

**BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION**

**IN THE MATTER OF THE APPLICATION )  
OF IDAHO POWER COMPANY FOR ) CASE NO. IPC-E-07-10  
AUTHORITY TO IMPLEMENT POWER )  
COST ADJUSTMENT (PCA) RATES FOR )  
ELECTRIC SERVICE FROM JUNE 1, 2007 ) ORDER NO. 30325  
THROUGH MAY 31, 2008 )**

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On April 13, 2007, Idaho Power Company filed its annual power cost adjustment (PCA) Application. 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 cost) varies from year to year depending on changes in Snake River streamflows 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 calculates that its annual power costs have increased \$30.7 million above the normalized PCA rates. In the prior PCA year, customers received an average 19.34% rate credit due to favorable water conditions. In contrast, the forecast for water conditions this year is poor. The Company estimates that the change in water conditions will contribute to a \$77.5 million increase in revenues from existing PCA rates. The combination of the coming year's surcharge and the expiration of the previous year's credit cause an average increase in the PCA rates of 14.5%.

On April 18, 2007, the Commission issued a Notice of Modified Procedure soliciting public comment regarding the PCA Application. The Commission received written comments from seven residential customers, the Industrial Customers of Idaho Power (ICIP), and the Commission Staff. On May 17, 2007, Idaho Power filed a reply to the ICIP comments. After reviewing the Application and the comments, we approve the PCA Application and authorize new rates to be effective on June 1, 2007.

**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 abundant snowpacks and streamflows, the Company's power supply costs are usually

lower because of correspondingly plentiful, relatively inexpensive, hydro-generation. Conversely, when streamflows or snowpacks are low, Idaho Power must rely increasingly upon its other thermal generating resources and purchased power from the regional market. The Company's other thermal generating resources (coal and natural 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. 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. Consequently, 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. Thus, ratepayers receive a rate credit when power costs are low, and are assessed a surcharge when power costs are high. For example, last year's abundant streamflows and snowpack resulted in a PCA rate decrease of nearly 20%; this year's below-normal streamflows contribute to a proposed 14.5% increase in PCA rates.

## **THE PCA APPLICATION**

### ***A. The PCA Components***

This year's PCA Application includes the forecasted costs based on water conditions; a true-up of last year's forecasted costs to reflect actual costs; and the true-up of the 2006-2007 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 3.3 million acre-feet (maf). The Company reports the 30-year average inflows at Brownlee is 6.3 maf. In other words, this year's water forecast is roughly half the 30-year average. Application at 3, Exh. 2.

1. The Water Forecast. Based upon the projected water inflow and replacement power costs, the Company calculates that the projected power supply costs are \$129.23 million for the 2007-2008 PCA year (June 1, 2007 to May 31, 2008). The projected power costs equal 0.9575 cents per kWh. The 0.9575 cents per kWh estimate is 0.2098 cents per kWh above the Commission's approved normalized base of 0.7477 cents per kWh. Consequently, the Company

is proposing a surcharge of 0.1888 cents per kWh (90% of 0.2098 cents) for the power cost projection component. Application at 3; Schwendiman Dir. at 4-5.

2. The True-Up. Idaho Power reports that the difference between last year's forecast costs and actual costs (the true-up) results in a surcharge to customers of \$15,090,267. *Id.* at 4. The PCA true-up component also includes several additional items previously approved by the Commission. *Id.* These additional items include the customer benefits associated with settlement of the Valmy plant outage, reduced power costs associated with the new Bennett Mountain power plant, and the sale of SO<sub>2</sub> emission credits (including tax benefits) of \$76.7 million. Schwendiman Dir. at 5-7. Last year the emission credits were ordered to be included in the PCA true-up. Order No. 30041. The Company also proposes to include the known after-tax benefit of \$27 million that would normally be included in next year's PCA case in this year's true-up. The proposed true-up balance of \$15,090,267 is then divided by the estimate of total jurisdictional sales in 2007 of 13,475,244 MWh. Idaho Power witness Celeste Schwendiman calculates that the true-up portion of the PCA rate is a surcharge of 0.1120 cents per kWh. *Id.* at 7.

