

DECISION MEMORANDUM

**TO: COMMISSIONER KJELLANDER
COMMISSIONER SMITH
COMMISSIONER REDFORD
COMMISSION SECRETARY
COMMISSION STAFF**

FROM: DON HOWELL

DATE: APRIL 16, 2007

**SUBJECT: IDAHO POWER'S PCA APPLICATION FOR ELECTRIC SERVICE
FROM JUNE 1, 2007 THROUGH MAY 31, 2008, CASE NO. IPC-E-07-10**

On April 13, 2007, Idaho Power filed its annual Power Cost Adjustment (PCA) Application. This Application concerns the Company's PCA component of the energy rates charged to its Idaho customers.¹ The Company's PCA filing would increase the Company's PCA revenues by more than \$77.5 million from existing rates and result in an overall average PCA rate increase of 14.5%. The actual rate increase varies from class to class.

THE PCA MECHANISM

The PCA annually adjusts the Company's rates based primarily upon three components: (1) Snake River stream flows and storage; (2) the true-up of forecast costs for the preceding 12 months to account for actual costs; and (3) the true-up of the true-up. The Company reports this year's water forecast April-July inflows at Brownlee Reservoir is 3.3 million acre feet (maf). Application at 3, Exhibit 2. The 30-year average inflows at Brownlee are 6.3 maf (1971-2000). In other words, this year's water forecast is about half the 30-year average.² Idaho Power calculates a net effect of the water forecast of approximately \$129.23 million, or 0.9575 cents per kilowatt hour (kWh). This is approximately 0.2098 cents above the "normalized" PCA rate. After the 90-10 sharing, this results in a surcharge of 0.1888 cents per kWh.

¹ Retail energy rates for Idaho Power customers have two components: the PCA rates and the Company's "base" rates.

² By way of comparison, last year's Brownlee inflows were 8.38 maf; the PCA revenue decrease was more than \$123 million; and the overall average PCA rate reduction was 19.34%.

Next, Idaho Power estimates that the projected power costs from the proceeding PCA year will produce a surcharge of approximately \$15,090,267 for customers through the PCA true-up component. This component also includes additional items that inure to the benefit of customers including: reduce power supply costs from Bennett Mountain Power plant; an adjustment to reflect the settlement of the Valmy plant outage; and the sale of SO₂ emission credits (including tax benefits) of \$76.7 million. Schwendiman at 5-7. Last year the Commission ordered that revenue from emission credits be included in the PCA true-up. Order No. 30041. The Company proposes to include the known after-tax benefit of selling the emission credits to this year's PCA true-up. Schwendiman at 6-7. The offsetting true-up components result in a 0.1120 cents per kWh surcharge.

The third component is the "true-up of the true-up." During the true-up period, the Company collected \$7.9 million more than the 2006/2007 PCA true-up balance. This results in a true-up of the true-up credit of 0.0589 cents per kWh. Combining the three PCA rate elements produces the PCA rate surcharge of 0.2419 cents per kWh, or \$30.7 million above the normalized PCA base.

Last year's PCA rate credit was 0.3689 cents per kWh, or \$46.8 million below the normalized PCA threshold. Consequently, this year's proposed PCA rate represents a \$77.5 million increase in revenues from last year's PCA rates.

A typical residential customer using 1050 kWh per month during the summer and non-summer seasons would experience a \$6.41 billing increase per month. The proposed class increases are: 11% for residential (Schedule 1); 8.8% for small commercial (Schedule 7); 16.6% for large commercial (Schedule 9); 22.5% for industrial (Schedule 19); and 14.6% for irrigation (Schedules 24-25). The PCA rates for special contract customers (e.g., Micron, Simplot, Department of Energy (INL)) also would increase. Exhibit 5, Schedules 26, 29-30.

CUSTOMER NOTICE AND CASE PROCESSING

The Company has prepared and distributed a PCA press release to media outlets. In addition, the Company will notify existing customers by means of bill stuffers. The press release and bill stuffer were attached to the Application. The Company has also provided an electronic copy of its PCA Application to interested parties.

The Company requests that the Commission process this Application via Modified Procedure and that new PCA rates would become effective on June 1, 2007. Application at 2.

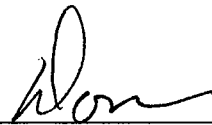
Company witness Celeste Schwendiman has prefiled testimony and exhibits in support of the Application.

STAFF RECOMMENDATION

The Staff agrees with the Company's request that this case be processed via Modified Procedure. Staff recommends that comments regarding the PCA Application be due May 14, 2007. This matter could then be placed upon the Commission's May 21 (proposed) decision meeting agenda.

COMMISSION DECISION

1. Does the Commission wish to process this case via Modified Procedure?
2. Does the Commission wish to adopt Staff's suggested comment schedule?
3. Anything else?



Don Howell

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