was 8.3 million-acre feet (maf). The 30-year average inflows at Brownlee are 6.3 maf (1971-2000). This year's water forecast is roughly 33% above the 30-year average.

1. The Water Forecast. Based upon the projected water inflows to Brownlee Reservoir, the Company calculated projected power supply costs of \$63,316,436 for the 2006-2007 PCA year (June 1, 2006 to May 31, 2007). The projected power costs equal 0.4691¢ per kWh. The 0.4691¢ per kWh cost estimate is 0.2786¢ per kWh lower than the Commission's approved base of 0.7477¢ per kWh. Consequently, the Company proposed a credit of 0.2507¢

per kWh (90% of 0.2786¢) for the power cost projection component. Application at 3; Schwendiman Dir. at 5.

2. The True-Up. Idaho Power reported in its Application that the difference between last year's forecast costs and actual costs (the true-up) is a credit to customers of \$39,513,704. *Id.*, Exhibit 3. The PCA true-up component included several additional items previously approved by the Commission. Application at 4. These additional items included the customer benefits associated with settlement of the Valmy plant outage, reduced power costs as a result of the new Bennett Mountain power plant, non-recurring tax credit issues (Order No. 29600), and one year of interest (Order No. 29789). Schwendiman Dir. at 5-7. This amount is then divided by the normalized total jurisdictional sales in CY 2005 of 12,695,163 MW. Idaho Power witness Schwendiman calculated that the true-up portion of the PCA rate is a rate credit of 0.3113¢ per kWh. *Id.* at 7-8, 9.

3. The True-Up of the True-Up. The Company stated that last year it collected all but \$24,513,298 of the PCA deferral balance. This deferral balance is included in the carry-over from last year's PCA case and the recovery of "lost revenue" from Case No. IPC-E-01-34. *Id.* at 8. Dividing this amount by the 2005 Idaho jurisdictional sales results in a PCA true-up of the true-up rate element of 0.1931¢ per kWh. Combining the three components – the projected power costs credit of 0.2507¢, the true-up component credit of 0.3113¢, and the true-up of the true-up surcharge of 0.1931¢ – results in a PCA rate credit for the 2006-2007 PCA year of 0.3689¢ per kWh. This represents a net decrease of 0.9728¢ from the existing PCA surcharge rate of 0.6039¢ per kWh.

4. The Rate Proposal. Idaho Power proposed to implement the PCA credit rates on June 1, 2006 to coincide with the approved change in base rates. The Company calculated an average decrease in PCA rates of 19.34% but each customer class will receive a different percentage decrease due to the PCA fixed cents adjustment. The Company proposed the following PCA rates for the major customer classes and calculated the percentage decreases in the PCA rates by customer class:

Customer Group (Schedule)	Current PCA Surcharge Rate	Proposed PCA Credit Rate	Percentage PCA Rate Decrease
Residential (1)	0.6045¢	0.3689¢	15.4%
Small Commercial (7)	0.6039¢	0.3689¢	12.8%
Large Commercial (9)	.06039¢	0.3689¢	21.9%
Industrial (19)	0.6039¢	0.3689¢	27.0%
Irrigation (24-25)	0.6052¢	0.3689¢	19.4%

The PCA rates for Idaho Power's three special contract customers would also decrease to a credit of 0.3689¢ per kWh. Their PCA rates would decrease: 30.59% for Micron; 32.40% for Simplot; and 31.93% for the Department of Energy (INL). Schwendiman Exh. 8. The Company's Application included the proposed PCA tariff in Schedule 55.

THE COMMENTS

1. Staff Comments. The Staff conducted an audit of all actual revenues and expenses that occurred during the PCA year. The Staff sought to verify the revenues and costs associated with the cloud seeding program, fuel expenses for coal, fuel expenses for natural gas and power purchases/sales. The Staff also examined the settlement agreement credits contained in Order No. 29600, the IDACORP energy credits, and the risk management operating plans. Staff's analysis did not find any unreasonable transactions. Staff also determined that the Company's power transactions were made with an assortment of credit-worthy partners on a timely basis, and there were no transactions conducted with an Idaho Power affiliate. Staff Comments at 4.

The Staff's calculations for the three PCA components agreed with Idaho Power's calculations. Staff calculated that the 2006-2007 PCA rate credit should be 0.3689¢ per kWh as shown in Staff Attachment C, line 16. The Staff recommended that the Commission approve the PCA rates as filed by the Company.

2. AARP. AARP-Idaho also supported Idaho Power's proposal to reduce the PCA rates. AARP noted that the proposed PCA rate credits represent a real benefit for residential customers living on fixed or low incomes. Comments at 2-3. AARP asserted that the proposed overall "rate reduction will help a number of customers to better afford their electricity bills as we begin the summer months." *Id.* at 3.

COMMISSION FINDINGS

Based upon our review of the PCA Application and the two comments, we find it is reasonable to grant Idaho Power's Application to reduce the PCA rates. More specifically, we find the proposed PCA rate credit of 0.3689¢ per kWh is reasonable. In addition, the Commission approves the proposed PCA rate credits for the three special contract customers. The PCA rate decreases approved in this Order will offset the recent base rate increases approved in Order No. 30035.

Given the abundance of snow pack and Snake River streamflow, we are pleased to decrease rates after six years of PCA surcharges. The significant decrease in the PCA rate this year demonstrates the fairness and value of the PCA mechanism. This year the Company is able to meet its expected loads with less expensive hydro-generation. All customers will see their overall electric rates decrease effective June 1, 2006.

ORDER

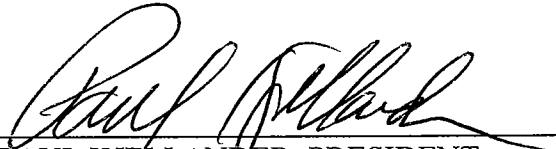
IT IS HEREBY ORDERED that Idaho Power Company's Application to reduce its PCA rates is approved.

IT IS FURTHER ORDERED that from June 1, 2006 through May 31, 2007, the PCA rate credit shall be 0.3689¢ per kWh for all customer classes and the three special contract customers.

IT IS FURTHER ORDERED that the PCA rate credits contained in this Order shall be effective for service on June 1, 2006. The Company's proposed PCA tariff Schedule 55 is approved.

THIS IS A FINAL ORDER. Any person interested in this Order (or in issues finally decided by this Order) or in interlocutory Orders previously issued in this Case No. IPC-E-06-7 may petition for reconsideration within twenty-one (21) days of the service date of this Order with regard to any matter decided in this Order or in interlocutory Orders previously issued in this case. Within seven (7) days after any person has petitioned for reconsideration, any other person may cross-petition for reconsideration. See *Idaho Code* § 61-626.

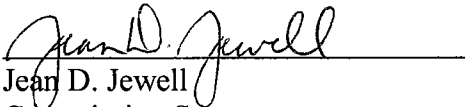
DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this 25th
day of May 2006.


PAUL KJELLANDER, PRESIDENT


MARSHA H. SMITH, COMMISSIONER


DENNIS S. HANSEN, COMMISSIONER

ATTEST:


Jean D. Jewell
Commission Secretary

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