3. The True-Up of the True-Up. The third PCA rate element is the "true-up of the true-up." Last year the Company over-collected \$7,941,094 of the PCA deferral balance. Schwendiman Dir. at 7. Dividing this amount by the projected 2007 Idaho jurisdictional sales of 13,475,244 MWh results in a PCA true-up of the true-up rate credit of 0.0598 cents per kWh. *Id.*

Combining the three components – the projected power costs surcharge of 0.1888 cents, the true-up component surcharge of 0.1120 cents and the true-up of the true-up credit of 0.0598 cents – results in a proposed PCA rate surcharge for the 2007-2008 PCA year of 0.2419 cents per kWh. This represents an increase of 0.6108 cents from the existing PCA credit rate of 0.3689 cents per kWh. *Id.* at 8.

4. The Rate Proposal. Idaho Power proposes to implement the PCA rates on June 1, 2007. The proposed PCA rate represents an "overall" average percentage increase of 14.5% but due to the fixed cents adjustment, each customer class will receive a different percentage increase. The Table below shows the proposed increases in the PCA rates for the major customer classes:

Customer Group (Schedule)	Proposed PCA Rate	Percentage Increase
Residential (1)	0.2419¢	11.0%
Small Commercial (7)	0.2419¢	8.8%
Large Commercial (9)	0.2419¢	16.6%
Industrial (19)	0.2419¢	22.5%
Irrigation (24-25)	0.2419¢	14.6%

The PCA rates for Idaho Power's three special contract customers would also increase: Micron – 26.7%; Simplot – 29%; and the Department of Energy at INL – 28.4%. Staff Atch. G. The Company's Application included the proposed PCA tariff in Schedule 55.

### THE COMMENTS

1. Public Comments. The Commission received seven comments from customers. Four customers opposed the rate increase. Two customers suggested that some of the requested revenue increase be placed into base rates to mitigate the volatility of future PCA rate increases and decreases. Finally, one customer complained that the Company's information about the PCA rate increase was confusing.

2. 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 several programs including: Purchasing water from Lucky Peak reservoir; the cloud seeding program; fuel expenses for coal and natural gas; power purchases/sales; emission credit from SO<sub>2</sub> allowances; and PURPA purchases from qualifying facilities. The Staff also examined the settlement credits from Order No. 29600 (two months), Bennett Mountain power plant credit (two months) and the risk management operating plans. Staff analysis did not find any unreasonable transactions and the Company's power transactions were made with an assortment of credit-worthy partners on a timely basis. Staff Comments at 4-8.

The Staff also agreed with the Company's proposal to include the known and measurable tax benefit of \$27 million from the sale of SO<sub>2</sub> credits. *Id.* at 6. Although the tax benefit would normally be credited in next year's PCA, the benefit amount is known now and should be included in this PCA year.

The Staff's calculations for the three PCA components agreed with Idaho Power's calculations. Staff calculated that the 2007-2008 PCA rate should be 0.2419 ¢ per kWh as

shown in Staff Attachment C. Staff recommended that the Commission approve the PCA rates as filed by the Company.

3. Industrial Customers' Comments. The Industrial Customers of Idaho Power (ICIP) agreed with the Company's calculations and "does not object to the Commission's approval of the [PCA] application." ICIP Comments at 2. However, ICIP asked that the new PCA rates be made "subject to refund" and that the Commission initiate a proceeding to modify the PCA mechanism. In particular, ICIP asserted that the PCA mechanism should be adjusted to reduce the volatility in the increases and decreases in the PCA rates. *Id.* at 3.

ICIP suggested that the Commission open a docket to consider adding a "balancing account" to the PCA mechanism. The balancing account mechanism would retain a "year-to-year negative or positive balance that could be offset by subsequent years." *Id.* at 4. If results from the PCA mechanism exceeded the positive or negative thresholds in the balancing account, then PCA rates would be adjusted accordingly. Any amounts remaining in the balancing account would accrue interest for both positive and negative balances.

The ICIP recognized that the use of a balancing account over several years could result in a PCA rate "so large that it would cause rate shock." *Id.* at 5. Consequently, the ICIP recommended that the positive balance should be collected over a number of years and suggested a three-year recovery/payout period. Thus, surcharges and credits would be passed on to customers during a three-year period.

The ICIP also recommended that the Commission re-examine the PCA's "soft" rate cap. ICIP explained that when PCA rates are predicted to exceed 7% of the Company's normalized base revenues, the Company is required to make a filing with the Commission "for the purpose of determining whether a means to defer a percentage of that year's power supply cost recovery should be investigated." Order No. 24806 at 14. To reduce the volatility of PCA rates, the ICIP recommends that the 7% threshold should be based upon the difference from the prior year's PCA rate – not the difference between the Company's normalized base revenues and the PCA rate. ICIP Comments at 6-7. For example, rather than reduce PCA rates 27% last year for Schedule 19 Industrial Customers, the soft cap would have allowed the Commission to determine whether some of last year's credit should have been retained in a balancing account to mitigate this year's 22% increase for the same industrial customers. "The ICIP's goal is to allow

this year's 22% increase for the same industrial customers. "The ICIP's goal is to allow the Company to receive the revenue it needs, and the customers to receive the credits they are entitled to in a manner that results in a smoother pay out." *Id.* at 5.

4. Idaho Power Reply. In its reply comments, Idaho Power requested that the Commission reject the ICIP's recommendations to make the new PCA rates subject to refund and initiate a docket to adjust the PCA methodology. Idaho Power insisted that making the PCA increase subject to refund is fundamentally unfair, especially in light of the fact that the ICIP did not make such a suggestion last year when its members received a 27% PCA rate decrease. Reply Comments at 2-3. While the Company recognizes that the Commission may initiate a proceeding at any time to examine the PCA methodology, making any changes retroactive will produce more contentious proceedings and be viewed negatively by the financial community. *Id.* at 3.

Idaho Power also asserted that ICIP's balancing account concept is not new. The Company noted that the Commission rejected the balancing account concept when it initiated the PCA mechanism in 1992. The Company observed that the Commission's Order No. 24806 found that a "forecast and true-up" mechanism is preferable to a balancing account mechanism advocated by the ICIP in 1992. Idaho Power also pointed out that the Order stated customers are "aware of changing streamflow conditions and understand the impact they have on the cost of generating electricity. A PCA [mechanism] that adjusts rates to reflect projected streamflows for the coming year should be understandable to ratepayers and send short-term price signals to ratepayers more reflective of actual conditions than rates set using normalization." Order No. 24806 at 8-9.

#### COMMISSION FINDINGS

After reviewing the PCA Application and the comments filed in this case, we find it is reasonable to grant Idaho Power's Application to increase the PCA rate. We note that no commenter objected to the PCA calculations and the rates such calculations produce. We find the PCA rate of 0.2419¢ per kW is fair, just and reasonable.

We also decline ICIP's recommendations. As noted above, the existing PCA methodology contains a true-up mechanism so that customers will pay no more or no less than the PCA requires. We further find that the current PCA methodology with its true-up mechanism provides customers with timely "price signals" so that customers have the

opportunity to adjust their usage given higher PCA rates. Moreover, the Public Utilities Law does allow the Commission to spread large PCA rate increases over several years, if necessary. *Idaho Code* § 61-1501. We also note that industrial customers may smooth out these changes by implementing their own retention or deferred accounts. They might consider using established base rates when setting their budgets and holding money saved in a PCA credit year to be used in a future PCA surcharge year. Consequently, we decline ICIP's recommendation to initiate a proceeding or to make the PCA rate increase subject to refund.

### **ORDER**

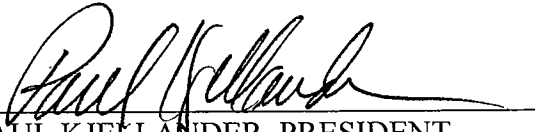
IT IS HEREBY ORDERED that Idaho Power Company's PCA Application is approved.

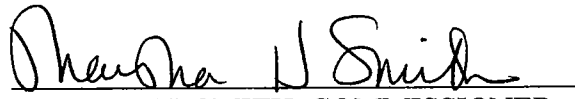
IT IS FURTHER ORDERED that from June 1, 2007 through May 31, 2008, the PCA rate shall be 0.2419¢ per kWh for all customer classes and the three special contract customers.


IT IS FURTHER ORDERED that the PCA rate contained in this Order shall be effective for service on June 1, 2007. The Company's proposed PCA tariff Schedule 55 included in its Application 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-07-10 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 No. IPC-E-07-10. Within seven (7) days after any person has petitioned for reconsideration, any other person may cross-petition for reconsideration. See *Idaho Code* § 61-626.

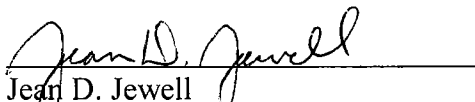
DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this 31<sup>st</sup>  
day of May 2007.

  
PAUL KJELLANDER, PRESIDENT

  
MARSHA H. SMITH, COMMISSIONER

  
MACK A. REDFORD, COMMISSIONER

ATTEST:

  
Jean D. Jewell  
Commission Secretary

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